Cronfa Bensiwn Gwynedd Pension Fund

# Contents

# 1. Foreword

Welcome to the Annual Report for the Gwynedd Pension Fund for the financial year ending 31 March 2019. We have been through a transitional year, but the Fund has succeeded in achieving positive returns again in 2018/19, building once more on our relatively robust funding level.

An independent review shows that the Fund's assets delivered investment returns of 7.6% for the year, compared with average returns of 6.6% by the LGPS funds (and a higher quartile of 7.2%), taking the total value of the Fund to more than £2 billion on 31 March 2019. Continued growth in asset value remains heartening, especially when this builds upon the Fund's comparatively favourable position, being 91% funded at the 2016 triennial valuation (or 109% funded, using The Government Actuary's Department's standardised "like-for-like" assumptions, rather than our funds' own more prudent assumptions).

We are working on the triennial actuarial valuation in order to identify the Fund's value as at 31 March 2019. While the position of individual employers within our Fund differs, generally the Fund's strength should allow us to take a flexible approach to employer contribution rates effective from April 2020. Clearly, minimising contribution rates will be an aim, considering the ongoing squeeze on public spending (Government's austerity policy in funding of local authorities, as well as voluntary organisations receiving reduced levels of specific grants).

This report provides further information on investment performance, and on the activities and management of the Pension Fund during the year. I hope this report provides useful information about your Pension Fund. However, it is important that we try to improve the quality and suitability of information provided within the report and feedback is welcomed. For further information on the Gwynedd Pension Fund, or to provide us with your views on this report, relevant officers' contact details are provided in this report.

During 2018/19, the Fund's investment strategy was reviewed. Although there was a decision to de-risk moderately, we remain focused on growth assets which are expected to earn more attractive returns over the longer term than lower risk investments. Also, Gwynedd's Pensions Committee and the Fund's Pension Board developed principles of responsible investment, considering environmental, social and governance factors, which are now included in the revised Investment Strategy Statement since the 8 November 2018 Pensions Committee.

The Gwynedd Fund continues to pool investments, together with the other seven LGPS funds in Wales. In January 2019, the bulk of the remainder of the Fund's global equity assets were transferred from the Fidelity and Veritas asset management companies to two Wales Pension Partnership equity portfolios.

With mandates under the eight Welsh funds' joint contract with BlackRock for passive equity investments, by now 60% of the Fund's assets are in the Partnerships' vehicles, which should improve resilience by pooling, whilst still retaining ownership and responsibility of Gwynedd's investments.

On 19 June 2018, the Pensions Committee elected Councillor John Pughe Roberts as their new Chairman for 2018/19, and John has ensured that the Gwynedd Fund continues to play a key role in the Wales Partnership. Meanwhile, Mr Anthony Deakin has completed his 2 year term chairing Gwynedd's Pension Board, and I would like to thank Tony for his intelligent leadership as Chairman, as his time as an employers' representative on the Board comes to an end.

The Fund's staff have continued to ensure that we provide a high level of service in 2018/19. I would like to thank Gwynedd's pensions administration staff, and their colleagues in the investments team, for their hard work over the past year. As they retire this year, I would especially like to thank Nicholas Hopkins and Caroline Roberts for their wise leadership and faithful service to the Fund.

I hope you find the following report helpful. Many thanks for your support during 2018/19, and I look forward to continuing our constructive working relationship in 2019/20.

**Councillor John Pughe Roberts**
**Pensions Committee Chairman**

**Dafydd L Edwards**
**Head of Finance**

## 2. Management Structure

**Administering Authority**
Gwynedd Council

**Pensions Committee**
Councillor John Pughe Roberts (Chairman)
Councillor Peredur Jenkins (Vice Chairman)
Councillor Stephen Churchman
Councillor Simon Glyn
Councillor John Brynmor Hughes
Councillor Aled Wyn Jones
Councillor Peter Read
Councillor David Cowans (Co-opted Member)
Councillor Robin Wyn Williams (Co-opted Member) (joined 19/06/18)

**Pensions Board**
**Employer Representatives**
Mr Anthony Deakin (Cartrefi Conwy)
Mr Huw Trainor (North Wales Police)
Councillor Aled Lloyd Evans (Gwynedd Council)
**Member Representatives**
Mr Osian Richards
Mrs Sharon Warnes
Mr H. Eifion Jones

**Head of Finance ("Section 151 Officer")**
Mr Dafydd L. Edwards

**Advisor**
Mr Paul Potter (Hymans Robertson)

**Fund Managers**
BlackRock
Fidelity International
Insight Investment
Lothbury
Partners Group
Threadneedle
UBS Global Asset Management Limited
Veritas (until 16/01/19)

**Pool**
Wales Pension Partnership (WPP)

**Custodian**
Northern Trust

**Actuary**
Hymans Robertson

**Bank**
Barclays Bank plc

**Auditor**
Wales Audit Office

**Contact Details**
Enquiries and more detailed information regarding:

- administration of the Gwynedd Pension Fund can be obtained be contacting:

  Mr Nicholas Hopkins,
  Pensions Manager,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH
  ☎ 01286 679612
  🖃 nicholasedwardhopkins@gwynedd.llyw.cymru

- the Fund's investment and accounting activities should be made to:

  Mrs Caroline Roberts,
  Investment Manager,
  Finance Department,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH
  ☎ 01286 679128
  🖃 carolineroberts@gwynedd.llyw.cymru

**Fund Website**
www.gwyneddpensionfund.org.uk

## 3. Annual Report of the Gwynedd Pension Board for 2018/19 (the year to 31 March 2019)

### Background / Constitution

The Board was constituted under the Public Services Pensions Act 2013 and held its first meeting on 13th July 2015. The membership consists of three members representing scheme employers and three members representing scheme members (which include staff who contribute to the pension scheme and those who are retired and receiving a pension).

Over the period between 1 April 2018 and 31 March 2019, the Board has met four times. Board members are invited as observers to meetings of the Pensions Committee and have agreed to take this role in turn in order to facilitate understanding as well as communication. This arrangement is reciprocated with the Chair of the Pensions Committee now attending Board meetings, where he is accountable, with officers for the governance and administration of the Fund. At times, the Board has asked for its views and recommendations to be submitted for consideration by the Committee.

### Function of the Board

In terms of legislation the two primary functions of the Local Pension Board are to assist the administering authority (Gwynedd Council) to:

i. ensure effective and efficient governance and administration of the LGPS, and
ii. ensure compliance with relevant laws and regulation

Therefore, the Board is a monitoring, reviewing and assisting body, not a management or decision making body.

The Board operates under Terms of Reference agreed by Gwynedd Council (in a meeting of the full Council on the 5th March 2015).

It is supported by the Council's Member Support and Scrutiny Officer and reports are prepared and presented by officers including the Head of Finance, Investment Manager, Pensions Manager and the fund's Communication and Systems Team Leader.

### The work of the Board

Once again, the past year has been a busy year for the senior staff of the Administering Authority with the pooling of investments taking priority. Therefore, Board members were aware of the need to prioritise requests in order for officers to prepare reports for the Board.

**Attendance**

| | 12/04/2018 | 16/07/2018 | 13/12/2018 | 13/03/2019 |
|---|---|---|---|---|
| **Anthony Deakin** | ✓ | ✓ | ✓ | ✓ |
| **Councillor Aled Evans** | ✓ | | ✓ | ✓ |
| **H. Eifion Jones** | ✓ | ✓ | ✓ | ✓ |
| **Osian Richards** | ✓ | ✓ | ✓ | ✓ |
| **Huw Trainor** | ✓ | ✓ | ✓ | ✓ |
| **Sharon Warnes** | ✓ | ✓ | ✓ | ✓ |

**Work Plan**

In accordance with the work plan agreed in the previous year, reports on the following issues were received:

- Treasury Management Strategy Statement and Annual Investment Strategy
- Responsible Investment
- Update to the Risk Register
- Communicating with employers – Timely and accurate data
- The Pension Fund's Investment performance
- Pension Administration
- The Member Self Service system
- Wales Pension Partnership

During the discussions, input was given and a number of comments were made by Board members which has assisted administrative authority officials to complete their work.

In addition, Board members attended the annual meeting of the Fund in September 2018 and noted that the fund has performed highly satisfactory, compared with other LGPS funds.

The Board completed the Pensions Regulator's survey on public service governance. The survey was a mixture of factual questions and an opinion poll. Following a discussion between members of the Board, the survey was presented to the Regulator within the specified time limit. During the discussion, the following matters were noted as ones requiring attention:

- Continuity arrangements in terms of staffing;
- The 5 highest risk matters on the risk register;
- Developing arrangements to punish employers who continue to generate additional work.

The work plan for 2019/20 include:

- Update to the Risk Register
- The 2019 Fund Valuation
- General Update on Pension Administration
- The new Member Self Service system
- Update on the Wales Pension Partnership
- Update on the Gwynedd Pension Fund investment performance

**Training**

During Board meetings all members of the Board were given details on the LGPS and its administration in Gwynedd through various presentations by the Head of Finance, Investment Manager, Pensions Manager and Communication and Systems Team Leader.

Members of the Board have also attended a number of meetings and presentations. These include:

LGPS Governance Conference in Bristol
LAPFF Conference in Bournemouth
CIPFA Pension Board Seminar in Liverpool and Cardiff
CIPFA Annual Pension Conference in London

**Thanks**

The Chair wishes to thank his fellow members on the Board, who have volunteered their time to the roles, and the relevant officers for their support.

**Anthony Deakin**
**Chair**

# 4. Review of the Year
# 4.1 Pensions Administration

### General and Introduction

As always, it has been another busy year within Local Government pension administration, and again this year I would like to thank all the employers for their continued hard work in ensuring that data is processed as quickly and as accurately as possible to the Pensions Department. I would also like to extend my personal thanks to the pension staff themselves for all their support and for their hard and diligent work over the last year. The department lost a long and valuable team member when Catherine Owen retired after 26 years of loyal service in June 2018, together with Gruff Thomas (Systems Officer) who left for a new challenge in January 2019. The department underwent a restructure during the year and following the recommendation by the Pensions Committee on the 21/01/2019, the department employed 3 additional Pensions Assistants and 1 Systems Technician. Thus taking the pension sections staff compliment up to 19 staff. The date for the annual contribution year end returns was again set at the 30 April, and I am very pleased to state that all employers adhered to this time scale. May I take this opportunity to again stress the fundamental importance of ensuring that all employer data is processed as accurately and as efficiently as possible. This year again has seen pension administration continuing to adapt to the increasing changes and complexity following the introduction of the Care Average Revalued Earning (CARE) scheme, and regulatory changes.

The pension's department staff continue to receive regular training to ensure that their knowledge and understanding of the LGPS remains up-to-date, and again this year staff members have attended various courses throughout the year. Training is essential to ensure that staff in the department and employers have the latest knowledge and skills necessary to complete their work to the best of their ability.

A full day training session on the transfer of pension rights for all members of staff in the department was held on 4 May 2018 at the Council's offices. The training session was held by Mr Karl White, Local Government Association's Training Officer. The session was very useful and gave staff a good understanding of a very complex area within pension regulations. Traditionally this type of event takes place in cities such as Liverpool, Birmingham and London, however, the LGA is now trying to hold training sessions locally. For the price of sending 3 staff for training to Liverpool, we were able to train the whole department.

A full day training session on the Employer's Role was held for the fund's employers on 31 January 2019 at the Council's offices. The training session was again delivered by Mr Karl White. The aim of the session was to inform employers of their duties in relation to members of the LGPS e.g. how to calculate salaries for pension purposes, how to treat employees leaving the fund, regulatory requirements and early leavers. Many of the large employers attended the session and very positive feedback was received.

The pension software provided by Aquila Heywood is continuously updated as and when legislation changes.

**All Wales Partnership**

Further administrative collaboration has again continued on an all Wales basis, with a number of leaflets and newsletters being produced and sent out via the All Wales collaborative working party. Again this year, Gwynedd continues to play a prominent part in the design and translation of most of these documents.

**Managing Performance**

The Pension Fund is dedicated to improving its service delivery and will review the measures in place to monitor performance on an annual basis to identify where improvements may be made. Where areas of poor performance are identified, the Pensions department will review the reasons for poor performance and will endeavour to put in place appropriate processes to improve the level of service delivery in the future.

| Ref. | Core Activities | Performance in 2017/2018 | | Performance in 2018/2019 | |
|---|---|---|---|---|---|
| | | Number of cases | Average days taken | Number of cases | Average days taken |
| CD9.01 | Average number of work days taken to send a quotation letter offering a transfer in | 198 | 15.3 | 217 | 11.8 |
| CD9.02 | Average number of work days taken to send a quotation letter detailing a transfer out | 160 | 6.1 | 64 | 11.9 |
| CD9.03 | Average number of work days taken to send a letter informing value of benefits – estimates | 1,469 | 4.3 | 1,876 | 4.2 |
| CD9.04 | Average number of work days taken to send a letter informing value of benefits – actual | 572 | 3.2 | 766 | 1.7 |
| CD9.05 | Average no of days taken to acknowledge death of active / preserved / pensioner member | 21 | 4.5 | 17 | 3.4 |
| CD9.06 | Average number of work days taken to notify dependents benefits | 242 | 9.0 | 205 | 7.7 |
| CD9.07 | Monthly pension payments processed and paid on time (figure based on number of payments in Month 12 of each year) | 9,780 | 100% | 10,312 | 100% |
| CD9.08 | Number of cases where amended payments were necessary as a result of an error in the section. | 3 | N/A | 0 | N/A |

**Legislative Changes in the LGPS during 2018/19**

**New amendment regulations**

The LGPS (Amendment) Regulations 2018 were made on 17 April 2018 and came into force on 14 May 2018. The regulations amend the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014.

The main changes introduced in the Amendment Regulations were:

**Early payment of deferred benefits** – if a member left the LGPS with a deferred benefit between 1 April 1998 and 31 March 2014 they can now choose to take early payment of their deferred benefits from age 55 (rather than 60). The change to the scheme rules means that they no longer need the consent of their former employer to take their benefits between the age of 55 and 59. Members who left the LGPS with a deferred benefit on or after 1 April 2014 (except councillors) were already able to choose to take early payment of their deferred benefits from age 55 without needing their former employer's consent, and this has not changed.

**Early payment of deferred benefits for leavers before 1 April 1998 -** if a member left the LGPS with a deferred benefit before 1 April 1998 the scheme rules have been changed to allow them to take their benefit at age 55 (rather than 60) or the date their deferred benefit will be payable without a reduction for early payment – this is called the Normal Pension Age (NPA). The NPA will be between age 60 and 65 depending on when the member joined the scheme.

**Reductions to benefits for early payment -** If a member choose to take their deferred benefits earlier than their Normal Pension Age (NPA) they will normally be reduced to take account of the fact that their pension will be paid for longer. How much the deferred benefits are reduced by depends on how early they are taken. The reduction is based on the length of time (in years and days) between the date the member takes them and the date the deferred benefit will be payable without a reduction for early payment.

The early reduction factors are set by the Government and can vary from time to time. The current factors can be found on the national LGPS member website - www.lgpsmember.org/more/reductions.php

**Changes to pre- April 2014 AVC contracts** – members of the LGPS who is, or was, paying Additional Voluntary Contributions (AVCs) and the contract to pay those AVCs started before 1 April 2014, will see some changes to the way their AVCs are calculated and how they can take their AVC plan.

If they are currently paying AVCs:

- they can now pay up to 100% (rather than 50%) of their pensionable pay into their AVC plan.
- AVCs will now also be deducted from any voluntary overtime they work (if they pay AVCs as percentage of their salary).

When they take their AVC plan:

- if they leave the scheme with a deferred benefit they can now buy additional pension from the LGPS with their AVC plan when they take their benefits from the scheme. Before the change, this option was only available to members who took immediate payment of their main scheme benefits and their AVC plan when they left the scheme.
- when they take their main scheme benefits they will no longer be able to leave their AVC invested and take it later.
- if they die before taking their AVC and a lump sum is to be paid from their AVC plan their pension fund now has absolute discretion over who to pay that sum to (rather than it having to be paid to the estate). If the lump sum is paid at the discretion of the pension fund it does not form part of the estate and will not be subject to inheritance tax.

**Pension Increase**

Pensions are adjusted annually under the Pensions Increase Act. For 2018/19 the full increase was 3%. Pension benefits are statutory and are effectively guaranteed by Parliament. They do not depend on investment performance but the actuary does take account of how well the investments perform in setting the employers' contribution rate in the actuarial valuation.

**Tax Reform**

Life Time Allowance for 2018/2019 was £1.03 million and £40,000 for the Annual Allowance. These lower limits have had an impact on more individuals within the scheme.

**i- Connect**

It is most pleasing to report that work has been ongoing in signing employers to the i-Connect system. i-Connect, is a software system that links together information between an employer's payroll system and the Pension Section's software. I-Connect ensures that members' records are updated monthly, rather than once a year as at present, it will reduce the need to complete the end of year spreadsheet, and the list of complicated queries that inevitably arise. The system will also automate a number of procedures within the department and thus release staff to address other duties within the department.

There are currently 34 employers (70%) registered and using the i-Connect system, with work progressively continuing to move the 5 major employers over to the system in 2019/20. Meetings have been arranged with the major employers to discuss the best way for implementation going forward.

**The Pensions Regulator (Measuring Data)**

Having accurate and clean data for our members is important. It is now required to report to the Pensions Regulator (TPR) on the quality of our data. We commissioned our software provider, Aquila Heywood to produce a Data Quality Report for our Fund in October 2018.

The report is divided into two sections:

- **Common Data**: e.g. name, address, NI number, gender, date of birth, status and start date
- **Scheme Specific Data**: e.g. benefits in the scheme, transfer details, AVCs, salary details, contributions, service, lifetime allowance, annual allowance and GMP.

**Summary of Common Data Results**

The results presented are produced from data extracted from the Gwynedd Altair LIVE Service on 10 September 2018 for each test. The overall percentage of tests passed for Gwynedd common data is **99.3%.**

7 of the 8 categories achieved the highest benchmark of more than **98%** with 1 category without recording individual failure. A further 4 categories have been rounded to 100% with pass rates exceeding 99.95%. The only category that did not reach the highest benchmark in question was **member addresses** with a score of **96.7%.** With the exception of members' addresses, the overall quality of common data in Gwynedd is of a high standard. Some work is needed with this category to reach the highest benchmark. The percentage of members' records without a common data failure is **94.9%** and this is the figure that TPR will receive on scheme returns.

The average data score in England and Wales for last year was **93%.**

**Summary of Results of the Scheme Specific Data**

The results presented here are produced from data extracted from the Gwynedd Altair Living Service on 10 September 2018 for each test. The overall percentage of tests passed for plan-specific data is **96.0%.** The percentage of members' records without scheme specific data failure is **81.6%** and this is the figure that TPR will receive on scheme returns.

The average data score in England and Wales for last year was **75%**.

An action plan is being developed in relation to the implementation of any data cleansing highlighted as part of this exercise and this data cleansing is expected to improve the data scores for next year.

### Communications

During the last year the Communications team has been visiting employers to deliver presentations and one to one sessions. These sessions have included:

- 20 presentations and one-to-one sessions to Isle of Anglesey County Council staff.
- 1 presentation and a number of one-to-one sessions in Cartrefi Conwy
- 6 presentations to Conwy County Borough Council staff
- 3 pre-retirement seminars in partnership with Chadwick IFA

### The Fund's Website

The fund's website has been completely redesigned over the past year - it is hoped that the new design is much easier to use. Additional material has been added, giving members much more information about the scheme. We would like to thank Cian Evans and Alf Nathan from the IT team for their help and support on the project.

### Self Service Website (MSS)

Over 8,000 members have registered for the self-service website in the last 12 months following a campaign to get members to register for the service (2,000 previously registered). The Pensions Committee in November 2018 approved the funding to upgrade to the latest version of the system. We hope to start upgrading the system in the near future.

### Annual Benefit Statements

An Annual Benefit Statement must be produced for each scheme member by the end of August each year. This statement provides members with details of the benefits accrued to the end of the previous financial year and forecasts the benefits payable when a member has reached their Normal Pension Age. The statement also includes salary details and explanatory notes on how the benefits are calculated.

The statements had been provided electronically on the self-service system for the first time in 2017/18 - this has saved the fund approximately £ 15,000. A small number who have made a written request continue to receive paper statements.

It is hoped in 2019/20 to expand on the simple document provided in 2018/19.

## Pension Savings Statements

It is a requirement under Her Majesty's Revenue and Customs (HMRC) regulations to issue Pension Savings Statements to members if the total increase in their pension scheme during Pension Input Period (PIP) exceeds the Annual Allowance (AA) for the tax year.

The AA for the tax year ending 5 April 2018 was **£40,000** (gross). For the 2017/18 tax year, we issued 23 statements.

## Guaranteed Minimum Pension Reconciliation

A three person team, led by Gareth Jones (the previous manager), was appointed in January 2016 to address the Guaranteed Minimum Pension (GMP) reconciliation exercise.

The GMP reconciliation exercise listed all members with a GMP under a scheme and compared this against a list of all members that HM Revenue and Customs believe to have GMP under that same scheme.

Over the last 3 years the team has been busy reconciling the details of the GMP held for our members. Most of the project was completed in December 2018. We are still awaiting a reply from HM Revenue and Customs to a few cases. We would like to thank Gareth and the team for their hard work in successfully completing the project.

A number of other Pension Funds used external companies to undertake the work. Keeping the project in-house has saved the Fund a significant amount of money.

## Transfer of Undertaking (Protection of Employment) Regulations. (TUPE).

Can I please again remind all employers who think there may be a possibility of outsourcing any particular service, please first consider the pension implications of the individuals that are being transferred out. If the proposed new employer has a GAD certified comparable scheme, then there is no pension issue. Individuals will have the option of transferring their pension benefits to the new pension arrangement or leave them as deferred benefits within the Local Government Pension scheme (LGPS).

If the new employer does not have a comparable GAD certified pension arrangement then the new employer will have no option (if they wish to proceed with the tender) but to become an Admitted Body within the Gwynedd Pension Fund. Before this can be done the proposed new employer will need to know what the new contribution rate will be and whether or not there is a Guarantor in place, (i.e the outsourcing employer). If there is no Guarantor in place then a Bond is required.

In order for the contribution rate and Bond to be determined the Pension Section will need to ascertain all details of the individuals being transferred out, in order for a report to be sent to the Actuaries for them to calculate the contribution rate and the potential Bond. The cost of which will be financed by either the new employer or the outsourcing employer by whatever decision is made in the negotiating process.

The section has recently completed working on a scheme guide for the employers with the hope of arranging a presentation later in the year. Details of which will be circulated at the relevant time.

**Nicholas Hopkins**
**Pensions Manager**

## 4.2 Welsh Pension Funds Collaboration

For a number of years now we have been reporting on the collaboration between the eight Welsh Local Authority Pension Funds. This started as a project for Wales before the more recent requirements of the Government to pool investments. The Wales project concluded that significant savings on investment fees could be achieved by using fewer managers across the Welsh funds.

Following the procurement process to appoint one passive manager, which was completed in April 2016, significant savings in fees have been realised across the funds which have passive investments, including Gwynedd Pension Fund.

During 2016/17 the Welsh funds were given permission from the Westminster Government to continue on the basis of a pool across Wales despite the fact that it does not reach the £25 billion threshold specified at present.

The governance structure for this collaboration is a Joint Committee with one elected member from each of the eight pension funds in Wales. The Joint Committee meets quarterly at each of the Pension Fund's offices in turn.

During 2017/18 Russell, the provider of the investment platform, was appointed through the required procurement process. They are using Link as operator of the Welsh Pool. The work of transferring investments to the fund is ongoing, with active equities transferred during 2018/19.

Since being appointed as Operator in December 2017, Link have worked with delegated partners in Northern Trust, Russell Investments and Eversheds Sutherland, as well as the Wales Pension Partnership, to build the prospectus and obtain Finance Conduct Authority (FCA) approval for the Authorised Contractual Scheme (ACS) launch. In 2019 Link will continue the conceptualisation and development of further strategies / sub-funds to ensure we can fulfil our individual investment objectives.

**Progress of Link during 2018/19**

**June 2018**

- Joint Governance Committee signs off ACS Prospectus
- Commencement of Tranche 2 conceptualisation with Russell to build proposal

**July 2018**

- FCA Approval of funds received 24th July
- Tranche 2 Fund structure agreed with OWG

**August 2018**

- Transition Manager tender issued 10th August 2018 – all bidders responded
- Fund Operational setup begins with Administrator & Depository (NT)

**September 2018**

- Initial Manager Day held 5th September – Global Growth managers and 3 of the Global Opportunities managers. Feedback was positive
- Transition Manager Evaluation & appointment began

**December 2018**

- The proposed Fixed Income Sub-Funds were presented in a paper to the Officer Working Group for discussion and agreement.

**January 2019**

- The first investments were transferred into the WPP on 17th January. The two funds for global equity were started and the Gwynedd Pension Fund invested the same amount in each fund.

## 4.3 Actuarial Valuation

The triennial actuarial valuation as at 31 March 2016 was completed during 2016/17. The funding position for the whole fund improved from 85% at 31 March 2013 to 91% at 31 March 2016, mainly due to strong investment performance over the period.

The liabilities also increased due to a reduction in the future expected investment return, although this has been partially offset by lower than expected pay and benefit growth.

Broadly, contributions required from employers in respect of new benefits earned by members (the primary rate) have increased. Changes to employer contributions to fund the deficit have been variable across employers.

The actuary produced a provisional report for each individual employer. A forum was held for all employers in November 2016, where the Actuary presented the results and answered questions. This was a very useful session and it was disappointing that more employers did not take the opportunity to attend.

The final Gwynedd Pension Fund 2016 Actuarial Valuation Report was produced in March 2017 and is available on the fund's website at
http://www.gwyneddpensionfund.org.uk/upload/public/attachments/1272/170330_Gwynedd_Pension_Fund_2016_Formal_Valuation_Report_final1.pdf

The next triennial actuarial valuation is required as at 31 March 2019. During 2019/20 the acturaries will be working to agree the results for each employer contributions for April 2020 onwards.

## 4.4 Funding Strategy Statement

The Funding Strategy Statement was reviewed during 2016/17 to reflect the Actuarial Valuation at 31 March 2016 and the employers participating in the Fund were consulted during this process. The Funding Strategy Statement sets out the fund-specific strategy which will identify how employers' pensions liabilities are best met going forward. It includes the individual employer contribution rates from 1 April 2017 onwards.

A copy of the Funding Strategy is available on the fund's website at
http://www.gwyneddpensionfund.org.uk/Pensiynau/pens_dogfen.asp?cat=6161&doc=30465&p=1&c=1

The Funding Strategy Statement will be reviewed during 2019/20 to include any changes arising from the Actuarial Valuation as at 31 March 2019.

## 4.5 Investment Strategy Statement

The Pensions Committee approved the 2018/19 Investment Strategy Statement (ISS) on 15th March 2018 following consultation with interested parties. This strategy defines the types of investments that the fund may use in the long term.

There are no specific limits for types of investments. However, it is good practice to have some broad limits and these are included in the ISS. A copy of the ISS is available on the fund's website at
http://www.gwyneddpensionfund.org.uk/en/Investments/Statement-of-Investment-Principles.aspx

In November 2018 the Committee added responsible investment to the ISS following a session with the fund's advisors regarding Environmental, Social and Governance (ESG) issues for the members of the committee and the board.

The following principles are now part of the ISS:

- In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though 'ESG' matters can materially affect risk and returns. Therefore, 'ESG' factors should be embedded in the investment processes and in the decision-making processes of the managers appointed by the Fund.

- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.

- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action provides the most successful route to influence outputs.

- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open the fund is to such risks.

- Share-holder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.

## 4.6 International Accounting Standard 19 (IAS19) and Financial Reporting Standard 17 (FRS17)

**Definition of IAS19**

IAS19 effectively defines how pension scheme assets and liabilities are to be measured for financial reporting purposes and notes that any deficit or surplus should be recognised in full as a balance sheet item, with any movements being recognised in the annual profit and loss account. IAS19 is relevant to bodies required to report under International Financial Reporting Standards (IFRS). This includes the scheduled bodies in the Pension Fund, which are part of Government accounting, namely Gwynedd Council, Isle of Anglesey County Council, Conwy County Borough Council and their foundation schools, Snowdonia National Park Authority, the Police and Crime Commissioner for North Wales and Careers Wales North West. Two of the smaller employers also requested IAS19 reports. All other employers are still subject to FRS17 reporting requirements.

**Accounting for IAS19 and FRS17**

Adoption of IAS19 or FRS17 means that employers have to recognise the net asset or liability, and a pensions reserve, in the balance sheet. They also have to make entries in the Consolidated Revenue Account for movements in the asset or liability relating to defined benefit schemes.

**IAS19 and FRS17 Reports as at 31/03/2019**

In February 2018, work was undertaken to collect all the necessary data required by the Actuary to calculate the individual IAS19 or FRS17 information for each of the Fund's employers. The majority of the reports were sent to the employers between 9th and 15th April 2019.

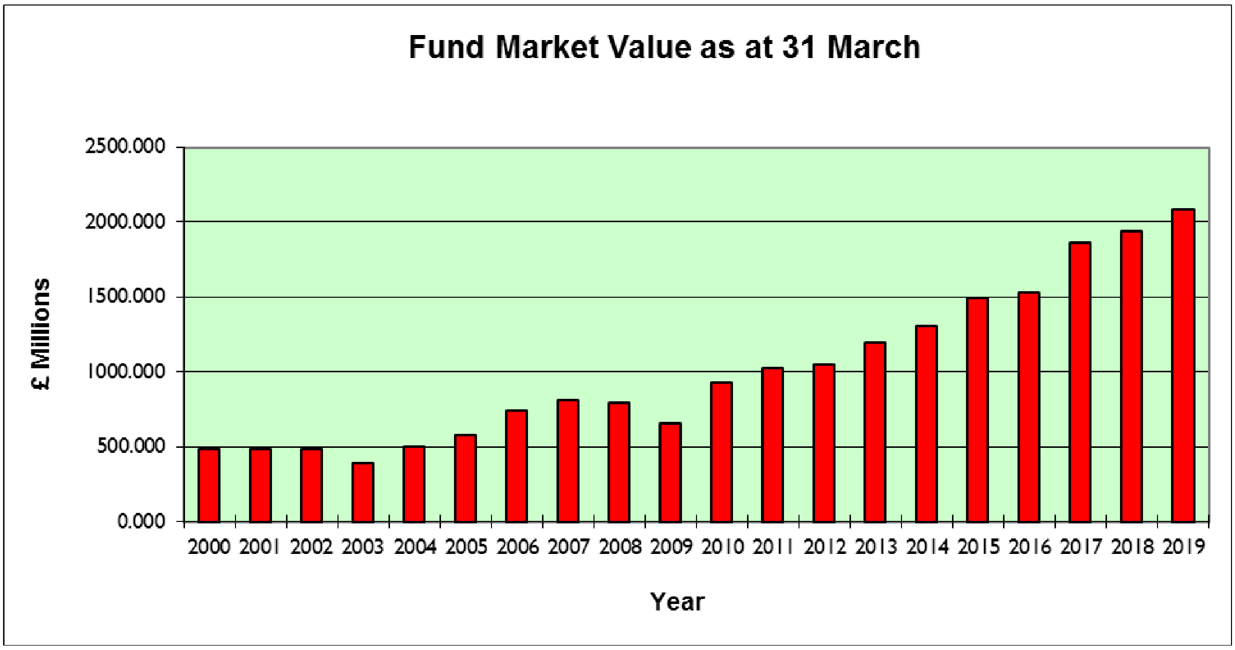
**IAS19 and FRS17 Results as at 31/03/2019**

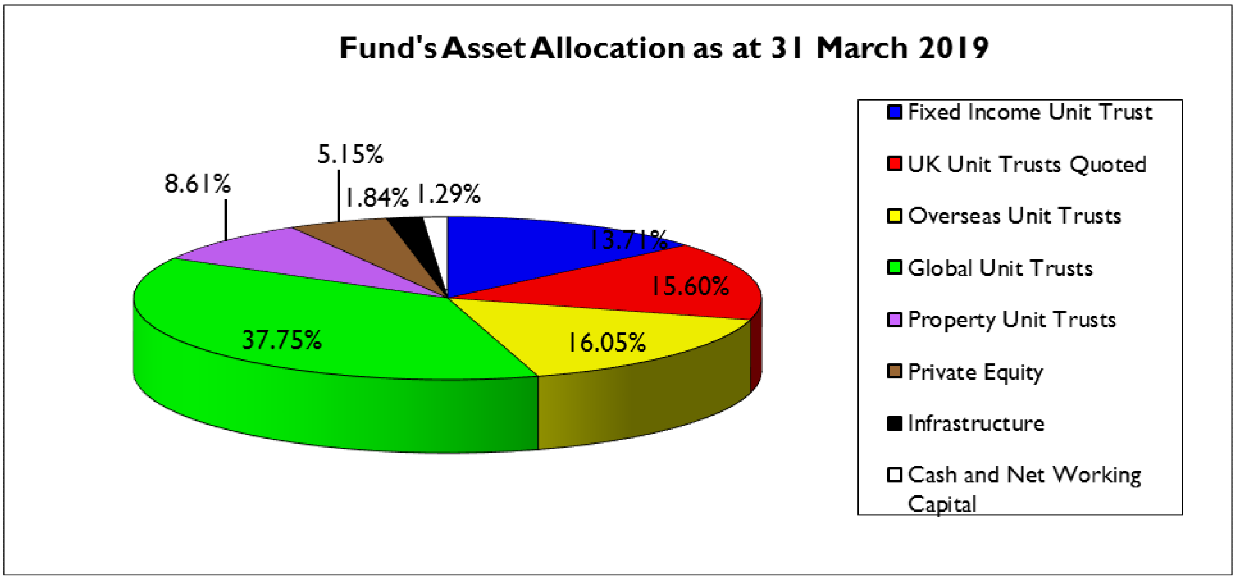
Each employer's results reflect their own specific circumstances. Therefore, this update should be considered as an illustrative guide to the main issues affecting most employers, rather than a detailed explanation of each employer's experience.

The assumptions used are those adopted for the Gwynedd Council's IAS19 report and are different as at 31 March 2019 and 31 March 2018. The actuary estimates that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £234million. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Caroline Roberts
**Investment Manager**

## 5. Recent Trends



# 6. Management Report

## 6.1 Scheme Administration

**General**

The basis for the Local Government Pension Scheme (LGPS) is contained in the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (also as amended).

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 27 other scheduled bodies (including 2 Local Authorities) and 19 admitted bodies. The Fund does not cover teachers, for whom separate arrangements exist. The Fund is financed by contributions from employers and employees, together with income earned from investments.

From April 2014 employee contribution rates are determined in bands according to their actual pay indexed annually in line with inflation. Employees may opt to pay half rate contributions to accrue half rate personal benefits in what is called the 50/50 scheme, death and dependant benefits remain at full rate. The bandings for April 2018 – March 2019 are shown in the table below:

| Pay Bands | Contribution Rates main scheme | Contribution Rates 50/50 scheme |
|---|---|---|
| Up to £14,200 | 5.5% | 2.75% |
| £14,201 - £22,100 | 5.8% | 2.9% |
| £22,101 - £35,700 | 6.5% | 3.25% |
| £35,701 - £45,200 | 6.8% | 3.4% |
| £45,201 - £63,100 | 8.5% | 4.25% |
| £63,101 - £89,400 | 9.9% | 4.95% |
| £89,401 - £105,200 | 10.5% | 5.25% |
| £105,201 - £157,900 | 11.4% | 5.7% |
| More than £157,901 | 12.5% | 6.25% |

Employers contribute to the fund at a rate assessed triennially by the Fund's Actuary, or in the event of any significant change in an employer's membership or profile. Employers continue to pay the full rate in respect of members who opt for the 50/50 option or are on reduced pay due to illness.

**Benefits**

The LGPS provides significant benefits to members based on two separate schemes. There is a final salary arrangement, itself consisting of two accrual rates, and a CARE (Career Average Revalued Earnings) arrangement that came into force from 1 April 2014. Below are brief details of how the pensions accrue in both arrangements.

For the final salary element benefits will normally be based on two factors: service or membership during which contributions have been paid to the scheme, known as "Total Membership", and the wage or salary on which those contributions were paid (normally the last 12 months of service), known as "Final Pay".

The CARE part will be in the form of 1/49ths pension calculated on individual years' actual pensionable earnings revalued annually.

- **Annual Pension**

  The calculation of the annual standard pension is based on the following formula:

  ***Final Pay x 1/80 x Total Membership to 31 March 2008; plus***
  ***Final Pay x 1/60 x Total Membership from 1 April 2008 to 31 March 2014; plus***
  ***The accrued and revalued CARE pension on years from 1 April 2014 onwards***

Once the pension is in payment it will rise each April in line with the increase in the Consumer Price Index.

- **Lump Sum**

  There is also an entitlement to a standard tax-free lump sum on membership to 31 March 2008, based on the following formula:

  ***Final Pay x 3/80 x Total Membership to 31 March 2008 only***

- **Conversion of Benefits**

  There is an option to convert part of the pension into an additional lump sum in excess of the formula shown above, but subject to HMRC limits.

**Councillor Pensions**

The scheme also provides access for Councillors. The benefit package is based on the pre April 2008 formula for pension and lump sum shown above but using Career Average Salary instead of Final Pay. This remains the position for councillor members even after the introduction of the new main scheme from April 2014. No new Councillors are eligible to join the LGPS in England and current Councillor Members must leave the scheme when their term of office comes to an end.

**Ill-Health Retirement**

If the membership period is 2 years or more, and an administering authority approved independent registered medical practitioner certifies that the member has become permanently unable to do their job or any comparable job with their employer, they will receive a pension, and if choosing to convert their pension, a tax free lump sum immediately.

The benefit payable depends on the ill health retirement awarded:

**Tier 1**

If the member is unlikely to be capable of gainful employment before their Normal Pension Age (NPA), ill health benefits are based on the pension they have already built up in their pension account at the date of leaving the scheme plus the pension they would have built up, calculated on assumed pensionable pay, had they been in the main section of the scheme until they reached their NPA.

**Tier 2**

If the member is unlikely to be capable of gainful employment within 3 years of leaving, but are likely to be capable of undertaking such employment before their NPA, ill health benefits are based on the pension they have already built up in their pension account at the date of leaving the scheme plus 25% of the pension they would have built up calculated on assumed pensionable pay, had they been in the main section of the scheme until they reached their NPA.

**Tier 3**

If the member is likely to be capable of gainful employment within 3 years of leaving, or before their NPA if earlier, ill health benefits are based on the pension they have already built up in their pension account at leaving. Payment of these benefits will be stopped after 3 years, or earlier if the member is in gainful employment or become capable of such employment, provided they have not reached their NPA by then. If the payment is stopped it will normally become payable again from their NPA.

Gainful employment means paid employment for not less than 30 hours in each week for a period of not less than 12 months.

**Early Retirement**

If membership period is 2 years or more, a member may elect to retire and receive their LGPS benefits at any time from age 55 onwards; however payment before normal pension age may result in an actuarial reduction for early release, and if after normal pension age benefits may be actuarially increased due to late payment.

**Preserved Benefits**

Leavers with 2 years of membership are awarded preserved benefits, calculated in the same way as described in the paragraph 'Benefits', but with payment being deferred and index linked until payment is made any time after age 55 (age 60 if termination before 1/04/2014). Alternatively, it may be possible to transfer the equivalent value of benefits to another pension scheme.

Leavers with less than 2 years' membership, and with no further LGPS rights, may reclaim their contributions, less tax and any contracted out premiums that may apply.

**Death in Service**

A death grant of three times Final Pay is payable, regardless of the length of membership. For part-time employees, the Final Pay is not increased to its whole-time equivalent rate.

In addition, survivor benefits may be payable to spouses, or partners, with dependent children benefits also payable subject to certain criteria, mainly based on age and whether in full time education.

**Death after Retirement**

Pension payments come with a ten year guarantee, so that if death occurs within ten years of retirement and before age 75 a death grant may be payable on the excess of pension not paid up to a maximum that would have been paid up to age 75.

Like for death in service, spouses and partners' pensions are payable for life whilst dependant eligible children's pensions are payable subject to the same conditions as for Death in Service.

## 6.2 Actuarial Position

### General

The most recent actuarial valuation of the Fund was undertaken as at 31st March 2016 (previously 31st March 2013), and it requires full solvency of the Fund. The next actuarial valuation as at 31st March 2019 will be undertaken during 2019/20 and results will be ready for the employer contributions in 2020/21.

### Method and Assumptions Used

The actuarial methods used in the valuation were the "Projected Unit Method" for the Fund as a whole and employers who will continue to admit new entrants to the Fund and the "Attained Age Method" for employers who no longer admit new entrants to the Fund. The main financial assumptions were as follows:

| | **% per annum** |
|---|---|
| Discount Rate | 3.9% |
| Pay Increases (not including increments)* | 2.1% |
| Price Inflation / Pension Increases | 2.1% |

### The Results

The key funding objective of the Fund is to build up sufficient assets to provide adequate security for members' benefits as they accrue. When the value of the Fund's assets match the value of its liabilities the Fund is said to be 100% funded. In the valuation report for 31 March 2016, published on the 31 March 2017 by Hymans Robertson, the Funding level was 91% (compared to 85% at 31 March 2013) and there was a funding shortfall of £145m. The market value of assets at the valuation date was £1,525m and liabilities were assessed to be £1,670m.

The following table sets out the valuation results for the Fund as a whole:

| | **£m** |
|---|---|
| **Net Liabilities :-** | |
| Active Members | 761 |
| Deferred Pensioners | 252 |
| Pensioners | 657 |
| **Total Net Liabilities** | **1,670** |
| **Total Value of Assets** | **1,525** |
| **Surplus (Deficit)** | **(145)** |
| **Funding Level** | **91%** |

### Employer Contribution Rates

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund to meet the Contribution Objective, a primary rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within each individual employer's set time horizon.

The table below summarises the whole fund Primary and Secondary Contribution rates at this valuation.

| Primary Rate (% of pay) | Secondary Rate £ | | |
|---|---|---|---|
| 1 April 2017 – 31 March 2020 | 2017/18 | 2018/19 | 2019/20 |
| 18.7% | £6,734,000 | £6,761,000 | £6,788,000 |

## 6.3 Administrative and Custodial Arrangements

**Governance**
The Fund is administered within the framework established by statute, which stipulates that Gwynedd Council is the Administering Authority.

**Governance Policies**
The Governance Policy Statement (GPS) and the Governance Compliance Statement (GCS) states the governance practices of the Pension Fund.

Copies can be seen on the Pension Fund website.

**Specialist Advice**
The Local Government Pension Scheme Regulations oblige the Council to take specialist advice on investment. This advice is provided by an independent advisor from Hymans Robertson (the Fund's advisors), who joins the Pensions Committee in monitoring the Investment Managers. An advisor from Hymans Robertson is always present at the Pensions Committee's quarterly meetings with the Investment Managers.

**Investment Managers**
Over the period of this report, there were 5 Investment Managers, as follows: BlackRock, Fidelity International (Fidelity), Insight Investment (Insight), Veritas/ WPP and Partners Group. The Fund has also invested directly in Lothbury Investment Management’s (Lothbury) Property Fund, Threadneedle’s Pensions Property Fund and UBS Life Triton Property Fund.

The target distribution of Fund assets for the year is shown in the table below. The investment in infrastructure will be built up over a period of time and therefore the actual allocation has not reached the target during the year.

The target distribution of Fund assets was as follows for most of the year:

| Manager | % |
|---|---|
| BlackRock | 29.5 |
| Veritas | 19.0 |
| Fidelity | 19.0 |
| Insight | 15.0 |
| UBS / Lothbury / Threadneedle / BlackRock (Property Only) | 10.0 |
| Partners – Private equity | 5.0 |
| Partners – Infrastructure | 2.5 |
| **Total** | 100.0 |

However it changed in January 2019 when the first investments went into the Wales Pension Partnership and is now as follows:

| Manager | % |
|---|---|
| BlackRock | 29.5 |
| Wales Pension Partnership (WPP) | 28.0 |
| Fidelity | 10.0 |
| Insight | 15.0 |
| UBS / Lothbury / Threadneedle / BlackRock (Property Only) | 10.0 |
| Partners – Private equity | 5.0 |
| Partners – Infrastructure | 2.5 |
| **Total** | 100.0 |

**Custodians**

Some of the investment mangers have an associated custodian who holds the assets of their part of the portfolio. The managers and their associated custodians are as follows:

- BlackRock's custodian is JP Morgan Chase Bank;
- Fidelity's custodian is also JP Morgan Chase Bank;
- Insight's custodian is The Northern Trust Company;
- WPP's custodian is The Northern Trust Company.

Lothbury, Threadneedle and UBS, with whom the Fund has direct investments, have the Northern Trust Company as their custodians.

Partners Group is not included in the Fund's custody arrangements.

**Administrative Procedures**

Administrative procedures ensure that those transfers which do take place, between the Council and the Investment Managers, must be authorised by the signatories of two named officers who are on the Pension Fund's authorised signature list.

**Asset Allocation**

One of the key determinants of the Fund's long-term overall performance is its strategic asset allocation. The Fund's strategic asset allocation is 72.5% equities, 15% UK bonds, 10% property and 2.5% infrastructure.

The following tables show the Fund's benchmark allocation during 2018/19.

| To 16th January 2019 | BlackRock % | Veritas % | Fidelity % | Insight % | UBS/Thread-needle/ Lothbury/ BlackRock Property % | Partners Group % | Total % |
|---|---|---|---|---|---|---|---|
| **Percentage of Fund** | **29.5** | **19.0** | **19.0** | **15.0** | **10.0** | **7.5** | **100.0** |
| **UK Equities** | **56.0** | **7.8** | **7.8** | **-** | **-** | **-** | **19.5** |
| **Overseas Equities** | **44.0** | **92.3** | **92.3** | **-** | **-** | **-** | **48.0** |
| North America | 7.4 | 52.8 | 52.8 | - | - | - | 21.0 |
| Europe ex-UK | 14.1 | 16.7 | 16.7 | - | - | - | 10.0 |
| Japan | 6.0 | 7.4 | 7.4 | - | - | - | 5.0 |
| Pacific Basin | 9.0 | 4.4 | 4.4 | - | - | - | 5.5 |
| Emerging Markets | 7.5 | 10.9 | 10.9 | - | - | - | 6.5 |
| **Private Equity** | **-** | **-** | **-** | **-** | **-** | **66.7** | **5.0** |
| **Total Equities** | **100.0** | **100.0** | **100.0** | **-** | **-** | **66.7** | **72.5** |
| UK Bonds | - | - | - | 100.0 | - | - | 15.0 |
| **Total Bonds** | **-** | **-** | **-** | **100.0** | **-** | **-** | **15.0** |
| **Property** | **-** | **-** | **-** | **-** | **100.0** | **-** | **10.0** |
| **Infrastructure** | | | | | | **33.3** | **2.5** |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

| From 17th January 2019 | BlackRock % | WPP % | Fidelity % | Insight % | UBS/Thread-needle/ Lothbury/ BlackRock Property % | Partners Group % | Total % |
|---|---|---|---|---|---|---|---|
| **Percentage of Fund** | **29.5** | **28.0** | **10.0** | **15.0** | **10.0** | **7.5** | **100.0** |
| **UK Equities** | **56.0** | **7.8** | **7.8** | **-** | **-** | **-** | **19.5** |
| **Overseas Equities** | **44.0** | **92.3** | **92.3** | **-** | **-** | **-** | **48.0** |
| North America | 7.4 | 52.8 | 52.8 | - | - | - | 21.0 |
| Europe ex-UK | 14.1 | 16.7 | 16.7 | - | - | - | 10.0 |
| Japan | 6.0 | 7.4 | 7.4 | - | - | - | 5.0 |
| Pacific Basin | 9.0 | 4.4 | 4.4 | - | - | - | 5.5 |
| Emerging Markets | 7.5 | 10.9 | 10.9 | - | - | - | 6.5 |
| **Private Equity** | **-** | **-** | **-** | **-** | **-** | **66.7** | **5.0** |
| **Total Equities** | **100.0** | **100.0** | **100.0** | **-** | **-** | **66.7** | **72.5** |
| UK Bonds | - | - | - | 100.0 | - | - | 15.0 |
| **Total Bonds** | **-** | **-** | **-** | **100.0** | **-** | **-** | **15.0** |
| **Property** | **-** | **-** | **-** | **-** | **100.0** | **-** | **10.0** |
| **Infrastructure** | | | | | | **33.3** | **2.5** |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

## 6.4 Investment Powers

**Investment Powers**

The regulations require that the Fund have an Investment Strategy Statement (ISS). A copy of the ISS is available on the Pension Fund website at
http://www.gwyneddpensionfund.org.uk/Pensiynau/pens_dogfen.asp?cat=6161&doc=30466&p=1&c=1

This enables pension funds to be flexible in their strategy and invest a larger percentage of their fund in individual pooling arrangements. There are no specific limits in the legislation and therefore no need to formally increase the amounts. However, it is good practice to have some broad limits and these are included in the ISS.

## 6.5 Investment Management

**General**

The main objective of investment policy is to maximise the return on the money entrusted to the Council, consistent with acceptable levels of risk and for the annual return in the longer run to exceed the level of wage inflation. It must be borne in mind that the Fund's liabilities (pensions) are very long-term, extending to the middle of the century. These liabilities will increase with inflation, both because of the index-linking of pensions and also due to the rising level of employees' salaries and wages to the time of retirement. There is a relationship between the level of returns achieved and the contribution rate which employers are expected to pay. The Pensions Committee considers that in the long run equity returns will exceed bond returns and it is for this reason that the majority of the Fund is invested in equities.

**Investment Manager Briefs**

As a result of a deliberate policy to diversify assets and investment styles, the Fund has Investment Managers with varying briefs:

| Investment Manager | Brief |
|---|---|
| BlackRock | Passive |
| Fidelity | Active |
| Insight | Active |
| Veritas / WPP | Active |
| Partners | Active |

BlackRock is briefed to be a "passive" manager. The manager will allocate their mandate's asset allocation in line with that of the benchmark and in each market they aim to track stock exchange indices. As a result, their mandates' performance should be in line with their respective benchmarks. Appointing a passive manager reduces the risk of underperformance, relative to benchmark; however, it also reduces the possibility of out-performance, relative to the benchmark.

All the others are "active" managers. They are given the discretion to invest in their best investment ideas. Whilst they have a great deal of flexibility, in terms of which stocks, regions and sectors they can invest in, there are a number of restrictions in place which prevents the managers deviating too far from the benchmark and taking excessive risk. Appointing active managers increases the possibility of out-performance, relative to the benchmark; however it also increases the risk of underperformance, relative to benchmark.

Veritas/WPP and Fidelity have an "active" equity brief while Insight has an "active" bond brief. Partners Group has been given "active" private equity and infrastructure briefs.

## 6.6 Investment Performance

**Quarterly Meetings**
The performance of the Investment Managers is monitored on a quarterly basis. Investment Managers submit quarterly reports and valuations to the Pensions Committee, the relevant officers at Gwynedd Council and the Fund's adviser. Every quarter a meeting is held between Investment Managers, the Committee, officers and the adviser to monitor their performance.

**Performance Monitoring**
Gwynedd subscribes to a service provided by Pensions & Investment Research Consultants Ltd (PIRC) who calculate the rate of return for Gwynedd and for other Pension Funds and provides comparisons.

**Targets**
Individual performance benchmarks for the Investment Managers are shown in the table below.

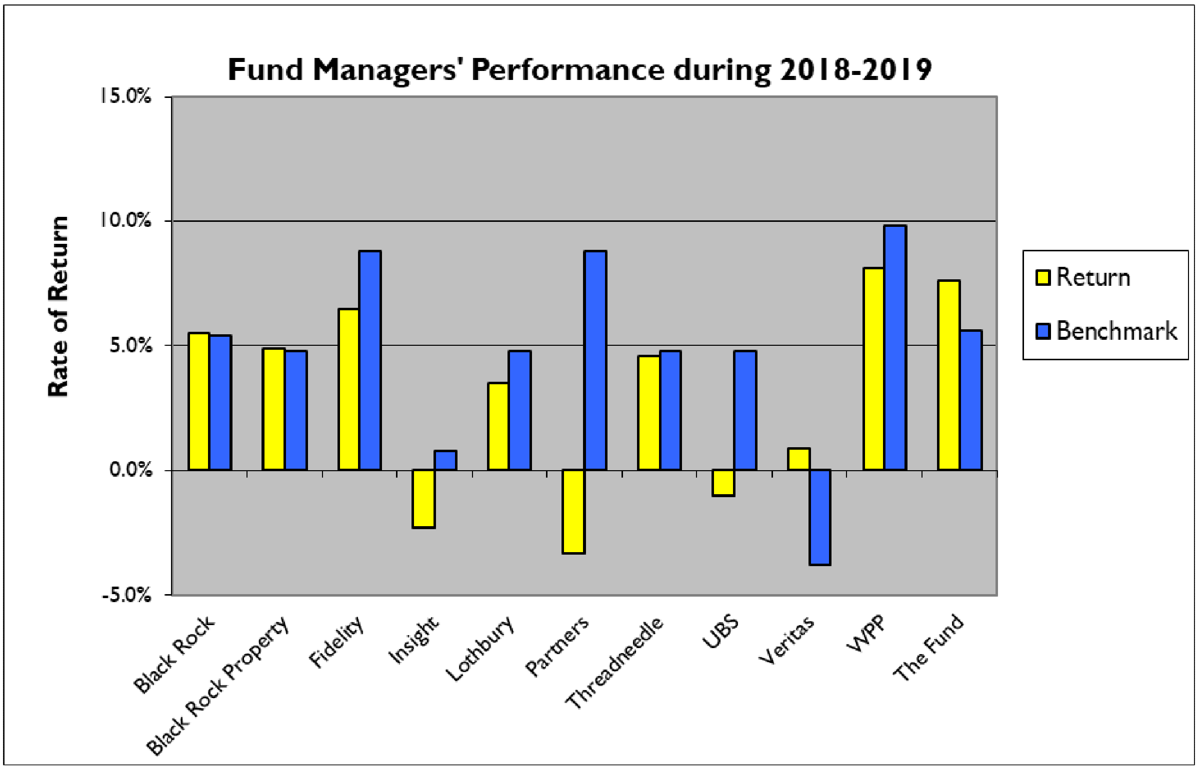
| Manager | Benchmark | Target |
|---|---|---|
| BlackRock | FTSE All-Share and FTSE All-World Indices | Benchmark Return |
| Veritas | MSCI All Countries World Index | Benchmark + 2% p.a. (gross of fees) |
| Fidelity | MSCI All Countries World Index | Benchmark + 2%-3% p.a. (gross of fees) |
| Insight | Cash (Libor) | Benchmark +2% p.a. |
| Partners | MSCI World | Benchmark + 5% p.a.* |
| WPP | MSCI All Countries World Index | Benchmark + 2% p.a. (gross of fees) |

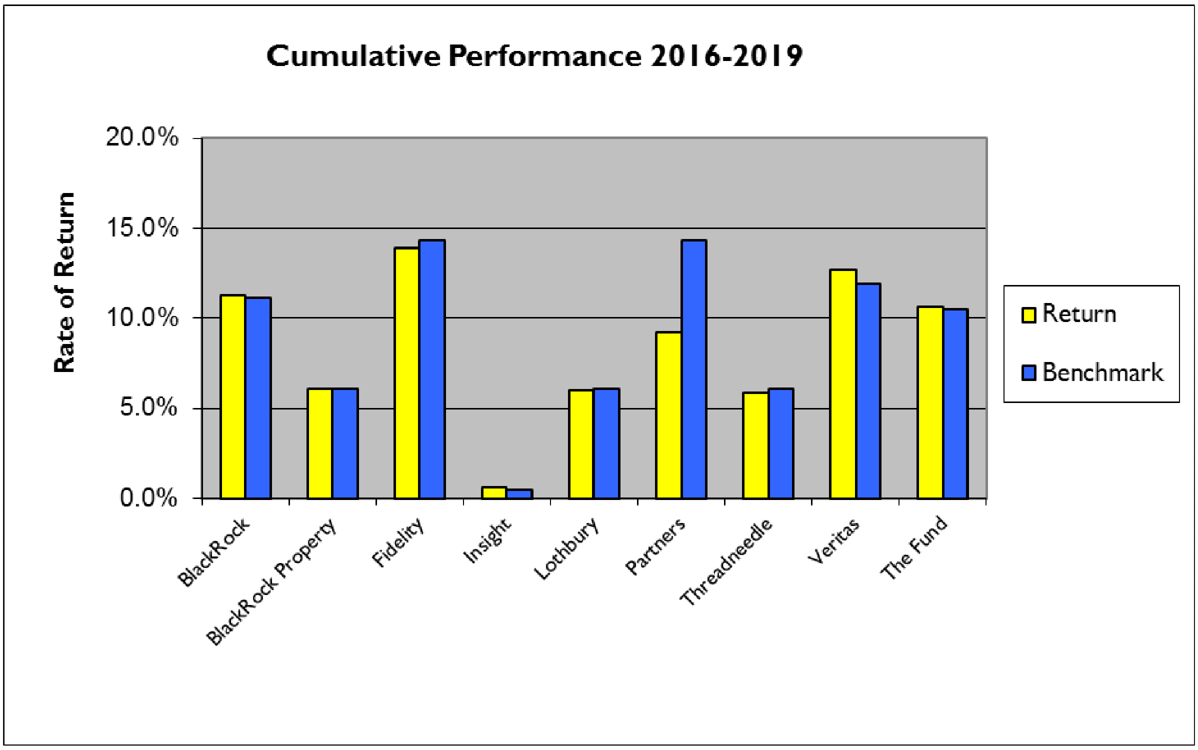
**Partners do not have an official performance target. The target stated above is purely for indicative purposes.*
*MSCI=Morgan Stanley Capital International*

The fund has made direct investments with Lothbury, UBS and Threadneedle, so therefore have not given them a benchmark. However, for indicative purposes we monitor them against the 'IPD Balanced Property Unit Trust Index'.

**Fund Performance**
Against the benchmark, the Fund overperformed by 2.0% during the 2018/19 financial year. The Fund achieved a return of +7.6% against a benchmark return +5.6%. The Fund was 0.1% above the benchmark over three years, with a return of +10.6%. Over a five year period the Fund outperformed against the benchmark, with a return of +8.9% against a benchmark return of +8.8%.

The following graphs and table show the performance of the Managers over 1 and 3 years.




It is generally accepted that investment performance over a longer period of time (say 3+ years) is a more valid indicator than over a single year as investment strategies designed to bring good performance in the longer run may from time to time suffer from short-term setbacks.

| | 1 Year Return | 1 Year Benchmark | 3 Year Return | 3 Year Benchmark |
|---|---|---|---|---|
| BlackRock | 5.5% | 5.4% | 11.3% | 11.1% |
| BlackRock Property | 4.9% | 4.8% | 6.1% | 6.1% |
| Fidelity | 6.5% | 8.8% | 13.9% | 14.3% |
| Insight | -2.3% | 0.8% | 0.6% | 0.5% |
| Lothbury | 3.5% | 4.8% | 6.0% | 6.1% |
| Partners | -3.3% | 8.8% | 9.2% | 14.3% |
| Threadneedle | 4.6% | 4.8% | 5.9% | 6.1% |
| UBS | -1.0% | 4.8% | n/a | n/a |
| Veritas up to 16th January 2019 | 0.9% | -3.8% | 12.7% | 11.9% |
| WPP from 17th January 2019 | 8.1% | 9.8% | n/a | n/a |
| **WHOLE FUND** | **7.6%** | **5.6%** | **10.6%** | **10.5%** |

## 6.7 Funding Strategy Statement

**General**
Local Government Pension Scheme (LGPS) administering authorities are required to prepare and publish a Funding Strategy Statement (FSS).

LGPS benefits are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure. It also provides LGPS administering authorities with a statutory framework within which to manage their Funds' long-term pension liabilities going forward.

**Reviewing the FSS**
The FSS was reviewed during 2016/17 as part of the 31 March 2016 Actuarial Valuation process. The review process involved consultation with all the Fund's employers and the Fund's Actuary. The current FSS was adopted by the Pensions Committee on 16th March 2017.

A copy can be seen on the Pension Fund website at
http://www.gwyneddpensionfund.org.uk/Pensiynau/pens_dogfen.asp?cat=6161&doc=30465&Language=1&p=1&c=1

## 6.8 Knowledge and Skills Framework

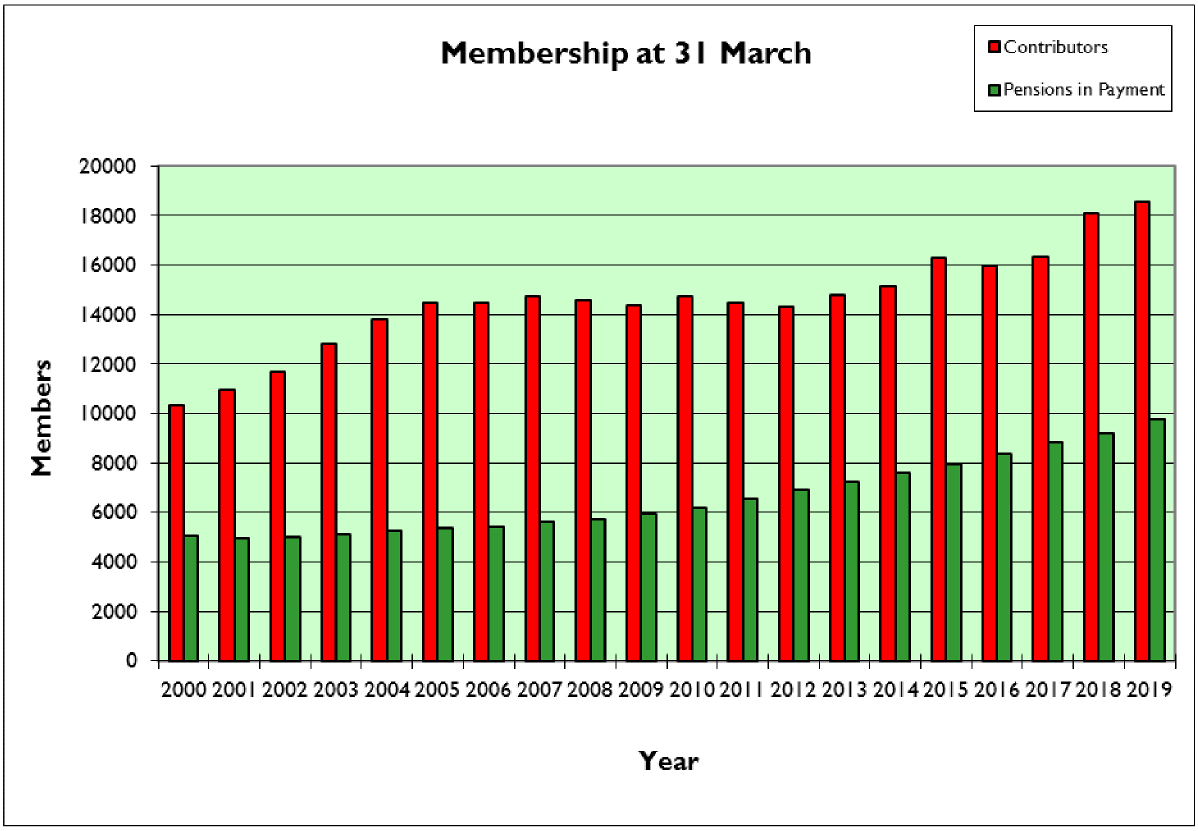
The Pensions Committee has formally adopted the following knowledge and skills policy statement:

Gwynedd Pension Fund recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

Therefore, Gwynedd Pension Fund seeks to utilise individuals who are both capable and experienced and it will provide training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

## 7. Membership Summary

The graph below shows the changes in the Fund's membership over the last 19 years. It shows that the number of pensioners has slowly increased from 5,030 in 2000 to 9,777 in 2019 and the number of active contributors has also increased from 10,352 in 2000 to 18,544 in 2019.




The table below shows the membership summary:

| 31 March 2018 | Description | 31 March 2019 |
|---|---|---|
| 18,090 | Contributors | 18,544 |
| 11,315 | Deferred Pensioners | 11,793 |
| 9,199 | Pensions in Payment | 9,777 |
| 1,470 | Unclaimed Benefits | 1,671 |
| **40,074** | **Total Membership** | **41,785** |

## 8. Statement of Accounts

### STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### THE PENSION FUND'S RESPONSIBILITIES

Gwynedd Council as administrating authority (effectively the trustee) for Gwynedd Pension Fund is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gwynedd Council, that "Section 151 Officer" is the Head of Finance. It is also the administrating authority's responsibility to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets, and to approve the Statement of Accounts.

### THE HEAD OF FINANCE'S RESPONSIBILITIES

The Head of Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing the statement of accounts, the Head of Finance has selected suitable accounting policies and then applied them consistently; has made judgements and estimates that were reasonable and prudent and complied with the Code.

The Head of Finance has also kept proper accounting records which were up to date, and has taken reasonable steps for the prevention and detection of fraud and other irregularities.

### RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2019 and the Pension Fund's income and expenditure for the year then ended.

**** July 2019**

**Dafydd L. Edwards B.A., C.P.F.A., I.R.R.V.**
**Head of Finance, Gwynedd Council**

# GWYNEDD PENSION FUND ACCOUNTS
# 2018/19

## THE FUND ACCOUNT

| 31 March 2018 £'000 | | Notes | 31 March 2019 £'000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the Fund** | | |
| 82,302 | Contributions | 7 | 67,930 |
| 3 | Other Income | 8 | 6 |
| 4,360 | Transfers in from other pension funds | 9 | 3,007 |
| **86,665** | **Total contributions received** | | **70,943** |
| (53,911) | Benefits paid or payable | 10 | (59,213) |
| (2,306) | Payments to and on account of leavers | 11 | (3,128) |
| **(56,217)** | **Total benefits paid** | | **(62,341)** |
| **(13,367)** | Management Expenses | 12 | **(14,659)** |
| | **Returns on Investments** | | |
| 15,155 | Investment income | 15 | 13,964 |
| (252) | Taxes on income | | (195) |
| 41,758 | Profit and (loss) on disposal of investments and changes in the market value of investments | 16 | 135,660 |
| **56,661** | **Returns on investments net of tax** | | **149,429** |
| **73,742** | **Increase in the net assets available for benefits during the year** | | **143,372** |
| | **Net assets of the Fund** | | |
| 1,864,233 | At 1 April | | 1,937,975 |
| 73,742 | Increase in net assets | | 143,372 |
| **1,937,975** | | | **2,081,347** |

The notes on pages 36 to 67 form part of these Financial Statements

# NET ASSETS STATEMENT

| 31 March 2018 £'000 | | Notes | 31 March 2019 £'000 |
|---|---|---|---|
| 1,859,635 | Investment assets | 16 | 2,054,595 |
| 44,352 | Cash deposits | 16 | 538 |
| **1,903,987** | **Total Investment assets** | | **2,055,133** |
| (4,690) | Investment liabilities | 16 | (123) |
| 42,626 | Current assets | 21 | 29,226 |
| (3,948) | Current liabilities | 22 | (2,889) |
| **1,937,975** | | | **2,081,347** |

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2016) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

# NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

## NOTE 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

**a) General**

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

It is a contributory defined benefit pension scheme administered by Gwynedd Council to provide pensions and other benefits for pensionable employees of Gwynedd Council, two other local authorities and other schedule, resolution and admission bodies within the former Gwynedd County Council area. Teachers, police officers and firefighters are not included as they are in other national pension schemes. The Fund is overseen by the Pensions Committee, which is a committee of Gwynedd Council.

**b) Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Gwynedd Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Resolution bodies, which are city, town and community councils. They have the power to decide if their employees can join the LGPS and pass a resolution accordingly.
- Admission bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

## NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

| | |
|---|---|
| **Scheduled Bodies** | |
| Gwynedd Council | Snowdonia National Park |
| Conwy County Borough Council | Bryn Eilian School |
| Isle of Anglesey County Council | Emrys ap Iwan School |
| Police and Crime Commissioner for North Wales | Pen y Bryn School |
| Llandrillo – Menai Group | Eirias High School |
| GWE | NMWTRA |
| **Resolution Bodies** | |
| Llanllyfni Community Council | Ffestiniog Town Council |
| Bangor City Council | Llandudno Town Council |
| Abergele Town Council | Llangefni Town Council |
| Colwyn Bay Town Council | Menai Bridge Town Council |
| Beaumaris Town Council | Towyn and Kinmel Bay Town Council |
| Holyhead Town Council | Tywyn Town Council |
| Caernarfon Town Council | Conwy Town Council |
| Trefriw Community Council | Llanfairfechan Town Council |
| **Admission Bodies** | |
| Adult Learning Wales (formerly Coleg Harlech WEA) | North Wales Society for the Blind |
| CAIS | Conwy Voluntary Services |
| Conwy Citizens Advice | Careers Wales North West |
| Ynys Môn Citizens Advice (up to 31/03/18) | Mantell Gwynedd |
| Cwmni Cynnal | Medrwn Môn |
| Cwmni'r Fran Wen | Menter Môn |
| Holyhead Joint Burial Committee | |
| **Community Admission Bodies** | |
| Cartrefi Conwy | Cartrefi Cymunedol Gwynedd |
| **Transferee Admission Bodies** | |
| ABM Catering | Caterlink |
| Superclean 1 | Dawnus (Went into administration on 15/03/19) |

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2017 to 31 March 2020 following the actuarial valuation carried out as at 31 March 2016.

## NOTE 1 – DESCRIPTION OF FUND (continued)

**d) Benefits**

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

| | Service pre-1 April 2008 | Service post-31 March 2008 |
|---|---|---|
| **Pension** | Each year worked is worth 1/80 x final pensionable salary. | Each year worked is worth 1/60 x final pensionable salary. |
| **Lump sum** | Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1 April 2014, the scheme became a career average scheme as summarised below:

| | Service post-31 March 2014 |
|---|---|
| **Pension** | Each year worked is worth 1/49 x career average revalued earnings (CARE) |
| **Lump Sum** | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

Accrued pension is increased annually in line with the Consumer Prices Index.

There are a number of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Gwynedd Pension Fund scheme handbook available from Gwynedd Council's Pensions Department.

Benefits are index-linked in order to keep pace with inflation.

## NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. 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 Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account – revenue recognition

**a) Contribution Income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the fund's actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

**b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 9 and 11).

Individual transfers in and out of the Fund are accounted for on a receipts and payments basis, which is normally when the member liability is accepted or discharged.

Transfers into the Fund from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 9).

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

**c) Investment income**

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds including property

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

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

**Fund account – expense items**

**d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

**e) Taxation**

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

**f) Management expenses**

The Code does not require any breakdown of pension Fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension Fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

**Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

**Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs, management, accomodation and other overheads associated with oversight and governance are apportioned to the Fund in accordance with Council policy.

**Investment management expenses**

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition the Fund had negotiated with Fidelity International that an element of their fee would be performance-related. This arrangement was terminated on the 30 September 2016, and since then the fee has been based on the market value of the investments under their management.

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Net assets statement

### g) Financial assets

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

The values of investments as shown in the net assets statement have been determined as follows:

i) Equities
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Pooled investment vehicles
Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

iii) Private Equity and Infrastructure
Investments in private equity funds and infrastructure funds which are unquoted listed partnerships are valued based on the fund's share of the net assets in the funds or limited partnerships using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors.

### h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### i) Cash and cash equivalents

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

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### j) Financial liabilities

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

### k) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the fund actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

### l) Additional voluntary contributions

Gwynedd Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. There are three AVC funds. They are held with Clerical Medical, The Equitable Life Assurance Society and Standard Life. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement made up to 31 March confirming the amounts held in their account and the movements in year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

## NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

### Unquoted private equity and infrastructure investments

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2019 was £145.6 million (£104.3 million at 31 March 2018).

### Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

## NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the accounts. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Private equity and infrastructure | Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity and infrastructure investments in the financial statements are £145.6 million. There is a risk that this investment may be under or overstated in the accounts. |

## NOTE 6 – EVENTS AFTER THE REPORTING DATE

On 10 April 2019 EU leaders agreed to an extension of article 50 which may delay the date the UK will exit the EU until 31 October 2019. While there is little agreement on the terms of a final exit deal, it is likely that there will be long-term and short-term ramifications of any decision. The Pension Fund's officers and Committee continue to monitor developments carefully, including the expected impact on the Fund's liabilities and its investment portfolio.

## NOTE 7 – CONTRIBUTIONS

### By category

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 15,930 | Employees/Members contributions | 17,003 |
| | Employers' contributions: | |
| 47,186 | • Normal contributions | 50,821 |
| 19,186 | • Deficit recovery contributions | 106 |
| **66,372** | **Total employers' contributions** | **50,927** |
| **82,302** | **Total contributions receivable** | **67,930** |

### By type of employer

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 29,868 | Gwynedd Council | 22,410 |
| 48,301 | Other scheduled bodies | 40,980 |
| 1,674 | Admission bodies | 2,000 |
| 1,957 | Community admission bodies | 1,953 |
| 206 | Transferee admission bodies | 247 |
| 242 | Resolution bodies | 268 |
| 54 | Closed fund* | 72 |
| **82,302** | | **67,930** |

* Closed fund – These are contributions received from North Wales Magistrates Court Committee and Theatr Ardudwy which was an admitted body but is now a closed fund.

## NOTE 8 – OTHER INCOME

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 1 | Interest on deferred contributions | 1 |
| 1 | Income from divorce calculations | 5 |
| 1 | Income from transfer value calculations | 0 |
| **3** | | **6** |

## NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 4,360 | Individual transfers | 3,007 |
| **4,360** | | **3,007** |

## NOTE 10 - BENEFITS PAID

### By category

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 42,708 | Pensions | 45,278 |
| 9,670 | Commutation and lump sum retirement benefits | 11,949 |
| 1,533 | Lump sum death benefits | 1,986 |
| **53,911** | | **59,213** |

### By type of employer

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 15,454 | Gwynedd Council | 16,494 |
| 26,173 | Other scheduled bodies | 30,510 |
| 1,615 | Admission bodies | 1,467 |
| 812 | Community admission body | 963 |
| 42 | Transferee admission body | 61 |
| 70 | Resolution body | 225 |
| 9,745 | Closed fund | 9,493 |
| **53,911** | | **59,213** |

## NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 143 | Refunds to members leaving service net of tax repayments | 139 |
| 5 | Payments for members joining state scheme | 2 |
| 0 | Group Transfers | 984 |
| 2,158 | Individual transfers | 2,003 |
| **2,306** | | **3,128** |

The group transfer in 2018/19 was to the North and Mid Wales Trunk Road Agent.

## NOTE 12 – MANAGEMENT EXPENSES

| 2017/18 £'000 | | 2018/19 £'000 |
|---|---|---|
| 1,261 | Administrative costs | 1,311 |
| 12,046 | Investment management expenses (Note 14) | 13,283 |
| 60 | Oversight and governance costs | 65 |
| **13,367** | | **14,659** |

This analysis of the costs of managing the Gwynedd Pension Fund during the period has been prepared in accordance with CIPFA guidance.

## NOTE 13 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| | **Administrative costs** | |
| 514 | Direct employee costs | 504 |
| 264 | Other direct costs | 320 |
| 357 | Support services, including IT | 357 |
| 34 | External audit fees | 35 |
| 92 | Actuarial fees | 95 |
| **1,261** | | **1,311** |
| | **Oversight and governance costs** | |
| 60 | Pensions Committee and Local Pension Board | 65 |
| **1,321** | | **1,376** |

Administrative expenses include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation. Further details are given in Note 24.

## NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

| 2017/18 | | 2018/19 |
|---|---|---|
| **£'000** | | **£'000** |
| 11,933 | Management fees | 13,166 |
| 50 | Custody fees | 56 |
| 8 | Performance monitoring service | 13 |
| 55 | Investment consultancy fees | 48 |
| **12,046** | | **13,283** |

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment funds.

The investment management expenses in 2017/18 included £22,562 in respect of performance-related fees paid to one of the Fund's investment managers. There are no performance- related fees in 2018/19. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

## NOTE 15 – INVESTMENT INCOME

| 2017/18<br>£'000 | | 2018/19<br>£'000 |
|---|---|---|
| 7,662 | Equity dividends | 6,309 |
| 544 | Private equity | 1,090 |
| 1,201 | Infrastructure | 126 |
| 5,256 | Pooled property investments | 6,241 |
| 492 | Interest on cash deposits | 198 |
| **15,155** | **Total before taxes** | **13,964** |

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. 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.

The Pension Fund also has a Euro account to deal with receipts and payments in Euros and to minimise the number and costs of exchange transactions.

## NOTE 16 – INVESTMENTS

| 2017/18<br>£'000 | | 2018/19<br>£'000 |
|---|---|---|
| | **Investment assets** | |
| 337,188 | Equities | 0 |
| 1,412,705 | Pooled investment vehicles | 1,908,982 |
| 76,137 | Private equity | 107,218 |
| 28,173 | Infrastructure | 38,395 |
| **1,854,203** | | **2,054,595** |
| 44,352 | Cash deposits | 538 |
| 5,432 | Amount receivable from sales of investments | 0 |
| **1,903,987** | **Total investment assets** | **2,055,133** |
| | **Investment liabilities** | |
| (4,690) | Amounts payable for purchases | (123) |
| **(4,690)** | **Total investment liabilities** | **(123)** |
| **1,899,297** | **Net investment assets** | **2,055,010** |

## Note 16a – Reconciliation of movements in investments and derivatives

| 2018/19 | Market value at 1 April 2018 | Purchases during the year | Sales during the year | Change in market value during the year | Market value at 31 March 2019 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | 337,188 | 115,778 | (489,524) | 36,558 | 0 |
| Pooled investment vehicle | 1,412,705 | 631,601 | (216,255) | 80,931 | 1,908,982 |
| Private equity / infrastructure | 104,310 | 43,758 | (11,401) | 8,946 | 145,613 |
| | 1,854,203 | 791,137 | (717,180) | 126,435 | 2,054,595 |
| Cash deposits | 44,352 | | | 31 | 538 |
| Amount receivable from sales of investments | 5,432 | | | | 0 |
| Amounts payable for purchases of investments | (4,690) | | | | (123) |
| Fees within pooled vehicles | | | | 9,194 | |
| **Net investment assets** | **1,899,297** | | | **135,660** | **2,055,010** |

| 2017/18 | Market value at 1 April 2017 | Purchases during the year | Sales during the year | Change in market value during the year | Market value at 31 March 2018 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | 345,284 | 79,717 | (89,912) | 2,099 | 337,188 |
| Pooled investment vehicles | 1,342,335 | 153,278 | (108,389) | 25,481 | 1,412,705 |
| Private equity / infrastructure | 110,076 | 15,913 | (27,847) | 6,168 | 104,310 |
| | 1,797,695 | 248,908 | (226,148) | 33,748 | 1,854,203 |
| Cash deposits | 49,248 | | | 188 | 44,352 |
| Amount receivable from sales of investments | 630 | | | | 5,432 |
| Amounts payable for purchases of investments | (235) | | | | (4,690) |
| Fees within pooled vehicles | | | | 7,822 | |
| **Net investment assets** | **1,847,338** | | | **41,758** | **1,899,297** |

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £165,628 (2017/18 £103,937). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

## Note 16b – Analysis of investments

| 31 March 2018 £'000 | | 31 March 2019 £'000 |
|---|---|---|
| 337,188 | Equities | 0 |
| 961,611 | Pooled Equities | 1,444,431 |
| 292,050 | Pooled Fixed Interest | 285,250 |
| 159,044 | Pooled property investments | 179,301 |
| 76,137 | Private equity | 107,218 |
| 28,173 | Infrastructure | 38,395 |
| **1,854,203** | | **2,054,595** |

### Investments analysed by fund manager

| Market Value at 31 March 2018 £'000 | % | | Market Value at 31 March 2019 £'000 | % |
|---|---|---|---|---|
| 618,768 | 32.6 | BlackRock | 656,138 | 31.9 |
| 384,762 | 20.3 | Fidelity | 192,395 | 9.4 |
| 292,053 | 15.4 | Insight | 285,254 | 13.9 |
| 50,372 | 2.6 | Lothbury | 61,073 | 3.0 |
| 104,310 | 5.5 | Partners Group | 145,614 | 7.1 |
| 18,149 | 1.0 | Threadneedle | 20,862 | 1.0 |
| 48,604 | 2.5 | UBS | 50,182 | 2.4 |
| 382,279 | 20.1 | Veritas | 411 | 0.0 |
| 0 | 0.0 | Wales Pension Partnership | 643,081 | 31.3 |
| **1,899,297** | **100.0** | | **2,055,010** | **100.0** |

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

| Market Value at 31 March 2018 £'000 | % | | Market Value at 31 March 2019 £'000 | % |
|---|---|---|---|---|
| 324,729 | 15.6 | Aquila Life UK Equity Index Fund | 324,729 | 15.6 |
| 0 | 0 | LF Wales PP Global Opportunities Equity Fund | 322,200 | 15.5 |
| 0 | 0 | LF Wales PP Global Opportunities Equity Fund | 285,253 | 15.4 |
| 292,053 | 15.4 | LDI Solutions Plus Bonds | 285,251 | 13.7 |
| 337,295 | 15.7 | Fidelity Institutional Select Global Equity | 142,648 | 7.1 |
| 129,689 | 15.0 | Aquila Life Global Dev Fundamental Fund | 139,699 | 6.7 |

## Note 16c – Stock lending

The Investment Strategy Statement permits stock lending subject to specific approval. Currently the Fund does not undertake any stock lending.

## NOTE 17 – FINANCIAL INSTRUMENTS

### Note 17a – Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

| As at 31 March 2018 | | | | As at 31 March 2019 | | |
|---|---|---|---|---|---|---|
| Designated as fair value through profit and loss | Loans and receivables | Financial liabilities at cost | | Designated as fair value through profit and loss | Loans and receivables | Financial liabilities at cost |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | | **Financial assets** | | | |
| 337,188 | | | Equities | 0 | | |
| 1,412,705 | | | Pooled investment vehicles | 1,908,982 | | |
| 76,137 | | | Private equity | 107,218 | | |
| 28,173 | | | Infrastructure | 38,395 | | |
| | 79,923 | | Cash | | 23,151 | |
| | 1,468 | | Foreign Currency | | 0 | |
| | 11,019 | | Debtors | | 6,613 | |
| **1,854,203** | **92,410** | **0** | | **2,054,595** | **29,764** | **0** |
| | | | **Financial liabilities** | | | |
| | | (8,638) | Creditors | | | (3,012) |
| | | **(8,638)** | | **0** | **0** | **(3,012)** |
| **1,854,203** | **92,410** | **(8,638)** | | **2,054,595** | **29,764** | **(3,012)** |

### Note 17b – Net gains and losses on financial instruments

| 31 March 2018 | | 31 March 2019 |
|---|---|---|
| Fair value | | Fair value |
| £'000 | | £'000 |
| | **Financial assets** | |
| 33,748 | Fair value through profit and loss | 126,435 |
| 188 | Loans and receivables | 31 |
| **33,936** | **Total financial assets** | **126,466** |
| | **Financial liabilities** | |
| 0 | Fair value through profit and loss | 0 |
| 0 | Financial liabilities at cost | 0 |
| **0** | **Total financial liabilities** | **0** |
| **33,936** | **Net financial assets** | **126,466** |

## Note 17c – Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

| 31 March 2018 Carrying value £'000 | 31 March 2018 Fair value £'000 | | 31 March 2019 Carrying value £'000 | 31 March 2019 Fair value £'000 |
|---|---|---|---|---|
| | | **Financial assets** | | |
| 1,210,252 | 1,854,203 | Fair value through profit and loss | 1,532,175 | 2,054,595 |
| 92,372 | 92,410 | Loans and receivables | 29,764 | 29,764 |
| **1,302,624** | **1,946,613** | **Total financial assets** | **1,561,939** | **2,084,359** |
| | | **Financial liabilities** | | |
| (4,675) | (4,690) | Fair value through profit and loss | (123) | (123) |
| (3,948) | (3,948) | Financial liabilities at cost | (2,889) | (2,889) |
| **(8,623)** | **(8,638)** | **Total financial liabilities** | **(3,012)** | **(3,012)** |
| **1,294,001** | **1,937,975** | **Net financial assets** | **1,558,927** | **2,081,347** |

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## Note 17d – Valuation of financial instruments carried at fair value

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

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### Level 2

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

### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

**Note 17d – Valuation of financial instruments carried at fair value (continued)**

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Gwynedd Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

| Values at 31 March 2019 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | With significant unobservable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit and loss | 0 | 1,797,728 | 256,867 | 2,054,595 |
| Loans and receivables | 29,764 | 0 | 0 | 29,764 |
| **Total financial assets** | **29,764** | **1,797,728** | **256,867** | **2,084,359** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 0 | (123) | 0 | (123) |
| Financial liabilities at cost | (2,889) | 0 | 0 | (2,889) |
| **Total financial liabilities** | **(2,889)** | **(123)** | **0** | **(3,012)** |
| **Net financial assets** | **26,875** | **1,797,605** | **256,867** | **2,081,347** |

| Values at 31 March 2018 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | With significant unobservable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit and loss | 332,498 | 1,318,419 | 203,286 | 1,854,203 |
| Loans and receivables | 92,410 | 0 | 0 | 92,410 |
| **Total financial assets** | **424,908** | **1,318,419** | **203,286** | **1,946,613** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 0 | (4,690) | 0 | (4,690) |
| Financial liabilities at cost | (3,948) | 0 | 0 | (3,948) |
| **Total financial liabilities** | **(3,948)** | **(4,690)** | **0** | **(8,638)** |
| **Net financial assets** | **420,960** | **1,313,729** | **203,286** | **1,937,975** |

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

**Risk and risk management**

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

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. The Pension Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to pay pensions. The Funding Strategy Statement produced by the Administering Authority in conjunction with the Fund's Actuaries states how solvency and risk will be managed in relation to liabilities. The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the Investment Regulations) and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate.

**a) Market risk**

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

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a risk factor analysis to ensure that risk remains within tolerable levels;
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

**Other price risk**

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

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within the limits set in the Fund investment strategy.

**Other price risk – sensitivity analysis**
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Following analysis of the observed historical volatility of asset class returns in consultation with the Fund's investment advisors potential price changes have been determined for the various classes of assets held by the Fund. The rates to be applied to the Fund's asset categories are as follows:

| **Asset type** | **Potential market movement (+/-)** | |
|---|---|---|
| | **31 March 2018** | **31 March 2019** |
| | % | % |
| UK Equities | 16.8 | 16.6 |
| Global Equities | 17.9 | 16.9 |
| Private Equity | 28.3 | 28.3 |
| Pooled Fixed Income | 2.8 | 3.0 |
| Alternatives (Infrastructure) | 20.1 | 20.1 |
| Property | 14.3 | 14.3 |
| Cash | 0.0 | 0.0 |
| | | |
| Whole Fund | 12.6 | 12.3 |

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Had the market price of the Fund investments increased/decreased in line with the above, the change in the market price of the net assets available to pay benefits would have been as follows:

| Asset type | Value as at 31 March 2019 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| Pooled Equities | 1,444,431 | 16.8 | 1,687,566 | 1,201,297 |
| Private Equity | 107,218 | 28.3 | 137,561 | 76,875 |
| Pooled Fixed Income | 285,250 | 3.0 | 293,808 | 276,693 |
| Alternatives (Infrastructure) | 38,395 | 20.1 | 46,112 | 30,678 |
| Pooled Property | 179,301 | 14.3 | 204,941 | 153,661 |
| Cash | 26,752 | 0.0 | 26,752 | 26,752 |
| **Total assets available to pay benefits** | **2,081,347** | **12.6*** | **2,343,597** | **1,819,098** |

* The whole fund values in the table above are based on 12.6% rather than the total of the individual asset types.

| Asset type | Value as at 31 March 2018 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| Pooled Equities | 1,298,799 | 17.6 | 1,527,528 | 1,070,060 |
| Private Equity | 76,137 | 28.3 | 97,684 | 54,590 |
| Pooled Fixed Income | 292,050 | 2.8 | 300,227 | 283,873 |
| Alternatives (Infrastructure) | 28,173 | 20.1 | 33,837 | 22,511 |
| Pooled Property | 159,044 | 14.3 | 181,787 | 136,300 |
| Cash | 44,352 | 0.0 | 44,352 | 44,352 |
| **Total assets available to pay benefits** | **1,898,555** | **12.6*** | **2,137,773** | **1,659,337** |

* The whole fund values in the table above are based on 12.6% rather than the total of the individual asset types.

### Interest rate risk

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

The Fund's interest rate risk is routinely monitored in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset type | As at 31 March 2018 £'000 | As at 31 March 2019 £'000 |
|---|---|---|
| Cash and cash equivalents | 37,038 | 22,614 |
| Cash balances | 44,352 | 538 |
| Pooled Fixed Income | 292,050 | 285,251 |
| **Total** | **373,440** | **308,403** |

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

### Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

| Asset type | Carrying amount as at 31 March 2019 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +1% | -1% |
| | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 22,614 | 226 | (226) |
| Cash balances | 538 | 5 | (5) |
| Pooled Fixed Income* | 285,251 | 34,230 | (34,230) |
| **Total change in assets available** | **308,403** | **34,461** | **(34,461)** |

* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above.

| Asset type | Carrying amount as at 31 March 2018 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +1% | -1% |
| | £'000 | £'000 | £'000 |
| Cash and cash equivalents | 37,038 | 370 | (370) |
| Cash balances | 44,352 | 444 | (444) |
| Pooled Fixed Income* | 292,050 | 2,658 | (2,658) |
| **Total change in assets available** | **373,440** | **3,472** | **(3,472)** |

* A change of 1% in interest rate does not have a direct impact on fixed interest securities but does have a partial impact as calculated in the tables above

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.79% amounting to interest of £166,303 for the year.

A 1% increase in interest rates will not affect the interest received on fixed income assets but will reduce their fair value, as shown in the tables above. Changes in interest rates do not impact on the value of cash / cash equivalents but they will affect the interest income received on those balances. Changes to both the fair value of assets and income received from investments impact on the net assets to pay benefits but as noted above this does not have a significant effect on the Fund.

### Currency risk

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

**NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

The Fund has made commitments to private equity and infrastructure in foreign currency, (€256 million and $88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

The Fund's currency rate risk has been calculated based on the volatility of the currencies which would affect the value of the investments and any cash held in those currencies.

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at the previous year end:

| **Currency exposure - asset type** | **As at 31 March 2018 £'000** | **As at 31 March 2019 £'000** |
|---|---|---|
| Overseas and Global Equities | 958,275 | 1,119,701 |
| Global Pooled Fixed Income | 292,050 | 285,250 |
| Overseas Alternatives (Private Equity and infrastructure) | 104,310 | 145,613 |
| Overseas Property | 1,808 | 1,000 |
| Overseas Currency | 1,468 | 0 |
| **Total overseas assets** | **1,357,911** | **1,551,564** |

**Currency risk – sensitivity analysis**

Following analysis of historical data in consultation with the Fund investment advisors, the likely volatility associated with foreign exchange rate movements has been calculated with reference to the historic volatility of the currencies and their relative amounts in the Fund's investments.

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2019. The equivalent rate for the year ended 31 March 2018 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2019 and at the end of the previous financial year:

| Currency exposure - by asset type | Carrying amount as at 31 March 2019 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | Value on increase | Value on decrease |
| | £'000 | £'000 | £'000 |
| Overseas and Global Equities | 1,119,701 | 1,231,671 | 1,007,731 |
| Global Pooled Fixed Income | 285,250 | 313,776 | 256,726 |
| Overseas Alternatives (Private Equity and infrastructure) | 145,613 | 160,174 | 131,052 |
| Overseas Property | 1,000 | 1,100 | 900 |
| **Total change in assets available** | **1,551,564** | **1,706,721** | **1,396,409** |

| Currency exposure - by asset type | Carrying amount as at 31 March 2018 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | Value on increase | Value on decrease |
| | £'000 | £'000 | £'000 |
| Overseas and Global Equities | 958,275 | 1,054,103 | 862,448 |
| Global Pooled Fixed Income | 292,050 | 321,255 | 262,845 |
| Overseas Alternatives (Private Equity and infrastructure) | 104,310 | 114,741 | 93,879 |
| Overseas Property | 1,808 | 1,989 | 1,628 |
| Overseas Currency | 1,468 | 0 | 0 |
| **Total change in assets available** | **1,357,911** | **1,492,088** | **1,220,800** |

### b) Credit risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The benchmark for the concentration of the funds held with investment managers is as follows.

**From 17 January 2019**

| Investment Manager | Percentage of Portfolio |
|---|---|
| BlackRock | 29.5% |
| Fidelity | 10.0% |
| Wales Pension Partnership | 28.0% |
| Insight | 15.0% |
| Property (UBS, Threadneedle, Lothbury, BlackRock) | 10.0% |
| Partners Group | 7.5% |

**To 16 January 2019**

| Investment Manager | Percentage of Portfolio |
|---|---|
| BlackRock | 29.5% |
| Fidelity | 19.0% |
| Veritas | 19.0% |
| Insight | 15.0% |
| Property (UBS, Threadneedle, Lothbury, BlackRock) | 10.0% |
| Partners Group | 7.5% |

All investments held by investment managers are held in the name of the Pension Fund so, if the investment manager fails, the Fund's investments are not classed amongst their assets.

Contractual credit risk is represented by the net payment or receipt that remains outstanding. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2019 was £22.6m (£37.0m at 31 March 2018).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 27.

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

Employers in the Fund are not currently assessed for their creditworthiness or individual credit limits set. There is risk of being unable to collect contributions from employers with no contributing members (e.g. risk associated with employers with a small number of declining contributing members) so the Administering Authority monitors membership movements on an annual basis.

New employers to the Fund will need to agree to the provision of a bond or obtain a guarantee to reduce the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 26 two employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

This risk has increased by a legal judgement, which potentially indicates that employers with no contributing members cannot be charged contributions under the LGPS Administration Regulations. This ruling, however, does not affect the ability to collect contributions following a cessation valuation under Regulation 38(2). The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 38 of the LGPS (Administration) Regulations 2008 between triennial valuations.

**c) Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments to pay pensions and other costs and to meet investment commitments.

The Administering Authority has a cash flow system that seeks to ensure that cash is available if needed. In addition, current contributions received from contributing employers and members far exceed the benefits being paid. Surplus cash is invested and cannot be paid back to employers. The Fund's Actuaries establish the contributions that should be paid in order that all future liabilities can be met.

There is no limit on the amount that the Pension Fund bank account can hold. The amounts held in this account should meet the normal liquidity needs of the Fund. Any temporary surplus is invested by the Administering Authority in accordance with the Treasury Management Strategy Statement to provide additional income to the Pension Fund. Surplus cash is invested in accordance with the Statement of Investment Principles.

The Fund also has access to an overdraft facility through the Administering Authority's group bank account arrangements. This facility would only be used to meet short-term timing differences on pension payments. As these borrowings would be of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

## NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the value of illiquid assets was £256m, which represented 12.3% of the total Fund assets (31 March 2018: £202m, which represented 10.5% of the total Fund assets).

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

All financial liabilities at 31 March 2019 are due within one year as was the case at 31 March 2018.

**Refinancing risk**

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

## NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

**Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (Funding Strategy Statement) reviewed as part of the 2016 valuation.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- to ensure that employer contribution rates are reasonably stable where appropriate.
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- to reflect the different characteristics of different employers in determining contribution rates by having a
  clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years.
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on it's pension obligations.

The Funding Strategy Statement sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

## NOTE 19 – FUNDING ARRANGEMENTS (continued)

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 66% chance that the Fund will return to full funding over the 20 years.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,525 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £145 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

### Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2017.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

| Financial assumptions | 31 March 2016 |
|---|---|
| Discount rate | 3.9% |
| Salary increase | 2.1% |
| Benefit increase | 2.1% |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

## NOTE 19 – FUNDING ARRANGEMENTS (continued)

| Mortality assumption | Male Years | Female Years |
|---|---|---|
| Current pensioners | 22.0 | 24.2 |
| Future pensioners (aged 45 at the 2016 valuation) | 24.0 | 26.4 |

Copies of the 2016 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwyneddpensionfund.org.uk

**Experience over the period since 31 March 2016**
Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

## NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that 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.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19) and has also used them to provide the IAS19, and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2018 and 2019 are shown below:

| Assumptions | 31 March 2018 £m | 31 March 2019 £m |
|---|---|---|
| Active members | 1,378 | 1,674 |
| Salary increase rate | 385 | 434 |
| Discount Rate | 718 | 722 |
| **Total** | **2,481** | **2,830** |

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

## NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (continued)

### Assumptions used

The financial assumptions used are those adopted for the Administering Authority's IAS19 report as shown below:

| Assumption | 31 March 2018<br>% | 31 March 2019<br>% |
|---|---|---|
| Inflation/pension increase rate | 2.4 | 2.5 |
| Salary increase rate | 2.4 | 2.5 |
| Discount rate | 2.7 | 2.4 |

The longevity assumption is the same as used for assessing the funding position as shown in Note 19 above.

The commutation assumption allows for future retirements to elect to take 50% of the maximum tax-free cash up to the HMRC limit for pre-April 2008 service and 75% of the maximum tax-free cash up to the HMRC limit for post-April 2008 service.

The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

| Sensitivity to the assumptions for the year ended 31 March 2019 | Approximate % increase to liabilities<br>% | Approximate monetary amount<br>£m |
|---|---|---|
| 0.5% p.a. increase in the pension increase rate | 9 | 245 |
| 0.5% p.a. increase in the salary increase rate | 2 | 59 |
| 0.5% p.a. decrease in the discount rate | 11 | 325 |

The principal demographic assumption is the longevity assumption. For sensitivity purpose the actuary estimates that a one year increase in life expectancy would increase the liabilities by approximately 3–5%.

## NOTE 21 – CURRENT ASSETS

| 31 March 2018<br>£'000 | | 31 March 2019<br>£'000 |
|---|---|---|
| 842 | Contributions due - employees | 1,227 |
| 2,508 | Contributions due – employers | 3,682 |
| 2,238 | Sundry debtors | 1,704 |
| **5,588** | **Total debtors** | **6,613** |
| 37,038 | Cash | 22,613 |
| **42,626** | **Total** | **29,226** |

## NOTE 22 – CURRENT LIABILITIES

| 31 March 2018 £'000 | | 31 March 2019 £'000 |
|---|---|---|
| 2,370 | Sundry creditors | 1,922 |
| 1,578 | Benefits payable | 967 |
| **3,948** | **Total** | **2,889** |

## NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds are stated below:

| | Market value at 31 March 2018 £'000 | Market value at 31 March 2019 £'000 |
|---|---|---|
| Clerical Medical | 3,506 | 3,851 |
| Equitable Life | 226 | 203 |
| Standard Life | 70 | 61 |
| **Total** | **3,802** | **4,115** |

AVC contributions were paid directly to the three managers as follows:

| | 2017/2018 £'000 | 2018/2019 £'000 |
|---|---|---|
| Clerical Medical | 591 | 613 |
| Equitable Life | 0 | 0 |
| Standard Life | 13 | 14 |
| **Total** | **604** | **627** |

## NOTE 24 - RELATED PARTY TRANSACTIONS

**Gwynedd Council**

The Gwynedd Pension Fund is administered by Gwynedd Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £1,152,315 (£1,056,813 in 2017/18) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the pension fund and contributed £22.41m to the Fund in 2018/19 (£29.87m in 2017/18). At the end of the year the Council owed £1.921m to the Fund which was primarily in respect of contributions for March 2019 and the Fund owed £1.02m to the council which was primarily in respect of recharges from the Council.

## NOTE 24 - RELATED PARTY TRANSACTIONS (continued)

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. 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. During 2018/19, the Fund received interest of £166,303 (£127,666 in 2017/18) from Gwynedd Council.

**Governance**

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2018/19 (committee members J.B. Hughes and P. Jenkins). In addition, committee members S.W. Churchman, D. Cowans, S. Glyn, J.B. Hughes, A.W. Jones, P. Read and R.W. Williams are active members of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2018/19 (Board member H.E. Jones and S. Warnes). In addition, Board members A.W. Deakin, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the Pension Fund.

**Key Management Personnel**

The CIPFA Code of Practice on Local Authority Accounting exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances in the Code satisfy the key management personnel disclosure requirements of IAS24. This also applies to the accounts of Gwynedd Pension Fund.

The disclosures required can be found in the accounts of Gwynedd Council.

## NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

Outstanding capital commitments (investments) at 31 March were as follows:

| | Total commitments | Commitment at 31 March 2018 | Commitment at 31 March 2019 |
|---|---|---|---|
| | **€'000** | **€'000** | **€'000** |
| P.G. Direct 2006 | 20,000 | 776 | 776 |
| P.G. Global Value 2006 | 50,000 | 3,477 | 3,477 |
| P.G. Secondary 2008 | 15,000 | 1,960 | 1,960 |
| P.G. Global Value 2011 | 15,000 | 2,712 | 2,096 |
| P.G. Global Infrastructure 2012 | 40,000 | 12,133 | 8,147 |
| P.G. Direct 2012 | 12,000 | 1,181 | 1,181 |
| P.G. Global Value 2014 | 12,000 | 4,109 | 2,302 |
| P.G Direct Equity 2016 | 50,000 | 29,374 | 10,348 |
| P.G. Global Value 2017 | 42,000 | 0 | 33,677 |
| **Total Euros** | **256,000** | **55,722** | **63,964** |
| | **$'000** | **$'000** | **$'000** |
| P.G. Emerging Markets 2011 | 7,000 | 1,225 | 1,082 |
| P.G Secondary 2015 | 38,000 | 29,150 | 24,692 |
| P.G Direct Infrastructure 2015 | 43,600 | 30,896 | 23,798 |
| **Total Dollars** | **88,600** | **61,271** | **49,572** |

## NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS (continued)

‘PG’ above refers to Partners Group, the investment manager which invests in ‘alternatives’ (private equity and infrastructure) on behalf of the Fund.

These commitments relate to outstanding call payments on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts ‘called’ by these funds are irregular in both size and timing over a number of years from the date of the original commitment.

## NOTE 26 – CONTINGENT ASSETS

Two admitted body employers in the Gwynedd Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

## NOTE 27 – CONTINGENT LIABILITIES

There are no contingent liabilities identified in accordance with the following explanation.

**The McCloud Case**
When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an ‘underpin’ which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling (“McCloud/Sargeant”) that similar transitional protections that protected older judges and firefighters from the public sector pension schemes changes in 2015 were unlawful on the grounds of age discrimination. The UK Government requested leave to appeal to the Supreme Court but the appeal was denied on the 27 June 2019. The implications of the Supreme Court’s decision are expected to apply to the LGPS (and other public service schemes) as well.

As a result benefits accrued from 2014 may need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. In this outcome, there would likely be a retrospective increase to members’ benefits, which in turn would give rise to a past service cost for the Fund employers when the outcome is known.

Quantifying this impact is very difficult because it will depend on the compensation awarded, members’ future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression.

The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The salary increase assumption used by GAD for its estimate was CPI + 1.5% pa. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

At the 2016 valuation, the long-term salary increase assumption adopted by the Gwynedd Pension Fund was set equal to CPI. This means that both final salary and CARE benefits are assumed to revalue in line with CPI. This in turn, due to the more generous accrual rate applied to CARE benefits, means that the underpin would not 'bite' for any members, as final salary benefits increasing in line with CPI would not exceed the value of CARE benefits accruing over the same period. As such, for the purposes of the 2018/19 pension accounting report, there is no additional liability to be recognised and the McCloud case would have no impact on the stated liabilities.

**Guaranteed Minimum Pension Equalisation**

Guaranteed minimum pension (GMP) accrued in the LGPS from 6 April 1978 to 5 April 1997. In broad terms, the GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS).

GMP's are inherently unequal due to a number of factors, including the differing retirement ages for men (age 65) and women (age 60) and female GMP's accruing at a higher rate. While this can result in differences in GMP Values, what was deemed to matter more is what the members receive in total from the LGPS and the state and whether that leads to inequality. In the past responsibility for paying annual pension increases was divided between the LGPS fund and the state. However, the introduction of the new Single State Pension in April 2016 bought uncertainty over the ongoing indexation of the GMP amount. This led to the Government announcing an interim solution for members reaching State Pension Age between 6 April 2016 and 5 December 2018, which was later extended to at least 5 April 2021, which involves the LGPS fund paying for everything i.e. both initial pension and all increases.

Hymans Robertson, the Fund's Actuary, have said that given the interim solution has been extended to 5 April 2021 they intend to allow for the Government's preferred long term (i.e. post 2021) solution of converting GMP to scheme pension in the 31 March 2019 valuations. This will lead to an increase in liabilities as a result of the scheme paying full GMP increases for all members with a SPA after 2016. They estimate that the impact of converting GMP to scheme pension is likely to be immaterial to the accounts.

## NOTE 28 - IMPAIRMENT LOSSES

**a) Impairment for bad and doubtful debts**

As explained in Note 5 there has not been any impairment for bad and doubtful debts.

**b) Impairment of Icelandic bank deposit**

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2019.

## NOTE 29 - PENSION FUND PUBLICATIONS

Copies of the following statements can be obtained from the Pension Fund website www.gwyneddpensionfund.org.uk on the investment page:

Investment Strategy Statement
Funding Strategy Statement
Governance Policy and Governance Compliance Statement
Communications Policy Statement

Copies can also be obtained by contacting Mrs Caroline Roberts on 01286 679128.