Gwasanaeth Democrataidd
Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Cyfarfod / Meeting

PWYLLGOR PENSIYNAU

PENSIONS COMMITTEE

Dyddiad ac Amser / Date and Time

2:00pm, DYDD GWENER, 22 MAWRTH, 2013

2:00pm, FRIDAY, 22 MARCH, 2013

Lleoliad / Location

YSTAFELL GWYRFAI,
SWYDDFEYDD Y CYNGOR/COUNCIL OFFICES,
CAERNARFON

gwynparrywilliams@gwynedd.gov.uk

Pwynt Cyswllt / Contact Point

Gwyn Parry Williams

(01286 679665)

PWYLLGOR PENSIYNAU
PENSIONS COMMITTEE

AELODAETH/MEMBERSHIP

Plaid Cymru (3)
Y Cynghorwyr / Councillors
Peredur Jenkins
Dafydd Meurig
W. Tudor Owen

Annibynnol/Independent (2)
Y Cynghorwyr/Councillors
Trevor Edwards
John Pughe Roberts

Rhyddfrydwyr Democrataidd/Liberal Democrats (1)
Y Cynghorydd/Councillor Stephen Churchman

Llais Gwynedd (1)
Y Cynghorydd/Councillor Peter Read

Aelodau Cyfetholedig/Co-opted Members

Y Cynghorydd/Councillor Margaret Lyon, Cynrychiolydd Cyngor Bwrdeistref Sirol Conwy /Conwy County Borough Council Representative

Y Cynghorydd/Councillor Tom Jones, Cynrychiolydd Cyngor Sir Ynys Môn/Isle of Anglesey County Council Representative

Aelodau Ex-officio/Ex-officio Members

Cadeirydd ac Is-gadeirydd y Cyngor/Chairman and Vice-chairman of the Council

AGENDA

1. APOLOGIES

To receive any apologies for absence

2. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest.

3. URGENT BUSINESS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered.

4. MINUTES

The Chairman shall propose that the minutes of the meeting of this committee held on 28 September 2012 be signed as a true record. (copy herewith – ***<u>white</u>*** paper)

5. PENSION FUND STEWARDSHIP

To submit the report of the Investment Manager (copy herewith – ***<u>blue</u>*** paper)

6. SOCIAL, ENVIRONMENTAL AND ETHICAL INVESTMENT

To submit a report by the Investment Manager (copy herewith – **<u>pink</u>** paper)

7. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2013/14

To submit a report by the Head of Finance (copy herewith – **yellow** paper)

8. WELSH LOCAL GOVERNMENT PENSION FUNDS – WORKING TOGETHER

To submit a report by the Investment Manager (copy herewith – **green** paper)

9. CAREERS WALES

To submit a report by the Investment Manager (copy herewith – **lilac** paper)

10. EXCLUSION OF PRESS AND PUBLIC

The Chairman shall propose that the press and public be excluded from the meeting during the discussion on the following item due to the likely disclosure of exempt information as defined in paragraph 14, Part 4, Schedule 12A of the Local Government Act 1972. This paragraph should apply because the report contains financial information regarding a company and they have the right for the information to be kept confidential. The timing is important and there is no public requirement in disclosing the information at present. The public interest therefore is to keep the information confidential for now.

11. PROPERTY INVESTMENT

To submit a report by the Investment Manager (separate copy for committee members only)

PENSIONS COMMITTEE, 28.09.12

Present: Councillor Peter Read (Chairman)
Councillor John Pughe Roberts (Vice-chairman)

Councillors Trevor Edwards, Peredur Jenkins, W.Tudor Owen and Councillor Tom Jones (representative of Anglesey County Council)

Officers:- Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Gareth Jones (Pensions Manager) and Gwyn Parry Williams (Members Support and Scrutiny Officer).

Apologies: Councillors Stephen Churchman, Selwyn Griffiths, Dafydd Meurig and Councillor Margaret Lyon (representative of Conwy County Borough Council)

1. CHAIRMAN

RESOLVED to elect Councillor Peter Read as Chairman of the Committee for 2012/13.

2. VICE-CHAIRMAN

RESOLVED to elect Councillor John Pughe Roberts as Vice-chairman of the Committee for 2012/13.

3. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received from any member present.

4. URGENT BUSINESS

(The following matter had not been included on the committee's agenda, however the Chairman agreed to its inclusion under Section 100B (4) (b), Local Government Act 1972 due to the need for urgent action)

Wales Collaboration Project

Submitted – the report of the Corporate Director which indicated that £5,000 had already been contributed towards the cost of the aforementioned project. By now perhaps this amount would not be sufficient and he suggested that an additional £2,500 be contributed should there be a need to end the project.

RESOLVED to agree to contribute an additional £2,500 should there be a need to end the project.

5. MINUTES

The Chairman signed the minutes of the previous meeting of this committee held on 23 March 2012 as a true record.

6. TREASURY MANAGEMENT 2011/12

Submitted – the report of the Head of Finance Department reporting on the results of the Council's actual Treasury Management in the previous financial year in accordance with the requirements of the CIPFA Code of Practice. He referred in particular to the economic background and the investment activity.

RESOLVED to note the content of the report.

7. ASH WALES

Submitted – the report of the Investment Manager noting that the Chief Executive of Gwynedd Council had received an e-mail from Mark Isherwood A.M in June 2012 regarding a report by ASH Wales on investments by pension funds in North Wales in the tobacco industry. A copy had also been received from Councillor Margaret Lyon on behalf of the Chief Executive of Conwy County Borough Council.

She was noted that the fund had a Statement of Investment Principles which provided a framework for the fund's investments and it included social, environmental and ethical matters. This outlined the responsibilities of the pension fund as follows -
"With regard to socially responsible investments the Committee is mindful of legal principles which are based on decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the Fund consistent with proper diversification and prudence is paramount".

The possibilities were discussed before concluding that it would be difficult to ensure agreement on a specific area that the fund would not invest in as there was a requirement to conform to the principle noted above and as there were so many investments that some people could link to other ethical matters, such as weapons and alcohol etc.

A member asked to change the word "interests" to "benefits" in the second sentence of the statement and the committee agreed with this.

RESOLVED
a) Respond to Mark Isherwood AM in accordance with the statement noted above that would include changing the word "interests" to "benefits" in the second sentence of the statement.
b) Ask the Investment Manager to complete a research with a view to submitting a report to the committee providing details on the practices of other pension funds in this area so that the committee can further consider this matter.

8. STATEMENT OF INVESTMENT PRINCIPLES

Submitted – the report of the Corporate Director on the revised Statement of Investment Principles.

The Investment Manager notified members of the committee that a consultation process had taken place during July and August 2012 on the revised version of the Statement with the interested parties which included all the employers in the fund, investment managers and the investment consultants and no objections had been received. In light of this, he recommended that the committee adopt the revised Statement.

RESOLVED to adopt the revised Statement of Investment Principles

9. LGPS TRUSTEES CONFERENCE

Submitted – the report of the Corporate Director stating that he and Councillors W. Tudor Owen and John P. Roberts had attended the conference noted above in June 2012.

He provided details of the matters that had been discussed at the conference and drew specific attention to the following matters -

a) The 50:50 Option, whereby members could elect to take half of the benefits for half of the cost.
b) What should be placed in the new governance arrangements and four things had been suggested to which fund employers should be entitled, namely-

- A clear funding strategy so that they would be aware of why and where they were headed so that they could adequately equip themselves for matters that would arise in good time.
- To be aware of any risks and costs that they were liable for in relation to other employers in the Fund
- Not to be subjected to unacceptable levels of risk
- Be treated to good investment returns.

In relation to (b) above, the Director informed the committee that the Gwynedd Fund only had one benefits strategy and that further consideration should be given to this matter perhaps in the context of the ability to differentiate between the needs of the employer and that this should be raised with the actuary when discussing the next valuation.

c) The auto enrolment legislation that was about to come into force. He noted that the legislation that would make it mandatory for every eligible employee to be auto enrolled into a relevant workplace pension would come into force on 1 October 2012 with a specific date for each employer depending on their size.

The Head of Finance Department informed the committee that there was a great deal of administrative work associated with the legislation and he noted that the fund's staff had been holding awareness raising sessions amongst the fund's employees in order to encourage them to deal with the requirements.

ch) Alternatives to investing in bonds and equities. He noted that the Merseyside Pension Fund had been investing through their investment managers in the GwyriAD project in Gwynedd and he believed that the Gwynedd Pension Fund should have taken advantage of such an opportunity. This could be discussed with Hymans Robertson.

RESOLVED to accept the report.

10. LGC INVESTMENT SUMMIT, 5-7 SEPTEMBER 2012 – "Desperately Seeking Growth"

Submitted – the report of the Head of Finance Department and it was noted that he and Councillors Stephen Churchman and Trefor Edwards had attended the conference noted above at the Celtic Manor, Newport.

He gave details of the main matters that had been discussed at the conference, such as framework agreements for an actuary service, investment consultants and minders, returns from equities in emerging markets, specialist categories of investments in property and opportunities for local government funds where the current value of investments on the balance sheet was underestimating their potential.

RESOLVED to accept the report.

11. INVESTMENT MANAGERS FEES

Submitted – the report of the Corporate Director which stated that Veritas had been appointed as the investment manager to replace Capital. In relation to the performance fee, following an assessment of the advantages and disadvantages he believed that the performance fee should not be implemented in the context of this agreement, but rather that the basic fees should be implemented and that he had already agreed to act on these lines.

RESOLVED to confirm the actions that had been taken by the Corporate Director.

12. EXCLUSION OF PRESS AND PUBLIC

RESOLVED to exclude the press and public from the meeting during the discussion on the following items because of the likely disclosure of exempt information as defined in paragraph 14, Part 4, Schedule 12A of the Local Government Act 1972. This paragraph applies because the first report contains information regarding the Council's financial matters and the disclosure of this information at present could have detrimental effect on the fund. It is believed that the public interest in not disclosing the information outweighs the public interest in disclosing it. Once the decision has been made and implemented, it would be possible to disclose the information. The second report contains information regarding the authority's financial matters and supplier and disclosing it would probably damage the commercial relationship between the two parties together with creating a disadvantage to them in future discussions. Therefore it is believed that the public interest is not to disclose the information.

13. PROPERTY INVESTMENT

Submitted – the report of the Corporate Director further to the quarterly meeting of the Pension Fund's Investment Panel held in Caernarfon on 26 July 2012.

RESOLVED
a) Submit a notice to UBS instructing them to redeem Gwynedd's investment in accordance with the opinion of the Investment Panel.
b) Authorise the Corporate Director, in consultation with the Investment Panel, to decide on the next steps.

14. PENSIONS ADMINISTRATION SOFTWARE UPGRADE

Submitted - the report of the Head of Finance Department noting that there was a need to upgrade the Pensions Administration Unit's current administration software system. In order to face the significant changes of the 2012 Pension Reform and Hutton Review, and to implement effective integrated web based communication with the stakeholders, namely the employers, staff, pensioners etc, a system was needed to utilise the latest technology with functionality that provided efficiencies to pensions staff.

He noted that the Gwynedd Pension Fund was administrated on behalf of 40 employers with membership made up of active, deferred and pensioners. Since April 2005, although active membership had remained relatively constant, total membership had increased substantially and it was more essential than ever for the Pension Unit to maintain a robust and efficient administration system.

He provided details of the additional finance.

RESOLVED to fund the cost of the upgrade and approve an increase in the cost of the annual licences in accordance with the details submitted in the report to the committee.

The meeting commenced at 2.00pm and concluded at 3.00pm.

MEETING	**PENSIONS COMMITTEE**
DATE	**22 MARCH 2013**
PURPOSE	**CONSIDER THE RESULTS OF THE TRIAL MEMBERSHIP OF LAPFF AND DECIDE ON MEMBERSHIP IN THE FUTURE** **ASK THE COMMITTEE TO APPROVE THE STATEMENT OF COMPLIANCE WITH THE STEWARDSHIP CODE**
TITLE	**PENSION FUND STEWARDSHIP**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. Background

At the meeting of the Pensions Committee on 25 November 2011, the introduction of the UK Stewardship Code was considered and the principle of publishing a statement of compliance with the Code was agreed. As part of that statement it is necessary to explain how the Pension Fund discharges its stewardship responsibilities.

The Committee also agreed that the Pension Fund should become a member of Local Authority Pension Fund Forum (LAPFF) in order to strengthen stewardship arrangements and to participate in actions taken by LAPFF on behalf of its members thus having greater influence as a group than when working as individual funds. The Committee agreed to membership on a trial basis with a report back by April 2013.

Reporting to the Committee on engagement of investment managers in their investee companies continues on an exception basis.

As previously reported to this Committee LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. The LAPFF brings together a number of local authority pension funds providing an opportunity for discussion of investment issues and shareholder action. The influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest. Membership is available for all local authority pension funds.

LAPFF currently has 55 local authority pension fund members including some of the largest funds in the UK. The subscription for 2012/13 was £8,460.

2. Benefits of Membership

Membership also includes access to the following resources:

- Annual conference
- LAPFF members website
- Quarterly members business meetings
- Quarterly engagement report
- Quarterly newsletter
- Model policies
- Responses to consultation documents

LAPFF is actively involved in seeking to influence companies on behalf of their Local Authority Pension Fund shareholders. Recent high profile cases include Marks and Spencer, Newscorp and Barclays Bank.

The annual conference is held in November and was attended by Caroline Roberts. The conference theme was Market Reform – What are Shareholders Responsibilities? It was attended by over 160 delegates and over 30 Pension Funds as well as representatives from investment managers. It attracted high profile speakers and provided the opportunity for learning from other funds. A brief summary of the event is included with this report as Appendix B.

Some large pension funds are members and take an active part in the forum. This enables members of other funds to benefit from their experience and expertise as well as contributing themselves. There is currently some good collaborative working between the eight Welsh pension funds but membership of this forum extends co-operation across the UK and specifically focuses on shareholder influence.

Quarterly business meetings cover any current issues in investment management and governance as well as consultation papers and responses to these matters. Draft responses to consultations are circulated to members for comment prior to submission. Each member is also encouraged to respond individually.

The influence of LAPFF is considerably greater than that of the member pension funds working independently and therefore has much greater influence and impact on the investee companies. This is clearly shown by the willingness of high profile companies which have been criticised by LAPFF in the past to work with them on corporate governance and social responsibility going forward.

As a result, I believe that the annual membership payment to LAPFF (£8,460) provides value for money for the fund, by making a difference in responsible investment issues.

3. Statement of Compliance with the Stewardship Code

A draft Statement of Compliance with the Stewardship Code is attached at Appendix A. The statement explains how the Pension Fund complies with the requirements of the Code. The statement has been drafted on the basis that membership of LAPFF continues.

Once the Statement of Compliance is approved it will be published on the Pension Fund website and on the Financial Reporting Council website.

4. Recommendations

(i) Belonging to LAPFF enables better scrutiny of management of the investments of the Pension Fund and provides an appropriate mechanism for learning from other funds and influencing corporate governance and social responsibility in investee companies. It is **recommended** that the Pension Fund continues with its membership of LAPFF.

(ii) It is **recommended** that the Statement of Compliance with the Stewardship Code be approved and published accordingly.

APPENDIX A

Gwynedd Pension Fund
Stewardship Code Statement

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Gwynedd Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral parth of the investment strategy.

In practice the fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee members are required to make declarations of interest prior to committee meetings.

Principle 3 – Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our investments is delegated to our appointed asset managers and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports on voting and engagement activity are received by the Pensions Committee on a quarterly basis.

In addition, the Fund receives 'alerts' from the Local Authority Pension Fund Forum, which highlight corporate governance issues of concern and are considered accordingly.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However, on occasion, the Fund may participate in escalation of issues, principally through engagement activity through the Local Authority Pension Fund Forum.

Principle 5 – Institutional investors should be willing to act collectively with other investors as appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

In respect of shareholder voting, the Fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets.

Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code.

Regular reports are received from the asset managers on how votes have been cast and controversial issues can be discussed at panel meetings.

The Fund does not currently disclose any voting data.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities

The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.

APPENDIX B

17TH ANNUAL LAPFF CONFERENCE
MARKET REFORM
WHAT ARE SHAREHOLDERS RESPONSIBILITES?

The first day of this year's LAPFF conference started with a presentation by Robert Swannell, chair of Marks & Spencer. Since LAPFF's high-profile engagement with the company in 2009, the Forum has built a good relationship with the company, and Robert has played a key role in this. He spoke highly of LAPFF's approach to engagement, which he said he thought was very much in the spirit of the Kay Review. He also talked about the famous M&S Plan A, and how sustainability made economic sense as much as moral and ethical sense.

In the next session, former Greggs managing director Sir Michael Darrington, Deborah Gilshan from Railpen and Ashley Hamilton from PIRC discussed the perennial governance concern of executive pay. There was a clear consensus that executive pay is both too complex and too high, and the motivational value of incentive schemes was questioned.

After the break, attention turned to the recent Shareholder Spring, with presentations from CCLA's Helen Wildsmith, Daniel Summerfield from USS, Robert Talbut from Royal London and LAPFF executive member Peter Brayshaw. The panel had mixed views on whether there really had been a fundamental shift in investor behaviour, but there was a clear desire to build on this year's AGM season. Expect to see more shareholder activism in 2013!

Immediately before lunch Jim O'Loughlin spoke about the Forum's new report People and Investment Value. The report is intended to shift investor discussions away from a simple focus on performance pay for directors onto a consideration of how companies get the best out of all their employees – to everyones benefit.

Over the last hear and a half LAPFF has engaged with a number of listed media companies about standards and ethics, with greatest focus on News Corp. This are was the topic of the first session after lunch. Julie Tanner from Christian Brothers Investment Services, with whom the Forum co-filed a resolution to News Corp's 2012 AGM, spoke about her recent experience of engagement. LAPFF chair Ian Greenwood ran through the Forum's recent work with News Corp, and Patrick Daniels from Robbins Geller Rudman and Dowd talked about some of the past challenges to the press in the US, and how News Corp was positioning itself against shareholder litigation.

After the afternoon break, PIRC's Tim Bush, Cormac Butler from Ardmore Derivatives and Natasha Landell-Mills from USS talked about reputational, ethical and accounting issues at the banks. All the speakers warned about the damaging affect of IFRS on banks in the UK and Ireland and how this had obscured the extent of their losses. However it was also clear that both the Irish central bank and the Bank of England had identified the

problem. In addition it looks likely that auditors of the failed banks will face challenges in the future.
To finish off the day, Bob Holloway from the Department for Communities and Local Government (DCLG) provided an update on the LGPS, which was followed by a lively Q&A session.

Friday morning started with a discussion of how local authority pension funds can contribute to the UK economic recovery and presentations were given by Paul Hackett from The Smith Institute, Cllr Kieran Quinn, Chair of Greater Manchester Pension Fund on the Manchester housing project and Luke Fletcher of Bates Wells and Braithwaite on the legal issues. All speakers emphasised the need for the Pension Fund to assess any potential project in terms of investment risk and return rather than its social impact. The 'ethical tie-breaker' guideline was explained, where two projects are assessed with the same risk and return then ethical or locality matters could then be used as the deciding factor. It was also noted that it is not the Pension Fund's place to look for projects but to assess any investment proposals presented.

This was followed by a very entertaining talk from Michael Woodford on his experience as CEO at Olympus and his dismissal when he discovererd serious fraud within the company, estimated at $1.7billion over twenty years, including dealings with the Yakuza crime syndicate. The time he was allocated was not sufficient to tell the whole story but he was available to sign copies of his new book, 'Exposure' where the full story is told!
The final session was a presentation by John Kay on the Kay review which focussed on trust and confidence in investee companies as well as the incentives for good performance. The following panel discussion between Amra Balic from BlackRock, Mark Fawcett from NEST and Janet Williamson from the TUC focussed on the relationships between investors and their fund managers in relation to stewardship and came to the conclusion that both the investors and managers need to up their game.

MEETING	**PENSIONS COMMITTEE**
DATE	**22 MARCH 2013**
PURPOSE	**CONIDER THE PENSION FUND’S POLICY IN RESPECT OF ETHICAL INVESTMENT**
TITLE	**SOCIAL, ENVIRONMENTAL AND ETHICAL INVESTMENT**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. Background

At the meeting of the Pensions Committee on 28 September 2012, a report on investment policy specifically in relation to investments in the tobacco industry was considered. Following discussion of the item members requested that research be undertaken to ascertain how other pension funds deal with ethical investment and report back to this committee.

Each Local Government Pension Fund is required to produce a Statement of Investment Principles in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 which must include ‘the extent to which, social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments’.

2. Assessment Undertaken

Information was obtained from the websites of large funds in England and a request for information from the seven other Pension Funds in Wales on their principles regarding Social, Environmental and Ethical considerations when investing.

In addition, the Local Authority Pension Fund Forum (LAPFF) decided in June 2011, that it would be useful to have a Statement of Investment Principles (SIP) template on corporate governance for member funds to use. The executive committee agreed to this and that the example should also include environmental and social issues. As part of this work a survey of LAPFF member SIPs and global pension funds active in considering Environmental, Social and Governance (ESG) issues was undertaken to identify best practice.

3. Conclusion Drawn

The emphasis on ESG issues varies between funds with some having a broader approach and others having more detailed considerations. No evidence has been found to suggest that any fund would rule out a specific type of investment on ESG grounds. Where more details of the policy are given, funds tend to stress the priority of making long-term investment returns but that a long-term approach of active engagement working with companies to improve ESG is essential. This responsibility is usually delegated to the investment managers appointed by the fund.

4. Recommendation

The Fund’s Statement of Investment Principles will be reviewed in 2014 following completion of the actuarial valuation as at 31 March 2013. This review will consider ESG principles and appropriate use of the LAPFF template for Social, Environmental and Ethical Considerations.

It is **recommended** that the Fund’s current Social, Environmental and Ethical Considerations, a copy of which is included as Appendix A, be retained until the full review of the Statement of Investment Principles in 2014.

APPENDIX A

EXTRACT FROM THE STATEMENT OF INVESTMENT PRINCIPLES ADOPTED 28 SEPTEMBER 2012

6.0 Social, Environmental and Ethical considerations

6.1 With regard to socially responsible investment, the Committee is mindful of legal principles which are based on decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

6.2 The Committee have considered the extent to which social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments. They also recognise that these factors can also affect the return on investments.

6.3 The Committee has demonstrated its commitment to the Stewardship Code which was published by the Financial Reporting Council in 2010. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies.

6.4 The Fund is a member the of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. The LAPFF brings together a number of local authority pension funds providing an opportunity for discussion of investment issues and shareholder action. The influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest. Such influence can be used to address social, environmental and ethical issues within investee companies.

6.5 The Committee expects that the boards of companies in which the Pension Fund invests should pay due regard to social, environmental and ethical matters and thereby further long-term financial interests of the shareholders. The Committee looks to the directors of a company to manage that company's affairs taking proper account of the shareholder's long-term interests.

6.6 The investment managers have produced statements of investment policy in relation to social, environmental and ethical considerations which the Committee deem to be consistent with the aims outlined in para. 6.3. above. The Committee expects investment managers to act in accordance with their stated socially responsible investment policies.

6.7 The Committee believe that this stance is consistent with the long-term objective of the scheme.

6.8 The Committee will satisfy themselves annually that the investment managers are following this policy.

MEETING	**PENSIONS COMMITTEE**
DATE	**22 MARCH 2013**
PURPOSE	**TO ASK THE PENSIONS COMMITTEE TO ADOPT THE STRATEGIES**
TITLE	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2013/14**
AUTHOR	**DAFYDD L EDWARDS – HEAD OF FINANCE**

1. THE PENSION FUND'S INVESTMENT STRATEGY

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it is considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2013/14, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Gwynedd Council's TMSS for 2013/14 was approved by the Full Council on 28 February 2013.

2. CIPFA GUIDANCE

The Fund will also have regard to the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

3. THE PENSION FUND'S CASHFLOW

The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in significantly exceed the pensions, transfers out and costs paid out. Once there is sufficient surplus cash it is transferred to one or more of the Fund's investment managers. Normally up to around £5 million is held back for cashflow purposes, in particular in respect of pension payments and funding calls from the private equity funds. However in the past due to known commitments, there have been times when the surplus cash held in the Fund's bank accounts with Gwynedd Council has been over £20 million.

4. POOLING IN ORDER TO MAXIMISE RETURNS

Currently all the Fund's surplus cash is pooled with the cash balances of Gwynedd Council and invested with counterparties in accordance with Gwynedd Council's Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund based on the Fund's daily balances over the year. This can continue if the Pensions Committee requests that the pension fund's surplus cash balances are pooled with the Council's cash balances. It is apparent that by pooling the fund can take advantage of economies of scale, and as a result can attract better interest rates, reduce bank costs and avoid the duplication of work within the Council.

5. COUNTERPARTIES (Banks)

The counterparties currently meeting investment criteria **(Appendix C)** have been updated to reflect the latest recommendations. The maximum length of loans to all institutions has been increased from 1 year to 2 years to reflect these recommendations. The maximum limit and length of investments are listed, although they are currently restricted to 1 year or less, depending on the status of each institution.

6. SCOPE

The proposed strategy will not deal with the cash held by the Fund's investment Managers for settlements.

7. RECOMMENDATIONS

7.1 The Pensions Committee is asked to approve the attached Treasury Management Strategy Statement and the Annual Investment Strategy for 2013/14, as amended for the Gwynedd Pension Fund (Appendix A), and to note the current list of counterparties shown in Appendix C.

7.2 The Pensions Committee is also asked to make a request to the Council (even though it is not a separate body) to allow the Pension Fund's surplus cash balances to be pooled with the Council's general cashflow from 1 April 2013 onwards.

APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013/14 TO 2015/16

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Welsh Government's Investment Guidance.

1.2 As per the requirements of the Prudential Code, the Council has adopted the CIPFA Treasury Management Code at a meeting of its Full Council on 3rd March 2011.

1.3 The purpose of this Treasury Management Strategy Statement is, therefore, to approve:

- Treasury Management Strategy for 2013/14;
- Annual Investment Strategy for 2013/14;

1.4 The Council has borrowed and/or invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

2. Capital Financing Requirement – Not applicable to the Pension Fund

3. Interest Rate Forecast

3.1 The Arlingclose interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the moribund outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. Until there is a credible resolution of the problems that stalk the Eurozone – and that resolution requires full-scale fiscal union which faces many significant political hurdles – then the UK's safe haven status and minimal prospect of increases in official interest rates will continue to combine and support the theme within the forecast.

3.2 The economic and interest rate forecast shown below is provided by the Council's treasury management advisor, Arlingclose Ltd. The Council will reappraise its strategies from time to time in response to evolving economic, political and financial events.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Official Bank Rate													
Upside risk			0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.55	0.55	0.55	0.60	0.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	0.85	0.90	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.10	1.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	0.95	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
Central case	2.00	2.00	2.05	2.05	2.05	2.05	2.10	2.10	2.10	2.20	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00	3.10	3.10	3.10	3.10	3.10
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	3.35	3.35	3.35	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

Underlying Assumptions:

- UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in Q4 or in 2013. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.

- Consumer Price Inflation has fallen to 2.7 % from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated. Real wage growth (i.e. after inflation) is forecast to remain weak.

- The fiscal outlook for bringing down the structural deficit and stabilising debt levels remains very challenging. Weakened credibility of the UK reining in its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.

- In the absence of large, unexpected decline in growth, QE is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

- The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.

- The Eurozone is making slow headway which has curtailed some of the immediate risks, although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.

- In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to another showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.
- A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning the haunt the European peripheral nations – and could inject renewed volatility into gilts and sovereign bonds.

4. Borrowing Strategy – Not applicable to the Pension Fund

5. Sources of Borrowing and Portfolio Implications – Not applicable to the Pension Fund

6. Debt Rescheduling – Not applicable to the Pension Fund

7. Annual Investment Strategy

7.1 In accordance with Investment Guidance issued by the Welsh Government and best practice this Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments is secondary, followed by the yield earned on investments which is a tertiary consideration.

7.2 The Council and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Council.

7.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the Welsh Government.

Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Council and are not deemed capital expenditure investments under statute. Non specified investments are, effectively, everything else.

7.4 The types of investments that will be used by the Council and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	**Specified**	**Non-Specified**
Debt Management Account Deposit Facility	✓	✗
AAA-Rated Money Market Funds	✗	✓
Treasury Bills (T-Bills)	✓	✗
Local Authority Bills	✓	✗
Term deposits with other UK local authorities	✓	✓
Term deposits with banks and building societies	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Bonds issued by Multilateral Development Banks	✓	✓
Corporate Bonds	✓	✓
Other Money Market and Collective Investment Schemes	✓	✓
Commercial Paper	✓	✗
Investments with Registered Providers	✓	✓
Investments with other organisations which do not meet the specified investment criteria (subject to an external credit assessment)	✗	✓
Business Loans to Local Companies (as agreed by the Local Loans Fund scheme)*	✗	✓

**Advancement of these loans will be approved by the procedure noted below. Evaluation of the Business Loans is not part of the advice or services from the Council's treasury advisor.*

7.5 Registered Providers have been included within specified and non-specified investments for 2013/14. Investments with Registered Providers will be analysed on an individual basis and discussed with Arlingclose prior to investing.

7.6 Investments with other organisations have been included as a non-specified investment category for 2013/14. This would include investment opportunities with small and medium sized enterprises (SMEs) and other businesses across the UK. Because of the higher perceived credit risk of SMEs, such investments may provide considerably higher rates of return. An external credit assessment will be undertaken and advice from the Council's TM adviser will be sought (where available) before any investment decision is made.

7.7 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix C, the Head of Finance will have discretion to make investments with counterparties that do not meet the specified criteria on advice from Arlingclose.

The other credit characteristics, in addition to credit ratings, that the Council monitors are listed in the Prudential Indicator on Credit Risk (PI 11, page 16).

Any institution will be suspended or removed should any of the factors identified above give rise to concern. Specifically credit ratings are monitored by the Council at least monthly, although any rating changes to institutions on the Council's counterparty list are communicated by its Treasury Advisors as they occur. When Arlingclose advises the Council on ratings changes and appropriate action to be taken this is implemented. The counterparties currently meeting the criteria are shown in **Appendix C**.

The Council has set up a Local Loans Fund which will make loans to local businesses. These investments are included in the Non-Specific Investments table above and will be for a maximum period of 10 years. The total value of the fund for such investments is £3million. Applications for loans under this scheme will not be part of the usual credit assessment for treasury management investment purposes but will be assessed by appointed consultants and any decision to lend will be made by the Investment Panel for the scheme.

7.8 **Council's Banker –** The Council banks with Barclays Bank plc. At the current time, it does meet the Council's minimum credit criteria. Even if the credit rating falls below the Council's minimum criteria it will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

8. Investment Strategy

8.1 With short term interest rates low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

8.2 In order to diversify a portfolio largely invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

8.3 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Council will also seek to mitigate operational risk by utilising at least two MMFs. The Council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the Council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

9. Policy on Use of Financial Derivatives

9.1 The Localism Act 2011 includes a general power competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

9.2 In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall risk management strategy.

10. 2013/14 MRP Statement – Not Applicable to the Pension Fund

11. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

11.1 The Head of Finance will report to the Audit Committee on treasury management activity/performance and Performance Indicators every six months against the strategy approved for the year. The Council will produce an outturn report on its treasury activity no later than 30th September after the financial year end.

The Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

12. Other Items

12.1 Training

In accordance with CIPFA's Code of Practice, the Head of Finance shall ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs, and that they understand their roles and responsibilities.

12.2 Treasury Management Advisors

The Council uses Arlingclose as Treasury Management Advisors and receives the following services:

- Credit advice
- Investment advice
- Technical advice
- Economic & interest rate forecasts
- Workshops and training events

The Council maintains the quality of the service with its advisors by holding quarterly meetings and tendering periodically.

Prudential Indicators 2013/14 – 2015/16 – Not Applicable to the Pension Fund

APPENDIX C

COUNTERPARTIES CURRENTLY MEETING INVESTMENT CRITERIA

Country	Counterparty	Maximum Limit of Investments £m	Maximum Length of Loans
UK	DMADF, DMO	No Limit	No Limit
UK	UK Local Authorities	£30m (£30m)	2 years
UK	Santander UK Plc (Banco Santander Group)	£12m (£18m)	2 years
UK	Bank of Scotland (Lloyds Banking Group)	£12m (£18m)	2 years
UK	Lloyds TSB (Lloyds Banking Group)	£12m (£18m)	2 years
UK	Barclays Bank Plc	£12m (£18m)	2 years
UK	Clydesdale Bank (National Australia Bank Group)	£12m (£18m)	2 years
UK	HSBC Bank Plc	£12m (£18m)	2 years
UK	Nationwide Building Society	£12m (£18m)	2 years
UK	NatWest (RBS Group)	£12m (£18m)	2 years
UK	Royal Bank of Scotland (RBS Group)	£12m (£18m)	2 years
UK	Standard Chartered Bank	£12m (£18m)	2 years
Australia	Australia and NZ Banking Group	£12m (£18m)	2 years
Australia	Commonwealth Bank of Australia	£12m (£18m)	2 years
Australia	National Australia Bank Ltd (National Australia Bank Group)	£12m (£18m)	2 years
Australia	Westpac Banking Corp	£12m (£18m)	2 years
Canada	Bank of Montreal	£12m (£18m)	2 years
Canada	Bank of Nova Scotia	£12m (£18m)	2 years
Canada	Canadian Imperial Bank of Commerce	£12m (£18m)	2 years
Canada	Royal Bank of Canada	£12m (£18m)	2 years
Canada	Toronto-Dominion Bank	£12m (£18m)	2 years
Finland	Nordea Bank Finland	£12m (£18m)	2 years
Finland	Pohjola	£12m (£18m)	2 years
France	BNP Paribas	£12m (£18m)	2 years
France	Credit Agricole CIB (Credit Agricole Group)	£12m (£18m)	2 years
France	Credit Agricole SA (Credit Agricole Group)	£12m (£18m)	2 years
France	Société Générale	£12m (£18m)	2 years
Germany	Deutsche Bank AG	£12m (£18m)	2 years
Netherlands	ING Bank NV	£12m (£18m)	2 years
Netherlands	Rabobank	£12m (£18m)	2 years
Netherlands	Bank Nederlandse Gemeenten	£12m (£18m)	2 years
Singapore	DBS Bank Ltd	£12m (£18m)	2 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	£12m (£18m)	2 years
Singapore	United Overseas Bank (UOB)	£12m (£18m)	2 years
Sweden	Svenska Handelsbanken	£12m (£18m)	2 years
Switzerland	Credit Suisse	£12m (£18m)	2 years
US	JP Morgan	£12m (£18m)	2 years

1. There is a limit of £18m on banks within the same banking group.
2. The time limits in the above list relate to term deposits. Negotiable/tradable instruments such as CD’s are subject to a 5 year limit. Current recommended duration limits are considerably lower than this, but the limits outlined above provide flexibility to react to the possiblity of continued stabilisation or improvement in credit and economic conditions in 2013/14.
3. This list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.

Non-Specified Investments

Instrument	Maximum maturity	Max £m of portfolio	Capital expenditure?	*Examples*
Term deposits with banks and building societies which meet the specified investment criteria	2 years	£12m per counterparty	No	
Term deposits with local authorities	2 years	£12m per counterparty	No	
CD's and negotiable instruments with banks and building societies which meet the specified investment criteria*	5 years	£12m per counterparty	No	
Investments with banks, building societies and other organisations which do not meet the specified investment criteria* (subject to and external credit assessment) (with authority of s151 officer)	3 months	£5m per counterparty	No	*Bank falling below criteria specified e.g. Co-op* *Small and medium enterprises (SME's)*
	1 year	£1m per counterparty	No	
	5 years	£100k per counterparty	Yes / No	
		Subject to a maximum of £20m overall		
Deposits with registered providers	5 years	£5m	No	*Housing Associations, Registered Social Landlords*
Gilts	6 years	No limit	No	*DMO*
Bonds issued by multilateral development banks	6 years	£12m	No	*EIB Bonds, Council of Europe Bonds etc.*
Sterling denominated bonds by non-UK sovereign governments	6 years	£12m	No	
Money Market Funds and Collective Investment Schemes	Daily liquidity	£8m per name £37.5m in total.	Yes	*Ignis Sterling Liquidity Fund, Federated Prime Rate Sterling Liquidity Fund, RBS Global Treasury Funds etc.* *Investec Target Return Fund; Elite Charteris Premium Income Fund; LAMIT; M&G Global Dividend Fund*
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	2 years	£5m	No	
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in WSI 2004 No 1010 (W.107) or WSI 2007 No 1051 (W.108)	These funds do not have a defined maturity date	£5m	Yes / No	*Way Charteris Gold Portfolio Fund; Lime Fund*
Deposits with other organisations in relation to mortgage deposit schemes (with authority of s151 officer in consulation with the Council's treasury advisor).	7 years	£1m	No	*LAMS*
Business loans to local companies **	10 years	£3m	Yes / No	

* Investment in these instruments will be on advice from the Council's treasury advisor.

** Advancement of these loans will be approved by the procedure detailed in the final paragraph of part 7.7 of Appendix A. Evaluation of the Business Loans is not part of the advice or services from the Council's treasury advisor.

The Council will have a maximum of 75% of its investment portfolio in non-specified investments.

MEETING	**PENSIONS COMMITTEE**
DATE	**22 MAWRTH 2013**
PURPOSE	**UPDATE THE COMMITTEE ON THE WELSH PENSIONS COLLABORATION PROJECT**
TITLE	**WELSH LOCAL GOVERNMENT PENSION FUNDS - WORKING TOGETHER**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 The Committee is aware of the project undertaken by the Pensions Subgroup of the Society of Welsh Treasurers and a copy of the interim report was circulated to the members of the Committee on 1st March 2013. The report is currently out to consultation with interested parties including all employers in the Welsh local government funds.

2. CONSULTATION

2.1 The main recommendations of the report are as follows:

- Produce a full Business Plan for a common investment approach.
- Create an appropriate and responsive governance structure to drive future collaboration.
- Build on current collaboration to achieve improvements, consistency and efficiency in administration.

2.2 A copy of the consultation questions are attached as Appendix A.

3. RECOMMENDATION

3.1 The Committee will need to decide on its response to the report. **It is recommended** to wait until the results of the consultation are available and the resulting recommendation from the Pensions Subgroup before a decision is made.

APPENDIX A

Welsh Local Government Pension Funds - Working Together
Consultation on the Interim Report

The Interim Report sets out the key conclusions and recommendations arising from the investigative work undertaken as part of this Collaboration Project. The Project Board is keen to gather the views of key stakeholders on these recommendations and would welcome feedback through this consultation survey. Should you have any queries please contact: Keely Jones (tel: 029 20909507, email:keely.jones@dataunitwales.gov.uk) - accessing and using the online survey or to request a paper copy Mari Thomas (email: mari.thomas@wlga.gov.uk) - consultation content

To start the survey, please click 'Next'.

Section 1: Preliminary Questions

1: In what capacity are you responding to this consultation?

Please tick one option only

- ❐ Local Government Pension Scheme (LGPS) Administering Authority
- ❐ County / County Borough Council (non-LGPS Administering Authority)
- ❐ Fire and Rescue Authority in Wales
- ❐ Police and Crime Commissioners in Wales
- ❐ National Probation Service in Wales
- ❐ Other scheduled and admitted bodies to the LGPS Funds in Wales
- ❐ Trade Unions / Employee representatives
- ❐ National body (including Welsh Government, WLGA, CIPFA in Wales, Association of Consulting Actuaries)
- ❐ Scheme Member / Pensioner
- ❐ Other

1.1: Please Specify

2: Select the pension fund that your organisation is associated with:

Please tick one option only

❒ Gwynedd Pension Fund

❒ Powys Pension Fund

❒ City and County of Swansea Pension Fund

❒ Cardiff and Vale of Glamorgan Pension Fund

❒ Not applicable (e.g. if responding on behalf of a national body)

❒ Clwyd Pension Fund (administered by Flintshire County Council)

❒ Dyfed Pension Fund (administered by Carmarthenshire County Council)

❒ Rhondda Cynon Taf Pension Fund

❒ Greater Gwent (Torfaen) Pension Fund (administered by Torfaen County Borough Council))

Consultation Questions

3: Recommendation 1 states:
The "as is" or no change option is not supported. The pensions environment requires a more pro-active approach to managing service standards and costs within the LGPS within Wales.
Do you agree or disagree with this recommendation?

Please tick one option only

❒ Agree ❒ Disagree

4: **Please add comments if you wish:**

5: **Recommendation 2 states:**
Enhanced collaboration is seen as the area where medium term savings can be optimised. This is the option where the balance of service delivery and efficiency, cost of change, time and resource can be blended in the most effective way and should be pursued further.
Do you agree or disagree with this recommendation?

Please tick one option only

❐ Agree ❐ Disagree

6: **Please add comments if you wish:**

7: **Recommendation 3 states:**
To create a business case for a common investment approach to encompass the common attributes that appear to benefit larger funds with the aim of implementation thereafter.
Do you agree or disagree with this recommendation?

Please tick one option only

❐ Agree ❐ Disagree

8: **Please add comments if you wish:**

9: **Please indicate whether you agree or disagree with the following aspects of Recommendation 4:**

Please tick one option only in each row

Create an appropriate and responsive governance structure to drive and manage future collaboration initiatives within Wales

❒ Agree ❒ Disagree

Explore the potential in the longer term of consistent Valuation and funding assumptions and standards

❒ Agree ❒ Disagree

Develop minimum administrative service standards for Wales and an agreed measurement framework

❒ Agree ❒ Disagree

Take advantage of joint procurement initiatives to help consistency and efficiencies

❒ Agree ❒ Disagree

10: **Please add comments if you wish:**

11: **Recommendation 5 states:**
The prospect of merger to regional funds or a single Welsh Fund is both complex and the transition would be costly with a long lead- in time and a loss of local autonomy. Changing funding strategies could also have a destabilizing effect with a loss of local accountability. Whilst this may merit additional investigation in the future, it is not recommended for further work at this time, especially where it is believed that the most significant gains can be realised through greater collaboration and, specifically a common investment approach.
Do you agree or disagree with this recommendation?

Please tick one option only

❐ Agree ❐ Disagree

12: **Please add comments if you wish:**

About you

14: For validation purposes, please provide your name and contact details below.
Your name:

15. Your telephone number:: ___________________________

16. Your email address:: ____

17. If you do not with to be contacted please tick this box: ❐

Thank you.

MEETING	**PENSIONS COMMITTEE**
DATE	**22 MAWRTH 2013**
PURPOSE	**MAKE A DECISION ON MEMBERSHIP OF GWYNEDD PENSION FUND FOR CAREERS WALES**
TITLE	**CAREERS WALES**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 The Careers Service in Wales was structured on a regional basis and each region was a member of the Local Government Pension Fund relevant to its area. Careers North West Wales was a member of the Gwynedd Pension Fund. The Welsh Government decided to form Careers Wales from the former regional bodies and this became operational as at 1st April 2012. At present the membership of the pension fund continues on the basis of the old structure.

1.2 The new company will be a member of one of the existing Local Government Pension Funds in Wales. The issue of which fund admits Careers Wales as an employer has not yet been resoloved. The main reason for the lack of agreement has been the defecits in each fund in respect of the previous regional organisation and a reluctance to take on the defecit going forward. In recognition of this Welsh Government has agreed to take on 'ownership' of the new body if the pension position could be agreed.

2. SUMMARY OF RISKS

2.1 The Pension Fund which admits Careers Wales as a member faces a number of risks. The main risks are as follows:

- Certainty of funding for Careers Wales in the future. The funding is currently provided by Welsh Government and whilst they will take on responsibility for the company this does not guarantee funding going forward.

- Welsh Government could decide to discontinue Careers Wales in the future leaving a significant deficit to be funded by the Pension Fund and and its remaining employers.

- The defecits of the previous regions will be transferred from the current pension funds and whilst a payment has been received by each fund in partial settlement of these deficits the amounts are still significant. In assessing these deficits different actuaries use different assumptions. Valuing the deficits using current assumptions for the Gwynedd Pension Fund will increase the amounts as Gwynedd currently uses more a more prudent method than most of the other funds in Wales.

- The transfer is expected to take place by 1st April 2013 which is a very short timescale during a period when significant additional work is being undertaken by the administration section in relation to the implementation of the new computer system and preparation of information for the 2013 actuarial valuation.

- The company headquarters is remote from Gwynedd which could affect the ability to attend employer meetings and presentations in Caernarfon.

2.2 In order to mitigate financial risks a bond will be required by the new company. The calculation of the bond would be agreed with the pension fund taking over the liabilities and would be reviewed regularly to ensure it is sufficient to cover the liabilities. The cost of the bond would be borne by the company and needs to be included in the company's financial plan.

3. RECOMMENDATION

3.1 The Committee is asked to consider the risks and mitigation outlined in this report and to decide whether it wishes to offer membership of the Gwynedd Pension Fund to Careers Wales.