# Gwynedd Pension Fund Accounts 2012-13

| 31 March 2012 £'000 | | Notes | 31 March 2013 £'000 |
|---|---|---|---|
| | **Dealings with members, employers and others directly involved in the fund** | | |
| 61,525 | Contributions Receivable | 7 | 63,451 |
| 48 | Interest on Deferred Contributions | | 18 |
| 1 | Income from Divorce Calculations | | 1 |
| 0 | Interest on Late Payment of Contributions | | 0 |
| 3,099 | Transfers in from other pension schemes | 8 | 3,126 |
| **64,673** | **Total contributions received** | | **66,596** |
| (40,541) | Benefits Payable | 9 | (41,714) |
| (1,035) | Payments to and on account of leavers | 10 | (2,592) |
| (1,011) | Administrative Expenses | 11 | (1,068) |
| **(42,587)** | **Total benefits paid** | | **(45,374)** |
| **22,086** | **Net additions from dealings with members** | | **21,222** |
| | **Returns on Investments** | | |
| 10,228 | Investment income | 12 | 11,929 |
| (291) | Taxes on income | 13 | (335) |
| (1,474) | Profit and (losses) on disposal of investments and changes in the market value of investments | 15 | 116,102 |
| (4,656) | Investment management expenses | 14 | (5,720) |
| **3,807** | **Net returns on investments** | | **121,976** |
| | **Net assets of the Fund** | | |
| 1,023,778 | At 1st April | | 1,049,671 |
| 22,086 | Net additions from dealings with members | | 21,222 |
| 3,807 | Net returns on investments | | 121,976 |
| **1,049,671** | | | **1,192,869** |

## NET ASSETS STATEMENT AS AT 31 MARCH 2013

| 31 March 2012 £'000 | | Notes | 31 March 2013 £'000 |
|---|---|---|---|
| 1,036,066 | Investment assets | 15 | 1,170,051 |
| 17,624 | Cash deposits | 15 | 17,316 |
| **1,053,690** | | | **1,187,367** |
| (10,274) | Investment liabilities | 15 | (4,297) |
| 9,496 | Current assets | 20 | 13,682 |
| (3,241) | Current liabilities | 21 | (3,883) |
| **1,049,671** | | | **1,192,869** |

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 summarise the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (the most recently as at 31 March 2010) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will again be able to meet 100% of future liabilities. Work is currently underway on the 31 March 2013 valuation and the results are expected mid-November. The actuarial present value of promised retirement benefits is shown in Note 19.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the fund") is part of the Local Government Pension Scheme 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 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

**a) General**

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- the LGPS (Administration) Regulations 2008 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by Gwynedd Council to provide pensions and other benefits for pensionable employees of Gwynedd Council, two other local authorities and other scheduled, resolution and admission bodies within the old Gwynedd County Council area. Teachers, police officers and firefighters are not included as they come within 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 parish 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.

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 ( former North Wales Police Authority) | Pen y Bryn School |
| Llandrillo – Menai Group | Eirias High School |
| **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 | |
| **Admission Bodies** | |
| Coleg Harlech WEA | North Wales Society for the Blind |
| CAIS | Conwy Voluntary Services |
| Conwy Citizens Advice Bureau | Careers Wales North West |
| Ynys Môn Citizens Advice Bureau | 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 Body** | |
| Eden Foods | Jewsons |

**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 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently, employer contribution rates range from 5.1% to 29.1% of pensionable pay.

**d) Benefits**

Pension benefits under the LGPS are 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. |

There are a range 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 Section.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer price index. This change took effect from 1 April 2011.

## NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2012/13 financial year and its position at year-end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 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' 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 8 and 10).

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

Transfers in 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 8).

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.

iv) Movement in the net market value of investments.

Changes in the net market value of investments (including investment properties) 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) 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. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

## g) Investment management expenses

All investment management expenses are accounted for 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 has negotiated with the following managers that an element of their fee be performance related:

Capital International – Global Equity (terminated in July 2012)
Fidelity – Global Equity

No performance-related fees were paid to the managers in 2012/13 (£0 in 2011/12).

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.

## Net assets statement

## h) 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 asset are recognised by the fund.

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

i) Market-quoted investments

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) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership 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 investments. They are inherently based on forward-looking estimates and judgements involving many factors.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) 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.

### i) 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.

### j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

### k) 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.

### l) 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.

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

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme 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 19).

### n) 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.

AVC's 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 22).

## NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

**Unquoted private equity and infrastructure investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They 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 2013 was £62 million (£59 million at 31 March 2012).

**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 18. 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 Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates 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 2013 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 |
|---|---|---|
| Actuarial present value of promised retirement benefits | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied. | The net pension liability would change if the assumptions used were changed. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability, an increase in assumed earnings inflation would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. |
| Debtors | At 31 March 2013, the fund had a balance of sundry debtors of £6.2m. A review of significant balances suggested that it was not appropriate to make any impairment of the debts. | If collection rates were to deteriorate, it would be necessary to reconsider this decision. |
| Private equity and infrastructure | Private equity and infrastructure investments are valued at fair value in accordance with IFRS accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investments in the financial statements are £62 million. There is a risk that this investment may be under or overstated in the accounts. |

## NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2013, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

## NOTE 7 – CONTRIBUTIONS RECEIVABLE

**By category**

| 2011/12 | | 2012/13 |
|---|---|---|
| £'000 | | £'000 |
| 47,301 | Employers | 49,126 |
| 14,224 | Employees/Members | 14,325 |
| **61,525** | | **63,451** |

**By authority**

| 2011/12 | | 2012/13 |
|---|---|---|
| £'000 | | £'000 |
| 20,700 | Gwynedd Council | 21,333 |
| 36,573 | Other Scheduled bodies | 36,999 |
| 2,209 | Admission bodies | 2,827 |
| 1,778 | Community admission body | 2,033 |
| 64 | Transferee admission body | 63 |
| 147 | Resolution Body | 142 |
| 54 | Closed fund* | 54 |
| **61,525** | | **63,451** |

* Closed fund – These are contributions received from Theatr Harlech, Theatr Gwynedd and North Wales Magistrates Court Committee. They were admitted bodies but they are now closed funds.

## NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

| 2011/12 | | 2012/13 |
|---|---|---|
| £'000 | | £'000 |
| 3,099 | Individual transfers | 3,126 |
| **3,099** | | **3,126** |

## NOTE 9 - BENEFITS PAYABLE

**By category**

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 29,785 | Pensions | 32,237 |
| 10,013 | Commutation and lump sum retirement benefits | 8,583 |
| 743 | Lump sum death benefits | 894 |
| **40,541** | | **41,714** |

## By authority

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 10,137 | Gwynedd Council | 10,169 |
| 16,925 | Other Scheduled bodies | 18,182 |
| 1,103 | Admission bodies | 1,223 |
| 660 | Community admission body | 543 |
| 34 | Transferee admission body | 15 |
| 11,628 | Closed Fund | 11,495 |
| 54 | Resolution Body | 87 |
| **40,541** | | **41,714** |

## NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 3 | Refunds to members leaving service | 37 |
| 6 | Payments for members joining state scheme | 1 |
| 1,026 | Individual transfers | 2,554 |
| **1,035** | | **2,592** |

## NOTE 11 – ADMINISTRATIVE EXPENSES

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 393 | Direct employee costs | 393 |
| 162 | Other direct costs | 87 |
| 332 | Support services including IT | 434 |
| 50 | Pension fund committee | 66 |
| 25 | External audit fees | 25 |
| 49 | Actuarial fees | 63 |
| **1,011** | | **1,068** |

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 23 below.

## NOTE 12 – INVESTMENT INCOME

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 0 | Fixed Interest Securities | 6 |
| 768 | UK equities | 1,176 |
| 4,119 | Overseas equities | 5,052 |
| 1,244 | Private equity | 923 |
| 3,899 | Pooled property investments | 4,593 |
| 198 | Interest on cash deposits | 179 |
| **10,228** | | **11,929** |

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 Council has a deposit of £4m with Heritable Bank, which went into administration in October 2008. The impairment on this investment to the Pension Fund was £178,094 in 2008/09 and there was a reduction in this impairment of £54,814 in 2009/10, £13,248 in 2010/11 and £14,897 in 2011/12. A further impairment of £2,723 was made in 2012/13. This amount has been included in the interest on cash deposits figure for the relevant year in the above table. Further information is included in Note 26 below.

## NOTE 13 – TAXES ON INCOME

| 2011/12<br>£'000 | | 2012/13<br>£'000 |
|---|---|---|
| 291 | Withholding tax – equities | 335 |
| **291** | | **335** |

## NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

| 2011/12<br>£'000 | | 2012/13<br>£'000 |
|---|---|---|
| 4,477 | Management fees | 5,614 |
| 47 | Custody fees | 46 |
| 14 | Performance monitoring service | 16 |
| 118 | Investment consultancy fees | 44 |
| **4,656** | | **5,720** |

## NOTE 15 – INVESTMENTS

| 2011/12<br>£'000 | | 2012/13<br>£'000 |
|---|---|---|
| | **Investment assets** | |
| 150,723 | Absolute return | 157,644 |
| 153,058 | Equities | 206,697 |
| 577,137 | Pooled investments | 634,387 |
| 92,685 | Pooled property investments | 105,974 |
| 58,645 | Private Equity | 58,723 |
| 0 | Infrastructure | 3,064 |
| | Derivative contracts: | |
| 3,534 | Forward currency contracts | 3,562 |
| 284 | Amounts receivable for sales | 0 |
| **1,036,066** | | **1,170,051** |
| 17,624 | Cash deposits | 17,316 |
| **1,053,690** | **Total investment assets** | **1,187,367** |
| | **Investment liabilities** | |
| | Derivative contracts: | |
| (3,518) | Forward currency contracts | (3,620) |
| (6,756) | Amounts payable for purchases | (677) |
| **(10,274)** | **Total investment liabilities** | **(4,297)** |
| **1,043,416** | **Net investment assets** | **1,183,070** |

**Note 15a – Reconciliation of movements in investments and derivatives**

| | Market value at 1 April 2012 £'000 | Purchases during the year £'000 | Sales during the year £'000 | Change in market value during the year £'000 | Market value at 31 March 2013 £'000 |
|---|---|---|---|---|---|
| Fixed interest absolute return securities | 150,723 | 0 | (210) | 7,131 | 157,644 |
| Equities | 153,058 | 206,019 | (171,726) | 19,346 | 206,697 |
| Pooled investments | 577,137 | 1,716 | (30,999) | 86,533 | 634,387 |
| Pooled property investments | 92,685 | 17,851 | 0 | (4,562) | 105,974 |
| Private equity / infrastructure | 58,645 | 9,359 | (10,970) | 4,753 | 61,787 |
| | **1,032,248** | 234,945 | (213,905) | 113,201 | 1,166,489 |
| Forward foreign currency contracts | 16 | | | (82) | (58) |
| Cash deposits | 17,624 | | | (219) | 17,316 |
| Amount receivable for sales of investments | 284 | | | | 0 |
| Amounts payable for purchases of investments | (6,756) | | | | (677) |
| Fees within pooled vehicles | | | | 3,202 | |
| **Net investment assets** | **1,043,416** | **234,945** | **(213,905)** | **116,102** | **1,183,070** |

| | Market value at 1 April 2011 £'000 | Purchases during the year £'000 | Sales during the year £'000 | Change in market value during the year £'000 | Market value at 31 March 2012 £'000 |
|---|---|---|---|---|---|
| Fixed interest absolute return securities | 141,937 | 4,212 | 0 | 4,574 | 150,723 |
| Equities | 156,987 | 92,437 | (92,350) | (4,016) | 153,058 |
| Pooled investments | 562,695 | 113,360 | (90,159) | (8,759) | 577,137 |
| Pooled property investments | 89,208 | 7,316 | (5,611) | 1,772 | 92,685 |
| Private equity / infrastructure | 50,967 | 13,175 | (7,572) | 2,075 | 58,645 |
| | **1,001,794** | **230,500** | **(195,692)** | **(4,354)** | **1,032,248** |
| Forward foreign currency contracts | (172) | | | 39 | 16 |
| Cash deposits | 10,029 | | | 132 | 17,624 |
| Amount receivable for sales of investments | 640 | | | | 284 |
| Amounts payable for purchases of investments | (404) | | | | (6,756) |
| Fees within pooled vehicles | | | | 2,709 | |
| **Net investment assets** | **1,011,887** | **230,500** | **(195,692)** | **(1,474)** | **1,043,416** |

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

£426,308 (2011/12 £189,583.34). The costs for 2012/13 are higher than usual due to the transition to a new manager which involved a signficant number of purchases and sales of investments. In addition to these costs indirect costs are incurred through the bid-offer spread on investments within pooled funds.

**Note 15b – Analysis of investments (excluding derivative contracts)**

| 31 March 2012 | | 31 March 2013 |
|---|---|---|
| £'000 | | £'000 |
| | **Equities** | |
| | **UK** | |
| 14,999 | Quoted | 45,299 |
| | **Overseas** | |
| 136,758 | Quoted | 161,398 |
| 1,302 | Unquoted | 0 |
| | **Pooled funds** | |
| | **UK** | |
| 187,377 | Unit trusts | 218,891 |
| 1 | Ventures - unquoted | 0 |
| | **Global (including UK)** | |
| 150,723 | Fixed income | 157,644 |
| 179,653 | Unit trusts | 211,337 |
| | **Overseas** | |
| 210,104 | Unit trusts | 204,159 |
| 92,686 | **Property unit trusts** | 105,974 |
| 58,645 | **Private equity** | 58,723 |
| 0 | **Infrastructure** | 3,064 |
| **1,032,248** | | **1,166,489** |

## Analysis of derivatives

### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

### Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund has a passive currency programme in place managed by the global custodian. The fund hedges a proportion of the Euro within the portfolio managed by UBS.

| Settlement | Currency bought | Local Value | Currency Sold | Local Value | Asset Value | Liability Value |
|---|---|---|---|---|---|---|
| | | **000** | | **000** | **£'000** | **£'000** |
| Up to three months | GBP | 3,562 | GBP | 3,562 | 3,562 | |
| Up to three months | EUR | 4,280 | | | | (3,620) |
| | | | | | **3,562** | **(3,620)** |
| **Net forward foreign currency contracts at 31 March 2013** | | | | | | **(58)** |
| | | | | | | |
| **Prior year comparative** | | | | | | |
| **Open forward foreign currency contracts at 31 March 2012** | | | | | **3,534** | **(3,518)** |
| **Net forward foreign currency contracts at 31 March 2012** | | | | | | **16** |

### Investments analysed by fund manager

| Market Value at 31 March 2012 £'000 | % | | Market Value at 31 March 2013 £'000 | % |
|---|---|---|---|---|
| 346,858 | 33.3 | BlackRock | 412,513 | 34.9 |
| 190,046 | 18.2 | Capital International | 0 | 0.0 |
| 206,287 | 19.8 | Fidelity | 240,729 | 20.3 |
| 150,519 | 14.4 | Insight | 157,648 | 13.3 |
| 20,099 | 1.9 | Lothbury | 20,887 | 1.8 |
| 58,645 | 5.6 | Partners Group | 61,787 | 5.2 |
| 10,601 | 1.0 | Threadneedle | 10,736 | 0.9 |
| 60,361 | 5.8 | UBS | 56,223 | 4.8 |
| 0 | 0.0 | Veritas | 222,547 | 18.8 |
| **1,043,416** | **100.0** | | **1,183,070** | **100.0** |

Following a change in investment manager the assets managed by Capital International in 2011/12 are now managed by Veritas.

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

| Market value 31 March 2012 | % of total fund | Security | Market value 31 March 2013 | % of total fund |
|---|---|---|---|---|
| £'000 | | | £'000 | |
| 187,377 | 17.85 | BlackRock Asset Management Aquila Life UK Equity Index Fund | 218,889 | 18.34 |
| 179,653 | 17.12 | Fidelity Institutional Select Global Equity | 211,337 | 17.71 |
| 150,516 | 14.34 | Insight LDI Solution Bonds Plus | 157,644 | 13.21 |

### Note 15c – Stock lending

The Statement of Investment Principles (SIP) states that stock lending will be permitted subject to specific approval. Currently the fund does not undertake any stock lending.

## NOTE 16 – FINANCIAL INSTRUMENTS

### Note 16a – 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 (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

| As at 31 March 2012 | | | | As at 31 March 2013 | | |
|---|---|---|---|---|---|---|
| Designated as fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | | Designated as fair value through profit and loss | Loans and receivables | Financial liabilities as amortised cost |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | | | **Financial assets** | | | |
| 150,723 | | | Fixed interest securities | 157,644 | | |
| 153,058 | | | Equities | 206,697 | | |
| 577,137 | | | Pooled investments | 634,387 | | |
| 92,685 | | | Pooled property investments | 105,974 | | |
| 58,645 | | | Private equity | 58,723 | | |
| 0 | | | Infrastructure | 3,064 | | |
| 3,534 | | | Derivative contracts | 3,562 | | |
| | 20,710 | | Cash | 121 | 24,662 | |
| | 6,693 | | Debtors | | 6,216 | |
| **1,035,782** | **27,403** | **0** | | **1,170,172** | **30,878** | **0** |
| | | | Financial liabilities | | | |
| (3,518) | | | Derivative contracts | (3,620) | | |
| | | (9,996) | Creditors | (650) | | (3,911) |
| **(3,518)** | **0** | **(9,996)** | | **(4,270)** | **0** | **(3,911)** |
| **1,032,264** | **27,403** | **(9,996)** | | **1,165,902** | **30,878** | **(3,911)** |

**Note 16b – 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 2012 | | | 31 March 2013 | |
|---|---|---|---|---|
| Carrying value £'000 | Fair value £'000 | | Carrying value £'000 | Fair value £'000 |
| | | **Financial assets** | | |
| 876,237 | 1,035,782 | Fair value through profit and loss | 916,860 | 1,170,172 |
| 27,405 | 27,403 | Loans and receivables | 30,878 | 30,878 |
| **903,642** | **1,063,185** | **Total financial assets** | **947,738** | **1,201,050** |
| | | **Financial liabilities** | | |
| (3,534) | (3,518) | Fair value through profit and loss | (4,216) | (4,270) |
| (10,006) | (9,996) | Financial liabilities at amortised cost | (3,911) | (3,911) |
| **(13,540)** | **(13,514)** | **Total financial liabilities** | **(8,127)** | **(8,181)** |
| **890,102** | **1,049,671** | **Net financial assets** | **939,611** | **1,192,869** |

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

**Note 16c – 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.

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.

Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate. The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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 2013** | **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 | 513,845 | 594,540 | 61,787 | 1,170,172 |
| Loans and receivables | 30,878 | 0 | 0 | 30,878 |
| **Total financial assets** | **544,723** | **594,540** | **61,787** | **1,201,050** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 0 | (4,270) | 0 | (4,270) |
| Financial liabilities at amortised cost | (3,911) | 0 | 0 | (3,911) |
| **Total financial liabilities** | **(3,911)** | **(4,720)** | **0** | **(8,181)** |
| **Net financial assets** | **540,812** | **590,270** | **61,787** | **1,192,869** |

| **Values at 31 March 2012** | **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 | 442,353 | 534,784 | 58,645 | 1,035,782 |
| Loans and receivables | 27,403 | 0 | 0 | 27,403 |
| **Total financial assets** | **469,756** | **534,784** | **58,645** | **1,063,185** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 0 | (3,518) | 0 | (3,518) |
| Financial liabilities at amortised cost | (9,996) | 0 | 0 | (9,996) |
| **Total financial liabilities** | **(9,996)** | **(3,518)** | **0** | **(13,514)** |
| **Net financial assets** | **459,760** | **531,266** | **58,645** | **1,049,671** |

## NOTE 17 – 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.

The fund is exposed to share and derivative 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.

**Other price risk – sensitivity analysis**

Following analysis of the observed historical volatility of asset class returns in consultation with the fund's investment analytics 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 2013** | **31 March 2012** |
| | % | % |
| Equities | 12.5 | 14.97 |
| Fixed Income | 1.5 | 1.80 |
| Alternatives (Private Equity) | 9.6 | 11.61 |
| Property | 1.9 | 4.29 |
| Cash | 0.0 | 0.50 |

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.

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 2013 £'000** | **Percentage change %** | **Value on increase £'000** | **Value on decrease £'000** |
|---|---|---|---|---|
| Equities | 841,084 | 12.5 | 946,556 | 735,612 |
| Fixed Income | 157,644 | 1.5 | 160,056 | 155,232 |
| Alternatives (Private Equity) | 61,787 | 9.6 | 67,694 | 55,880 |
| Property | 105,974 | 1.9 | 108,009 | 103,939 |
| Cash | 24,047 | 0.0 | 24,049 | 24,044 |
| **Total assets available to pay benefits** | **1,190,536** | | **1,306,364** | **1,074,707** |

| **Asset type** | **Value as at 31 March 2012 £'000** | **Percentage change %** | **Value on increase £'000** | **Value on decrease £'000** |
|---|---|---|---|---|
| Equities | 730,195 | 14.97 | 839,504 | 620,884 |
| Fixed Income | 150,723 | 1.80 | 153,436 | 148,010 |
| Alternatives (Private Equity) | 58,645 | 11.61 | 65,454 | 51,836 |
| Property | 92,685 | 4.29 | 96,661 | 88,708 |
| Cash | 17,624 | 0.50 | 17,712 | 17,536 |
| **Total assets available to pay benefits** | **1,049,872** | | **1,172,767** | **926,974** |

**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 2013 and 31 March 2012 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 2013 £'000** | **As at 31 March 2012 £'000** |
|---|---|---|
| Cash and cash equivalents | 7,466 | 3,086 |
| Cash balances | 17,316 | 17,624 |
| Fixed interest securities | 157,644 | 150,723 |
| **Total** | **182,426** | **171,433** |

**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 2013** | **Change in year in the net assets available to pay benefits** | |
|---|---|---|---|
| | | **+1%** | **-1%** |
| | **£'000** | **£'000** | **£'000** |
| Cash and cash equivalents | 7,466 | 75 | (75) |
| Cash balances | 17,316 | 173 | (173) |
| Fixed interest securities* | 157,644 | 851 | (851) |
| **Total change in assets available** | **182,426** | **1,099** | **(1,099)** |

| **Asset type** | **Carrying amount as at 31 March 2012** | **Change in year in the net assets available to pay benefits** | |
|---|---|---|---|
| | | **+1%** | **-1%** |
| | **£'000** | **£'000** | **£'000** |
| Cash and cash equivalents | 3,086 | 31 | (31) |
| Cash balances | 17,624 | 176 | (176) |
| Fixed interest securities* | 150,723 | 528 | (528) |
| **Total change in assets available** | **171,433** | **735** | **(735)** |

* 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.

**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.

The fund has made commitments to private equity and infrastructure in foreign currency, (€140million and $7million). 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 24. 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 2013 and as at the previous period end:

| **Currency exposure - asset type** | **As at 31 March 2013 £'000** | **As at 31 March 2012 £'000** |
|---|---|---|
| Overseas and Global Equities | 576,897 | 526,356 |
| Global Fixed Income | 157,644 | 150,723 |
| Overseas Alternatives (Private Equity and infrastructure) | 61,787 | 58,645 |
| Overseas Property | 3,673 | 3,626 |
| Overseas Currency | 121 | 14 |
| **Total overseas assets** | **800,122** | **739,364** |

Overseas property was not analysed separately in 2011/12 but has been shown in the comparative figures in the table above for consistency.

**Currency risk – sensitivity analysis**

Following analysis of historical data in consultation with the fund investment analytics 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 5.2% fluctuation in the currency is considered reasonable based on the fund investment analytics advisors analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2013. The equivalent rate for the year ended 31 March 2012 was 7.8%. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following tables show analyses of the fund's exposure to individual foreign currencies as at 31 March 2013 and as at the previous year end:

| **Currency exposure - by currency** | **Value at 31 March 2013 £'000** | **Change %** | **Value on increase £'000** | **Value on decrease £'000** |
|---|---|---|---|---|
| Australian Dollar | 11,926 | 10.0 | 13,113 | 10,739 |
| Brazilian Real | 6,175 | 11.6 | 6,892 | 5,457 |
| EURO | 88,385 | 7.8 | 95,279 | 81,491 |
| Hong Kong Dollar | 5,876 | 8.5 | 6,378 | 5,375 |
| Japanese Yen | 5,850 | 11.8 | 6,538 | 5,161 |
| Norwegian Krone | 5,720 | 9.0 | 6,237 | 5,202 |
| South African Rand | 6,692 | 12.0 | 7,492 | 5,892 |
| Swedish Krona | 5,794 | 8.1 | 6,265 | 5,323 |
| Swiss Franc | 6,993 | 9.4 | 7,648 | 6,339 |
| US Dollar | 83,570 | 8.7 | 90,873 | 78,266 |
| **Pooled Investments** | | | | |
| Global Basket | 368,981 | 5.3 | 388,611 | 349,351 |
| Global ex UK Basket | 174,768 | 5.8 | 184,904 | 164,631 |
| Emerging Basket | 29,392 | 6.4 | 31,281 | 27,502 |
| **Total change in assets available** | **800,122** | **5.2** | **841,405** | **758,835** |

| **Currency exposure - by currency** | **Value at 31 March 2012 £'000** | **Change %** | **Value on increase £'000** | **Value on decrease £'000** |
|---|---|---|---|---|
| Australian Dollar | 2,210 | 10.49 | 2,442 | 1,978 |
| Brazilian Real | 167 | 12.83 | 189 | 146 |
| Canadian Dollar | 6,198 | 9.63 | 6,794 | 5,601 |
| Danish Krone | 729 | 8.31 | 790 | 669 |
| EURO | 78,049 | 8.36 | 84,574 | 71,524 |
| Hong Kong Dollar | 4,517 | 9.60 | 4,951 | 4,084 |
| Japanese Yen | 29,015 | 13.29 | 32,873 | 25,158 |
| Norwegian Krone | 1,973 | 10.52 | 2,180 | 1,765 |
| Swedish Krone | 1,328 | 10.22 | 1,463 | 1,192 |
| Swiss Franc | 7,293 | 10.25 | 8,041 | 6,546 |
| US Dollar | 143,996 | 9.75 | 158,039 | 129,952 |
| **Pooled Investments** | | | | |
| Global Basket | 330,377 | 6.55 | 352,007 | 308,746 |
| Europe Basket | 48,156 | 5.42 | 50,765 | 45,548 |
| Asia Pacific ex Japan Basket | 30,319 | 7.19 | 32,498 | 28,140 |
| Emerging Basket | 51,411 | 7.89 | 55,467 | 47,354 |
| **Total change in assets available** | **735,738** | **7.79** | **793,073** | **678,403** |

| Currency Exposure - by asset type | Carrying amount as at 31 March 2013 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | Value on increase | Value on decrease |
| | £'000 | £'000 | £'000 |
| Overseas and Global Equities | 576,897 | 606,662 | 547,128 |
| Global Fixed Income | 157,644 | 64,975 | 58,599 |
| Overseas Alternatives (Private Equity and infrastructure) | 61,787 | 165,778 | 149,510 |
| Overseas Property | 3,673 | 3,862 | 3,483 |
| Overseas Currency | 121 | 128 | 115 |
| **Total change in assets available** | **800,122** | **841,405** | **758,835** |

| Currency Exposure - by asset type | Carrying amount as at 31 March 2012 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | Value on increase | Value on decrease |
| | £'000 | £'000 | £'000 |
| Overseas and Global Equities | 526,356 | 567,374 | 485,338 |
| Global Fixed Income | 150,723 | 162,469 | 138,978 |
| Overseas Alternatives (Private Equity) | 58,645 | 63,215 | 54,075 |
| Overseas Property | 3,626 | 3,909 | 3,344 |
| Overseas Currency | 14 | 15 | 13 |
| **Total change in assets available** | **739,364** | **796,982** | **681,748** |

**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, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. 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.

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

| Investment Manager | Percentage of Portfolio |
|---|---|
| BlackRock | 29.5% |
| Fidelity | 19% |
| Insight | 15% |
| Partners Group | 7.5% |
| Property (UBS, Threadneedle, Lothbury, BlackRock) | 10% |
| Veritas | 19% |

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, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

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 2013 was £7.4m (£3.4m at 31 March 2012).

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 26.

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 save 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 25 below three 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 recent 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. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payment costs; and also cash to meet investment commitments.

The Administering Authority has a comprehensive cash flow management 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 are of a limited short term nature, the fund's exposure to credit risk is considered negligible.

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 2013 the value of illiquid assets was £117m, which represented 10.1% of the total fund assets (31 March 2012: £116m, which represented 11.2% 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 2013 are due within one year as was the case at 31 March 2012.

**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 18 – 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 2010. Work is currently underway on the 31 March 2013 valuation and the results are expected mid-November.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund (and the share of the fund attributable to individual employers)
- to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment
- not to restrain unnecessarily the investment strategy of the fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- to help employers recognise and manage pension liabilities as they accrue
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a longer period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2010 actuarial valuation, the fund was assessed as 84% funded (84% at the March 2007 valuation). This corresponded to a deficit of £183m (2007 valuation: £160m) at that time.

Contribution increases were phased in as follows:

- Bodies with tax raising powers are subject to a maximum increase of 0.5% per annum. Should the contribution rate decrease in future these bodies would also be subject to a maximum decrease of 0.5%.
- Employers with a contribution rate increase of 0.5% or less at the 2010 valuation moved to the new rate immediately. As the increases were over 3% in some cases there was an option to phase the increase in over a period of 6 years with an increase of at least 0.5% per annum until the full increase is achieved, subject to the Administering Authority's overall satisfaction relating to the security of the fund.
- Best Value Admission Bodies are not eligible for phasing in of contribution rises.

The common contribution rate for the whole fund based on the funding level at 31 March 2010 is 17.1% for future service and a further 5.0% to fund the past service deficit, giving a total rate of 22.1%. The common contribution rate is a theoretical figure – an average across the whole fund. Individual employer's rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method for the fund as a whole and employers who 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 salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principle assumptions were:

### Financial assumptions

| | **% per annum** |
|---|---|
| Investment returns | |
| Equities | 6.25 |
| Bonds | 4.75 |
| 75% Equities / 25% Bonds | 5.9 |
| Pay increases (excluding increments) * | 5.3 |
| Price inflation / Pension increases | 3.3 |

* 1% per annum for 2010/11 and 2011/12 reverting to 5.3% thereafter.

### Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

| **Mortality assumption at age 65** | **Male** | **Female** |
|---|---|---|
| Current pensioners | 20.5 | 23.0 |
| Future pensioners (assumed current age 45) | 23.3 | 25.6 |

### Historic mortality assumptions

The life expectancy assumptions that were adopted for the 31 March 2010 valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the fund. These curves are based on actual data supplied by the Administering Authority. The allowances for future life expectancy are:

| **Longevity assumptions** | **31 March 2010** |
|---|---|
| Longevity - baseline | VitaCurves |
| Longevity - improvements | Medium cohort with 1% minimum improvements from 2007 |

### Commutation assumption

Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 50% of HMRC limits for service up to 31 March 2008 and 75% of HMRC limits for service from 1 April 2008.

## NOTE 19 - 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.

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 18) and has also used them to provide the IAS19 and FRS 17 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 2013 was £1,667m (£1,342m at 31 March 2012). All the retirement benefits are vested. The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2010 triennial funding valuation (see Note 18) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

### Assumptions used

| | **31 March 2013** | **31 March 2012** |
|---|---|---|
| **Assumption** | % | % |
| Inflation/ pension increase rate | 2.8% | 2.5 |
| Salary increase rate* | 5.1% | 4.8 |
| Discount rate | 4.5% | 4.8 |

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter

## NOTE 20 – CURRENT ASSETS

| **2011/12 £'000** | | **2012/13 £'000** |
|---|---|---|
| 1,096 | Contributions due - employees | 753 |
| 3,575 | Contributions due – employers | 2,584 |
| 0 | Transfer values receivable (joiners) | 0 |
| 1,739 | Sundry Debtors | 2,879 |
| **6,410** | **Total Debtors** | **6,216** |
| 3,086 | Cash | 7,466 |
| **9,496** | **Total** | **13,682** |

## Analysis of debtors

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 1,902 | Administering Authority | 1,918 |
| 709 | Central government bodies | 1,394 |
| 2,566 | Other local authorities | 1,347 |
| 3 | NHS bodies | 3 |
| 1,230 | Other entities and individuals | 1,554 |
| **6,410** | **Total** | **6,216** |

## NOTE 21 – CURRENT LIABILITIES

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 1,431 | Sundry creditors | 1,616 |
| 0 | Transfer values payable (leavers) | 0 |
| 1,810 | Benefits payable | 2,267 |
| **3,241** | **Total** | **3,883** |

## Analysis of creditors

| 2011/12 £'000 | | 2012/13 £'000 |
|---|---|---|
| 887 | Administering Authority | 866 |
| 14 | Central government bodies | 15 |
| 0 | Other local authorities | 5 |
| 2.340 | Other entities and individuals | 2,997 |
| **3,241** | **Total** | **3,883** |

## NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

| | Market value at 31 March 2013 £'000 | Market value at 31 March 2012 £'000 |
|---|---|---|
| Clerical Medical | 2,734 | 2,380 |
| Equitable Life | 413 | 454 |
| Standard Life | 189 | 215 |
| **Total** | **3,336** | **3,049** |

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

| | 2012 / 2013 £'000 | 2011 / 2012 £'000 |
|---|---|---|
| Clerical Medical | 372 | 343 |
| Equitable Life | 1 | 0 |
| Standard Life | 12 | 13 |
| **Total** | **385** | **356** |

## NOTE 23 - 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 £835,101 (£891,420 in 2011/12) 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 £16.65m to the fund in 2012/13 (£16.02m in 2011/12). At the end of the year the council owed £1,918 to the fund (see Note 20) which was primarily in respect of contributions for March 2013 and the fund owed £866 to the council (see Note 21) which was primarily in respect of recharges from the council.

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 2012/13, the fund received interest of £86,481 (£156,562 in 2011/12) from Gwynedd Council.

### Governance

There were 2 members of the pensions committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2012/13 (Committee members T. Edwards and P. Jenkins). In addition, committee members T. Edwards, P. Jenkins and D. Meurig are active members of the pension fund.

Two senior managers of Gwynedd Council who hold key positions in the financial management of the Gwynedd Pension Fund are active members of the Pension Fund (D O Williams and D L Edwards).

One member of the pensions committee and two chief officers of Gwynedd Council have declared an interest in bodies which have dealings with the fund. In all cases these bodies are employers which are part of the fund.

## NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

| | Total commitment | Commitment at 31 March 2013 | Commitment at 31 March 2012 |
|---|---|---|---|
| | **€'000** | **€'000** | **€'000** |
| P.G. Direct 2006 | 20,000 | 1,384 | 1,384 |
| P.G. Global Value 2006 | 50,000 | 4,592 | 5,832 |
| P.G. Secondary 2008 | 15,000 | 1,960 | 2,680 |
| P.G. Global Value 2011 | 15,000 | 10,657 | 11,345 |
| P.G. Global Infrastructure 2012 | 40,000 | 36,213 | 0 |
| **Total Euros** | **140,000** | **54,806** | **21,241** |
| | **$'000** | **$'000** | **$'000** |
| **P.G. Emerging Markets 2011** | **7,000** | **5,268** | **5,971** |

'PG' above refers to Partners Group, the investment manager who 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 25 – CONTINGENT ASSETS

Three 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 26 – 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 creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009, outlined that the return to creditors was projected to be 80p in the £ by end 2013, with the first dividend payment of 15p in the £ due in the summer of 2009. This was the basis for closing the 2008/09 accounts. So far the Council has received a return of £3,105,729 from the administrators up to 31 March 2013 and the administrators now expect a return of 88p per £ by the beginning of 2014. Based on this information, the impairment in the accounts is based on recovering 88p in the £.
The percentages received to date are as follows:

| Date | % |
|---|---|
| July 2009 | 16.13 |
| December 2009 | 12.66 |
| March 2010 | 6.19 |
| July 2010 | 6.27 |
| October 2010 | 4.14 |
| January 2011 | 4.72 |
| April 2011 | 6.25 |
| July 2011 | 4.05 |
| October 2011 | 4.18 |
| January 2012 | 3.32 |
| April 2012 | 3.79 |
| August 2012 | 2.85 |
| January 2013 | 2.71 |
| **Total at 31 March 2013** | **77.25** |

It is anticipated that there will be further repayments and that the final sale of assets will take place after the books have been run down to mid 2013. Therefore, in calculating the impairment the Council has made the following assumptions regarding timing of subsequent recoveries:

| Date | % |
|---|---|
| July 2013 | 2.00 |
| January 2014 | 8.80 |
| **Total** | **10.80** |

The relevant proportion of the increase in impairment (£2,723 and the increase in notional interest (£4,597) has been allocated to the pension fund.

Of course, the actual loss by early 2014 could be more or less than the potential loss estimated above. However, the impairment has been estimated in accordance with the agreed interpretation of the position at 31 March 2013.

## NOTE 27 – PRIOR YEAR ADJUSTMENTS

The illiquid assets figure disclosed in note 17 includes a property investment which cannot be realised within a year. This was not categorised as an illiquid asset in the 2011/12 accounts and has now been included in the current year and comparative figure resulting in an increase of £57.4m on the original figure of £58.6m, giving a total of £116m for 2011/12.

Rounding adjustments have been made to some of the prior year figures in Notes 15, 16 and 17 to ensure consistency across all tables.

## NOTE 28 - PENSION FUND PUBLICATIONS

A separate Annual Report is produced for the Pension Fund. This document includes the accounts for the fund along with more information regarding the administration and investment activities. It includes the following documents:

Statement of Investment Principles
Funding Strategy Statement

Governance Policy and Governance Compliance Statement
Communications Policy Statement

Copies can be obtained from the Pension Fund website www.gwyneddpensionfund.org.uk on the investment page or by contacting Mrs Caroline Roberts on 01286 679128.