Cronfa Bensiwn DYFED Pension Fund

# Dyfed Pension Fund

## ANNUAL REPORT AND ACCOUNTS

2019-2020

***Taking a long term approach in uncertain times***

Cyngor **Sir Gâr**
**Carmarthenshire**
County Council

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To register for **'My Pension Online'**, go to: **www.dyfedpensionfund.org.uk**

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# CHAIRMAN'S FOREWORD

## It is with great pleasure that I present this year's Annual Report of the Dyfed Pension Fund.

When our Pension Fund Committee met on 2 March 2020 the Fund's value had reached £2.8 billion at 31 December 2019 and the investment return for the 12 months was 16%. In a short space of time thereafter, as a result of the market collapse due to the COVID-19 pandemic, the Fund's value dropped to £2.4 billion and the investment return for the year to 31 March 2020 plummeted to -7%. Unlike the Great Financial Crisis of 2008, however, global markets bounced back immediately and the Fund's value and performance is looking stronger again. It goes without saying though that the global economy has a long way to go to reach pre pandemic times.

This volatility in markets and investment returns supports this year's theme of ***"Taking a long term approach in uncertain times".***

It is pleasing to note that the results of the triennial actuarial valuation were very positive for the Fund. The funding level markedly increased to 105% taking the Fund into surplus for the first time in its history. A Strategic Asset Allocation review has commenced following this valuation and the outcome will be presented to the committee in October 2020. Related to this the Pension Fund Committee is considering an investment in low carbon tracker funds. Further analysis will take place in future committee meetings before making a final decision.

Membership of the Dyfed Pension Fund has continued to increase to 50,782 with pensioner and deferred membership increasing by 3%. The number of employers with active contributors has reduced to 46.

The Fund has continued to be an active participant and collaborator in the Wales Pension Partnership (WPP) investment pool. Approximately 30% of the Fund is invested through the pool's passive manager, BlackRock, with a further 20% invested in the global equity Global Growth Fund managed by Link Fund Solutions, the operator of the pool. The Fund's corporate bonds (10% of the Fund) will be transitioned into the WPP during July/August 2020. The pool has produced a Responsible Investment Policy which was developed collaboratively by the eight Constituent Authorities and has been adopted by them all. This is an overarching policy which allows the Dyfed Pension Fund to maintain and develop its own RI policy. As a member of the Joint Governance Committee (JGC) I continue to be impressed by the hard work and dedication shown by my fellow JGC members and officers of the constituent authorities in the development and progress of the WPP.

There continues to be a number of challenges and opportunities in the administration of the Fund, namely, the issue around Exit Payments, Fair Deal and the ongoing implications of the McCloud case. The Fund is maintaining its active role in responding and engaging on these matters.

A Data Quality exercise was undertaken by the administration team in accordance with The Pensions Regulator's Code of Practice 14 requirements. The findings were reported to the Pension Committee and The Pensions Regulator and a Data Improvement Plan was created to address issues identified. The Fund has also continued to engage with colleague LGPS Fund authorities in Wales to examine available partnership opportunities and share best practice in Scheme administration.

During the year up to March 2020 there has been one change to the membership of the pension committee. We welcomed Councillor Deryk Cundy to the Committee in January 2020. Councillor Rob Evans left the Committee during the year and I would personally like to thank him for his contribution and wish him well for the future.

We also said farewell to Eric Lambert who had been the Fund's Independent Investment Advisor for 15 years! Eric will be sorely missed by everyone who has an association with the Dyfed Pension Fund. His dry wit and humour was only surpassed by his dedication to the Fund and his knowledge and experience of investments. I have no doubt that the success the Fund has enjoyed and continues to enjoy, as is borne out by our most recent LGPS Fund of the Year award, is partly as a result of Eric's advice and support. The Fund however does have an excellent replacement in Adrian Brown. Welcome Adrian to the Dyfed Pension Fund "family" and I'm sure you won't be too inhibited by your predecessor!

Once again this year I'd like to thank the members of the Pension Committee and the senior managers and officers in the Administration and Investment teams for their commitment and hard work towards delivering a quality service during what has been a particularly challenging end of the year and which will no doubt continue for a while longer. The Dyfed Pension Fund continues to be in safe hands.

2019 Fund of the Year Award

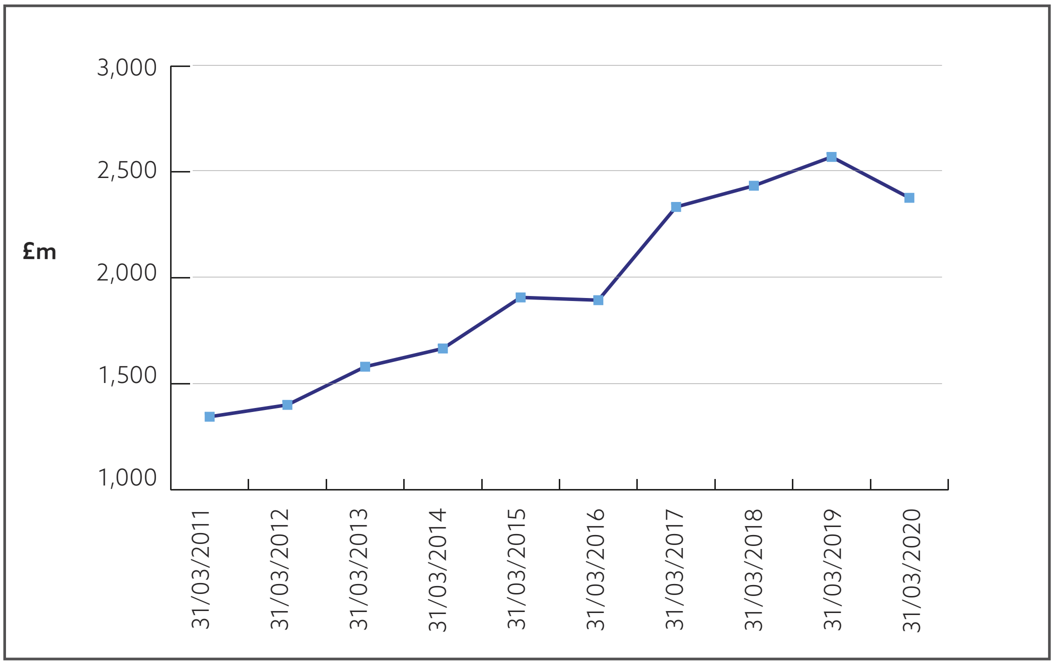
**Councillor Elwyn Williams**
Chairman of the Pension Committee

# INTRODUCTION

The Dyfed Pension Fund's main overriding objective is to secure the payment of pensions benefits now and in the future to its members. It is the common purpose of the Fund's longer-term policies, objectives and strategies. These are agreed by the Dyfed Pension Fund Committee and set out in its policy documents. These documents cover governance, risk, funding, investment, administration and communications.

The uncertain time we found ourselves in during March 2020 and subsequent months has not significantly impacted on the administration and management of the Fund. The administration team has worked even more diligently to ensure the administering of the benefits of members and the payments to our pensioners has continued to be timely and accurate. As well as the other administration areas of focus that the Chairman mentioned in his foreword, you will find the Fund Administration Report in Section 3.

After the immediate shock of the arrival of the pandemic, markets did recover and performance improved. That is why my role and the roles of those managing the Fund on your behalf concentrates on taking a long term approach to the management of the Fund. The value of the Fund has grown significantly over the last 10 years (from approximately £1.4bn in March 2011 to £2.4bn in March 2020):




The Fund continues to have a high funding level at 105% following the last valuation. This level has been assisted by long term performance of 7.3% per annum over 10 years which is significantly above inflation and above the median LGPS fund. The full actuarial valuation report can be found on the Fund's website.

Our role as host authority for the Wales Pension Partnership continues to go from strength to strength. We have worked with Hymans Robertson, the oversight advisor for the pool, to produce a variety of policies and training sessions for all stakeholders and continued to monitor the performance of the investment managers and engage with the operator. We now have a dedicated section in this annual report for the Wales Pension Partnership.

We welcomed Adrian Brown, the newly appointed Independent Advisor following Eric Lambert's retirement, to the Fund during the year. Adrian stood out during the technical interviews exhibiting enthusiasm and demonstrating a wealth of knowledge that will benefit the pension committee, officers and all stakeholders. He knows he has a "hard act to follow" but I have already been impressed by his attention to detail, his examination of the performance of the investment managers and his engagement with the wider LGPS community. I am sure you will enjoy reading his report in Section 2.

Last but definitely not least I would like to thank all the staff of the Dyfed Pension Fund for their commitment and hard work towards delivering a quality service, especially during the current challenging environment. Staff continue to place the scheme members first and this is clearly valued by our members, together with those who have responsibility for the governance of the Fund.

**Chris Moore** FCCA
Director of Corporate Services

# MANAGEMENT AND FINANCIAL PERFORMANCE REPORTS

## Fund Management and Advisers

The Dyfed Pension Fund is administered by Carmarthenshire County Council (the administering authority) and under the Council's constitution the Dyfed Pension Fund Committee has overall strategic responsibility for managing the Fund.

The Fund's Governance Policy sets out the roles and responsibilities of the Committee. During 2019-20 the Committee members were:

| | |
|---|---|
| **Councillor Elwyn Williams** | - Chairman of the Committee |
| **Councillor Robert Evans** | - Committee Member (up to January 2020) |
| **Councillor Derek Cundy** | - Committee Member (from January 2020) |
| **Councillor Jim Jones** | - Committee Member |
| **Councillor Dai Thomas** | - Substitute Committee Member |

The following officers from Carmarthenshire County Council also attended Committee meetings and/or acted as advisers:

| | |
|---|---|
| **Mr Chris Moore, FCCA** | - Director of Corporate Services |
| **Mr Randal Hemingway, CPFA** | - Head of Financial Services |
| **Mr Anthony Parnell, FCCA** | - Treasury and Pension Investments Manager |
| **Mr Kevin Gerard, MIPPM** | - Pensions Manager |

The Dyfed Pension Fund Committee has adopted the Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Code sets out the knowledge and skills needed for those involved with pension scheme governance as recommended by Lord Hutton in his report on public sector pensions.

The Committee and officers attended various training courses, seminars and conferences on administration and investment matters. These were provided by the investment managers, consultants, officers, national and local government associations.

The meeting attendance and training events for each Committee member are shown overleaf.

### The Pension Committee

Councillor **Elwyn Williams**
Chairman of the Committee

Councillor **Jim Jones**
Committee Member

Councillor **Derek Cundy**
Committee Member

Councillor **Dai Thomas**
Substitute Committee Member

| Meeting attendance and training events | Cllr Elwyn Williams | Cllr Rob Evans | Cllr Deryk Cundy | Cllr Jim Jones | Cllr Dai Thomas (Substitute Member) |
|---|---|---|---|---|---|
| Voting rights | ✔ | ✔ | ✔ | ✔ | |
| | | | | | |
| 2019-20 Meeting attendance: | | | | | |
| Committee Meeting 19 June 2019 | ✔ | ✔ | NOT IN POST | ✔ | |
| Committee Meeting 18 September 2019 | ✔ | | NOT IN POST | ✔ | ✔ |
| Committee Meeting 28 November 2019 | ✔ | | NOT IN POST | ✔ | ✔ |
| ACM 27 November 2019 | ✔ | | ✔ | ✔ | ✔ |
| Committee Meeting 2 March 2020 | ✔ | NOT IN POST | ✔ | ✔ | |
| | | | | | |
| 2019-20 Training events: | | | | | |
| LA Conference (PLSA) May 2019 | | ✔ | NOT IN POST | | ✔ |
| Briefing Session (BlackRock, Schroders & Partners Group) June 2019 | ✔ | ✔ | NOT IN POST | ✔ | |
| ESG Issues & AGM (LAPFF) July 2019 | | | NOT IN POST | ✔ | |
| Investment Summit (LGC) September 2019 | ✔ | | NOT IN POST | ✔ | |
| Baillie Gifford Training October 2019 | ✔ | | NOT IN POST | ✔ | |
| LGPC Fundamentals Training October 2019 | | | NOT IN POST | | ✔ |
| LGPC Fundamentals Training November 2019 | | | NOT IN POST | | ✔ |
| Briefing Session (All Managers) November 2019 | ✔ | | ✔ | ✔ | ✔ |
| LAPFF Annual Conference December 2019 | ✔ | NOT IN POST | | | |
| Investment Seminar (LGC) February 2020 | | NOT IN POST | | ✔ | |
| Briefing Session (BlackRock & Schroders) March 2020 | ✔ | NOT IN POST | ✔ | ✔ | |
| Members Seminar March 2020 | ✔ | NOT IN POST | ✔ | | ✔ |

| | |
|---|---|
| **The Fund's Independent Investment Adviser** | Mr Adrian Brown (MJ Hudson Investment Advisers) - Advises the Committee on all aspects of investment management at quarterly meetings and ad hoc meetings as necessary. |
| **Investment Managers** | BlackRock, Schroders, Partners Group, Wales Pension Partnership |
| **Legal Advisers** | Eversheds |
| **Performance Measurement Company** | Local Authority Pension Performance Analytics (PIRC) |
| **Fund Actuary** | Mercer |
| **Custodian** | Northern Trust |
| **Bankers** | Barclays Bank Plc |
| **AVC Providers** | Prudential, Standard Life and UTMOST (previously Equitable Life) |
| **External Auditor** | Auditor General for Wales |

# Risk Management

Carmarthenshire County Council, the Administering Authority to the Dyfed Pension Fund, recognises the importance of effective risk management. Risk management is the process by which the council systematically identifies and addresses the risks associated with its activities.

Risk management is a key part of Carmarthenshire County Council's corporate governance arrangements and the council has a formal risk management strategy which is regularly reviewed and developed in response to changes within the council and the external environment.

As required by the risk management strategy the Fund uses the risk register tool to identify, prioritise, manage and monitor risks associated with the Dyfed Pension Fund. This register can be found on the Dyfed Pension Fund's website.

The Funding Strategy Statement (FSS) (Section 7) and the Investment Strategy Statement (ISS)(Section 8) explain the Fund's key risks and how they are identified, mitigated, managed and reviewed. Investment advice is received from Mr Adrian Brown, the Independent Investment Adviser, and the Dyfed Pension Fund Committee meet and review fund manager performance and activity at least quarterly.

# Financial Performance

## Income and Expenditure

The table below shows 2019-20 actual income and expenditure against budget with reasons for any significant variances.

Budgets are not used for changes in market value, dividend yields on shares or interest receipts from bonds as these are outside the control of the committee and can be volatile. The majority of income received is re-invested in the funds by the investment managers together with any asset sale proceeds.

| | Actual 2018-19 £'000 | Budget 2019-20 £'000 | Actual 2019-20 £'000 | Variance 2019-20 £'000 |
|---|---|---|---|---|
| **Income** | | | | |
| Employee Contributions | 18,986 | 19,363 | 20,182 | 819 |
| Employer Contributions | 56,166 | 52,755 | 60,238 | 7,483 |
| Transfers In | 6,651 | 1,500 | 6,851 | 5,351 |
| Investment Income | 12,157 | 16,033 | 13,436 | (2,957) |
| **Total Income** | **93,960** | **89,651** | **100,707** | **11,056** |

| **Expenditure** | Actual 2018-19 £'000 | Budget 2019-20 £'000 | Actual 2019-20 £'000 | Variance 2019-20 £'000 |
|---|---|---|---|---|
| Benefits Payable | (83,731) | (79,521) | (89,767) | (10,246) |
| Transfers Out | (3,853) | (2,620) | (3,597) | (977) |
| Management Expenses | (1,748) | (1,836) | (1,892) | (56) |
| Investment Management Expenses | (10,784) | (5,674) | (9,495) | (3,821) |
| **Total Expenditure** | **(100,116)** | **(89,651)** | **(104,751)** | **(15,100)** |
| Changes in the Market Value of Investments | 141,730 | - | (187,169) | - |
| **Net Increase/(Decrease) in the fund** | **135,574** | **-** | **(191,213)** | **-** |

More detailed information can be found in the Statement of Accounts (Section 6).

## Income

Total actual income was £11m more than budgeted mostly due to higher than expected income being received from employer contributions and transfers in.

## Expenditure

Total actual expenditure was £15.1m more than budgeted mostly due to higher than expected benefits payable and investment management expenses.

# INVESTMENT POLICY AND PERFORMANCE REPORTS

## Fund Investments

### Investment Policy

The Fund sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS) (Section 8). The ISS also sets out the Fund's policies in respect of responsible investment and other environmental or social issues.

The Investment Policy and the approach to the management of risk for the Fund as a whole and in respect of the investment managers is outlined in the ISS. A summary of how the administration of investments is controlled, who deals with each element of the portfolio and how voting rights have been exercised can also be found in the ISS.

The ISS has been developed alongside the Fund's funding strategy on an integrated basis taking into account the risks inherent in the Fund. The ISS document can be found on our website:
**http://www.dyfedpensionfund.org.uk/local-government-pension-scheme/investments-fund-info/investment-strategy-statement/**

### Responsible Investment (RI) Policy

The Fund has a paramount fiduciary duty to obtain the best possible financial return on its investments against a suitable degree of risk. It also considers a company's good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of the company and improve investment returns to its shareholders.

The investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund. In the execution of this, the Committee have considered and found it appropriate to adopt the investment managers' socially responsible investment policies. These policies will be reviewed with the investment managers regularly both by officers and the Committee.

### Membership of Pension Fund Institutions

The Fund subscribes to and is a member of Pension and Lifetime Savings Association (PLSA), Local Authority Pension Fund Forum (LAPFF), CIPFA Pension's Network, LGA Scheme Advisory Board (SAB) and LGA Local Government Pension Committee (LGPC).

### Voting

Managers are instructed to vote the Fund's shares in companies in line with the Fund's Voting Policy and the PLSA voting guidelines. These guidelines set out principles that should be followed when voting.

### Manager changes

There was no change to the Investment Managers during the year.

## Asset Allocation

The asset allocation as at 31 March 2020 is shown below:

| Mandate | Approach | Manager | Benchmark (%) | Actual (%) |
|---|---|---|---|---|
| **UK Equities** | | | | |
| UK | Passive | BlackRock | 25.00 | 17.86 |
| **Overseas Equities** | | | | |
| US | Active | BlackRock | 8.00 | 11.34 |
| Japanese | Active | BlackRock | 4.00 | 3.50 |
| Other Regional | Passive | BlackRock | 8.00 | 12.16 |
| **Global Equities** | | | | |
| Global | Active | Wales Pension Partnership | 20.00 | 22.95 |
| **Fixed Interest** | | | | |
| Index Linked Bonds | Passive | BlackRock | 0.00 | 4.52 |
| Corporate Bonds | Active | BlackRock | 10.00 | 11.47 |
| **Property** | | | | |
| Pan European Property | Active | Schroders | 13.00 | 12.03 |
| Pan European Property | Active | Partners Group | 2.00 | 1.42 |
| **Infrastructure** | | | | |
| Infrastructure | | | 5.00 | 0.00 |
| **Other** | | | | |
| Alternatives | Active | BlackRock | 5.00 | 2.24 |
| Cash | Active | Schroders | 0.00 | 0.44 |
| Cash | Active | Partners Group | 0.00 | 0.07 |
| **Total** | | | **100.00** | **100.00** |

The table below shows the change in fund value from the beginning of the year to the end of the year and is broken down by asset class. The value of the Fund decreased by 7.5% from 2018-19 to 2019-20.

| | Value as at 31/03/19 £'000 | Value as at 31/03/20 £'000 |
|---|---|---|
| Equities - UK Quoted | 510,928 | 424,727 |
| Index Linked | 138,699 | 107,390 |
| Fixed Interest (Corporate Bonds) | 265,299 | 272,772 |
| Pooled Funds - Global Equities & Overseas Equities | 1,293,361 | 1,187,591 |
| Property | 6,371 | 5,966 |
| Pooled Property Investments | 320,616 | 313,703 |
| Alternatives | 27,626 | 53,198 |
| Cash | 7,052 | 12,215 |
| Accrued Income | 896 | 57 |
| **Total** | **2,570,848** | **2,377,619** |

## Investment Performance

**10 Year Returns**

| Periods to 31/03/20 | Fund (%) | LA Universe (%) | Difference (%) |
|---|---|---|---|
| 1 year | (7.20) | (4.80) | (2.40) |
| 3 year* | 1.10 | 1.90 | (0.80) |
| 5 year* | 5.20 | 5.20 | 0.00 |
| 10 year* | 7.30 | 6.90 | 0.40 |

*Annualised Returns

Performance is measured on both a quarterly and an annual basis. For the year to 31 March 2020 the Fund returned -7.20% (compared with an average local authority return of -4.80%) and was ranked in the 88th percentile. The rolling three year return for the Fund is 1.10% (compared with the average local authority fund return of 1.90%) and ranked in the 76th percentile. The rolling 5 and 10 year returns for the Fund are ranked at 34th and 27th respectively. The LA Universe is measured and compiled independently by the Local Authority Pension Performance Analytics (PIRC).

# Individual Managers' Performance

The following tables show the performance of each manager for the year ending 31 March 2020.

## Partners Group (Pan European Property)

The performance of investments in private property is measured by Internal Rate of Return (IRR), a figure that will be volatile until the Fund reaches maturity. The current portfolio IRR is 6.9%. As a time weighted return based on cash flows it is not a meaningful performance measurement until all capital contributed and earnings has been returned to the investor. Until then the IRR will peak and dip based on the timing of cash inflows and outflows. The portfolio of investments continue to meet Partners Group's expectations in terms of performance.

The table illustrates the cash flows as at 31 March 2020. The valuation of the property portfolio is above the original cost of investment:

| Portfolio investments | |
|---|---|
| Committed | £80.0m |
| Commitment level | 82.51% |
| Commitment level - directs | 17.80% |
| Commitment level - secondaries | 24.50% |
| Commitment level - primaries | 40.21% |
| Invested | £66.5m |
| Investment level | 83.03% |

| Partners Group Red Dragon, L.P. | |
|---|---|
| Commitments | £97.0m |
| Capital contributions | £56.4m |
| Capital contributions (in % of commitments) | 58.1% |
| Unfunded commitments | £40.6m |
| Distributions | £39.0m |
| Net asset value | £33.7m |

## Schroders (Pan European Property)

Performance was below benchmark over the one year period by -0.60%. Over the 3 and 5 year periods the fund outperformed the benchmark by 0.30% and 0.10% respectively.

| Performance to 31/03/20 | Fund (%) | Benchmark (%) | Difference (%) |
|---|---|---|---|
| 1 year | (0.60) | 0.00 | (0.60) |
| 3 year* | 5.10 | 4.80 | 0.30 |
| 5 year* | 5.80 | 5.70 | 0.10 |

*Annualised Returns

The property portfolio was in the 78th percentile in the LA Universe (44th out of 59 LGPS funds that invest in property (PIRC)).

## BlackRock

The active Japanese Equities and UK Corporate Bonds have outperformed by 0.13% and 1.30% respectively, while the US Equities have underperformed by -0.47%.

| Performance to 31/03/20 | Fund (%) | Benchmark (%) | Difference (%) |
|---|---|---|---|
| US Equities | (2.79) | (2.32) | (0.47) |
| Japanese Equities | (2.26) | (2.39) | 0.13 |
| UK Corporate Bonds | 2.75 | 1.45 | 1.30 |

## Wales Pension Partnership

The performance was below benchmark by -0.56% over the 1 year period. The fund has also underperformed by -1.21% against the benchmark since its inception date in February 2019.

| Performance to 31/03/20 | Fund (%) | Benchmark (%) | Difference (%) |
|---|---|---|---|
| 1 year* | (7.30) | (6.74) | (0.56) |
| Inception to date* | (4.97) | (3.76) | (1.21) |

*Net returns quoted

# BlackRock

## Market returns 1 April 2019 to 31 March 2020

| Returns | 3 Months to 31 March 20 | | 12 Months to 31 March 20 | |
|---|---|---|---|---|
| | Account (%) | Index (%) | Account (%) | Index (%) |
| Aquila UK Equity Index Fund | (25.35) | (25.13) | (18.64) | (18.45) |
| Aquila Life European Equity Index Fund ex UK | (17.30) | (17.35) | (7.80) | (8.02) |
| Aquila Life Canadian Equity Fund | (21.09) | (21.21) | (12.50) | (12.96) |
| Ascent Life US Equity Fund | (13.54) | (14.14) | (2.79) | (2.32) |
| Ascent Life Japanese Equity Fund | (10.70) | (11.09) | (2.26) | (2.39) |
| Ascent Life Pacific Rim Equity Fund | (21.31) | (21.33) | (17.67) | (17.68) |
| Aquila Emerging Markets Fund | (19.37) | (19.30) | (13.71) | (14.26) |
| iShares Emerging Market Index Sub Fund | (18.37) | (18.37) | (13.52) | (13.50) |
| BlackRock Ascent UK All stocks Corporate Bond Fund | (2.87) | (3.38) | 2.75 | 1.45 |
| **Total Fund** | **(16.80)** | **(17.25)** | **(9.54)** | **(10.04)** |
| Index Linked Gilt Portfolio | 1.91 | 1.89 | 2.38 | 2.39 |
| **Total Fund including UK Index Linked Gilts** | **(15.64)** | **-** | **(8.77)** | **-** |

## BlackRock Performance

Over the year Dyfed Pension Fund's Main Portfolio returned -9.54% for the period compared to a composite index return of -10.04%, thereby outperforming the index by 0.50%[1].

The passively managed funds tracked the indices they are managed against. For the active funds, Japanese Equities outperformed the benchmark by 0.13% and US Equities underperformed by 0.47%. Corporate Bonds were ahead of the benchmark by 1.30%.

## Market & Economic background

**April – June 2019**

The strong rally from risk assets in the first quarter continued into April until it was interrupted in May as US-China relations deteriorated. Tensions eased in June as Presidents Trump and Xi agreed to meet at the G20 giving a boost to markets which were further supported by dovish comments from both the Federal Reserve ('Fed') and the European Central Bank ('ECB').

The degree to which the trade tensions between the US and China are driving market sentiment demonstrates how nervous investors are over a serious breakdown in the relationship between the two countries and the impact that would have on global growth.

[1]Performance figures are gross of fees.

Over the quarter, developed market equities broadly outperformed emerging markets. European and US equities outperformed those of the UK and Japan given support from their respective central banks and increasingly stable economic data.

UK equities were supported by the depreciation of sterling against a backdrop of continued political uncertainty over Brexit and the forthcoming change in leadership of the UK government following PM Theresa May's resignation. Japanese equities demonstrated their sensitivity to trade with China as US-China relations deteriorated and weaker manufacturing data triggered the market sell off.

In fixed income, US 10-year treasury yields hit multi-year lows dipping below 2% following the Fed's June meeting and German Bund yields reached all-time lows of -0.34% given comments from the ECB that they would not rule out further easing. Local currency emerging market debt performed strongly as the US dollar weakened, whilst credit spreads on investment grade debt and global high yield tightened, reflecting renewed investor appetite for riskier, higher income bearing assets.

In commodities, gold was the standout performer of the quarter reaching 6-year highs as the outlook for lower interest rates, a weaker US dollar and falling bond yields fuelled the rally. Volatility in the oil price continued, with the attack on two oil tankers in the Strait of Hormuz raising tensions between the US and Iran driving a spike in prices following weakness earlier in the quarter.

**July – September 2019**

Returns over the third quarter were generally muted, though perceived safe-haven assets performed strongly following a continued slowdown in global economic data and increased geopolitical risk.

Trade tensions escalated in August as President Trump announced his intention to impose tariffs on the remaining Chinese imports not yet subject to tariffs. China responded with retaliatory measures, increasing existing tariffs on US imports, which provoked Trump into threatening to increasing existing and planned tariff rates further.

Over the course of the quarter the dovish pivot from central banks was confirmed, with the Federal Reserve ('Fed') cutting interest rates twice, once in July and once in September. The rate cut in July marked the first time in 11 years that the Fed had cut interest rates. The European Central Bank followed suit, cutting the deposit rate further into negative territory as well as restarting quantitative easing.

Central bank action supported developed market equity returns which ended the quarter slightly up, offsetting a raft of weak economic data from Europe, and Germany in particular, coupled with a slowing US economy. Emerging market equities sold off as trade tensions and slowing Chinese economic growth impacted sentiment.

UK equities were supported by the depreciation of sterling against a backdrop of continued political uncertainty over Brexit. Sterling recovered slightly as parliament legislated that the government must seek a Brexit extension if it can't agree a deal with the EU before the end of October.

In fixed income, global bond yields continued to decrease as investors sought safe-haven assets. This pushed up the total market value of negative yielding debt to over $16 trillion. With central banks also cutting interest rates, US 10-year treasuries and German Bunds performed strongly. Emerging market debt and investment grade debt also benefitted from lower rates.

**October – December 2019**

Equity markets posted strong returns over the fourth quarter as markets rallied on the back of the agreement between the US and China for a 'phase-one' trade deal, further stabilisation in economic data releases and further support from central banks.

The Federal Reserve ('Fed') cut interest rates again in October and in subsequent meetings confirmed that they would keep monetary policy on hold for the near future. This messaging was echoed by the European Central Bank ("ECB"). Both the Fed and the ECB started to expand their balance sheets again, providing support to global markets.

Trade tensions had escalated between the US and China at the beginning of the quarter, however, as the quarter progressed markets rallied as the two countries agreed a 'phase one' trade deal. This agreement was accompanied by the suspension of additional US tariffs on Chinese imports in return for a Chinese commitment to purchase US agricultural products and to implement certain intellectual property reforms.

The reduction of trade related uncertainty led to emerging market equities outperforming developed market equities, though both rallied sharply during the quarter. Markets were also boosted by global growth data stabilising, albeit at low levels, with signs that global manufacturing activity may be starting to pick up slightly. Continued signs of strength from the US consumer propelled US equities to new all-time highs, with technology stocks proving to be significant drivers of the rally.

UK equities benefitted from a decisive victory for Prime Minister Johnson in the UK General Election. The extent of the Conservative majority gives the government more freedom to negotiate the future relationship between the UK and Europe, which in turn provides markets with more certainty over the likely direction of travel. The rally in UK equities was accompanied by a rally in Sterling (triggered by the election result). The currency recovered from the very weak levels seen over the summer to levels seen at the start of 2019.

In fixed income, government bond yields increased on the back of decent economic data, leading to negative performance from US 10-year treasuries and German bunds. The most notable move in fixed income came from high yield bonds, whilst emerging market debt and investment grade debt also performed well reflecting increased investor confidence.

Commodities had a strong quarter, with positive performance supported by a weakening US dollar. Soft commodities and oil were the standout performers as fears of an economic slowdown receded and trade risks abated. Gold remained relatively range bound for most of the quarter but rallied to trade around $1,500 an ounce, at the end of the year.

**January – March 2020**

The year began on an optimistic note as markets rallied following the December agreement between the US and China for a 'phase-one' trade deal, further stabilisation in economic data releases in early January and further support from central banks.

However, the outbreak of the Coronavirus became the focus of investor attention as the quarter progressed given both the terrible human cost, and the longer-term implications for the global economy.

Initially, the issue was treated as an Emerging Market shock with little spill-over to non-Asia markets until late February. Markets then began to price in broader disruption outside of emerging markets, particularly following the more significant outbreaks reported in Italy, Spain and Iran.

As the virus contagion spread across the globe, a realisation that the global pandemic could have material implications for global economic growth, business stability and society more broadly triggered some of the sharpest price movements in asset prices that we have seen since the stock market crash in 1987 and the Global Financial Crisis in 2008. Unsurprisingly, record large daily moves in equity prices trickled into market volatility, causing the VIX index to surpass its previous record high seen in 2008.

During March, as authorities increasingly stepped in to halt activity and the movement of people (in an effort to slow the spread of the virus), we witnessed significant fluctuations in equity and bond prices. The oscillation in prices reflected the mix of concern over the increasingly negative outlook for global growth in 2020, but also the reaction to central bank monetary stimulus and unprecedented levels of fiscal support from governments that were announced in an effort to underpin the global economy.

A steep slide in oil prices (Brent Crude fell by over 65%), due to the drop in demand and an escalation in the price war between Russia and Saudi Arabia, further compounded the problems in financial markets.

Equity markets fell by over 20% (as measured by the MSCI World Index) as global growth estimates for 2020 plummeted and concern escalated over the rate of contagion and implications for emerging markets and lower income economies. US 10yr Treasuries and Gold were two of the few asset classes to provide some form of safe haven during the quarter but even these were subject to a rollercoaster ride during the period (US 10yr Treasury Bond yields moved between extremes of 1.83% and 0.56% during the period, even touching 0.32% intraday amid an historic flight to safety in bonds).

## Strategic Alternative Income Fund (SAIF)

Secure income assets have continued to provide a compelling investment proposition through the 12 months leading up to 31st March 2020. In what has been an eventful period for global markets and investors, the UK experienced political turbulence through 2019 with GDP remaining flat and market flow stalling in the run up to the general election at the end of the year. The result of the election provided some relief for investors as the Conservative majority improved the ability of the government to implement policy.

2020 began with post-election relief that was short-lived as the global spread of coronavirus began to accelerate, market participants grew increasingly concerned of the potential ramifications and need for liquidity. Rapid and globally coordinated policy intervention by both central banks and governments contained the impact and led publicly listed instruments to retrace some of the initial sell-off. However, a high level of uncertainty remains and private market activity has fallen sharply to reflect this uncertainty.

SAIF's secure income assets sit at the more defensive end of the risk spectrum and, whilst we expect some areas to be affected, the stability and diversity of the cash flows continue to deliver resilience relative to the volatility of public market equivalents.

## Performance

Depressed yields in UK government bonds and sterling investment grade corporate bonds have made it increasingly difficult to generate income from public markets without taking increasing levels of risks and/or losing some margin of safety. The defensive nature of secure income assets serves not only to access attractive and stable income yields at a healthy premium of +2-3% over 10-year Gilts, but also to improve the diversity of exposures which can help increase overall portfolio resiliency.

As at the end of March 2020, the portfolio was yielding c.5.4% gross on a run rate basis* with an average cash flow tenor of c.15 years and c.63% Inflation linkage, measured both implicitly (25%) and explicitly (38%).

Owing to the COVID-19 pandemic, the Team anticipate that SAIF's yield and total return may be adversely impacted by a shortfall in income including, but not limited to, Real Estate Equity where a shortfall is expected in rental payments and Infrastructure Equity where a drop in power prices is expected to lead to a lower income distribution from the portfolio of Renewable Power assets. There can be no assurance that any shortfall will be recovered over time.

* *Run rate gross returns are the point-in-time, estimated returns derived from existing investments in the portfolio (as of Q1'20) assuming a full anniversary of any one-off fees, deal expenses, or any other non-recurring items that impact cash flows in a non-recurring manner. This does not take into account the negative impact of the standard management fee (75bps) and fund expenses (c.15bps) and the positive impact of any client-specific rebate.*

## Deployment

SAIF's flexible, multi-asset approach, supported by BlackRock's broad and differentiated access across secure income markets, resulted in a relatively steady pace of deployment prior to the slowdown in market activity in the second half of 2019. From this point market activity stalled amidst Brexit-related uncertainty and, more recently, as a result of the COVID-19 pandemic. Investment activity is likely to remain measured amidst the current uncertainty and limitations imposed by lockdown measures. However, as market conditions begin to stabilise, SAIF's multi-asset, flexible sourcing approach supported by over 130 investment processionals positions the Fund well to remain selective while still capitalising on pockets of opportunity that offer better relative value.

As of March 31, the Fund had deployed c.44% of second close fund commitments, of which Dyfed are a part, into 31 direct investments and 2 fund investments.

## COVID-19 update

BlackRock has been fully operational, including trading and associated functions, throughout the pandemic. The trading team has full capabilities in their primary offices and in nearby offices as well as when working remotely when appropriate. When working in BlackRock offices, due care has been taken to provide appropriate social distancing. There has been no disruption in BlackRock's trading capabilities nor in our ability to serve our clients.

BlackRock has a robust business continuity plan that is tested and updated regularly. This year, as the coronavirus situation evolved, we implemented aspects of that plan in Asia beginning in January. As we monitored the spread of the virus, we limited travel to high-risk locations and then prohibited all but essential international travel. When needed, we initiated split operations to limit the risk of the virus spreading – first in Asia and more recently in Europe and the Americas.

Portfolio management teams are fully resourced and engaged in their markets and strategies. Across BlackRock, we have full capabilities even as the vast majority of our team works from home.

We have plans for returning more people to our offices (which remained open and functional throughout except where local regulation required otherwise). In fact, the process of returning more people to the office began in Hong Kong already in May.

We expect other offices to follow in the weeks ahead in line with public safety guidance and always prioritising the health and safety of our colleagues. It is important to know, however, that BlackRock's operational effectiveness doesn't depend on returning to our offices around the globe. We have been fully operational throughout the pandemic crisis even with more than 90% of the firm working from home.

**Gavin Lewis**
Managing Director

**Alec Barkett**
Vice-President

**Claire Curtis**
Associate

Schroders

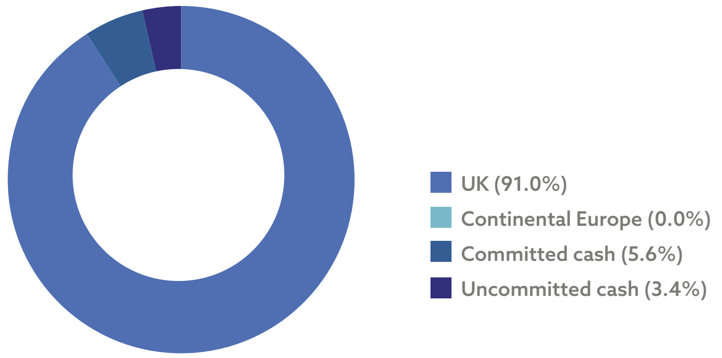
## Background

Schroders was appointed to manage a pan-European portfolio of indirect investments in March 2010. An initial allocation of £88 million was committed at inception, with a further £32 million committed in July 2013. In early 2018 we received confirmation from the client that they had allocated a further circa £122.2 million to the portfolio.

## Progress

As at 31st of March 2020 the value of the property portfolio stood at circa £303 million. Since the inception of the mandate we have created circa £102.5 million of value above the equity committed, i.e. circa £10 million per annum. At the financial year end, including cash sitting with the client, 91.0% by value was invested in the UK, 9.0% by value was held in cash (5.6% of which was committed) and there were two nominal residual holdings in Continental Europe, following sales over the past 12 months.

**Portfolio value by region**

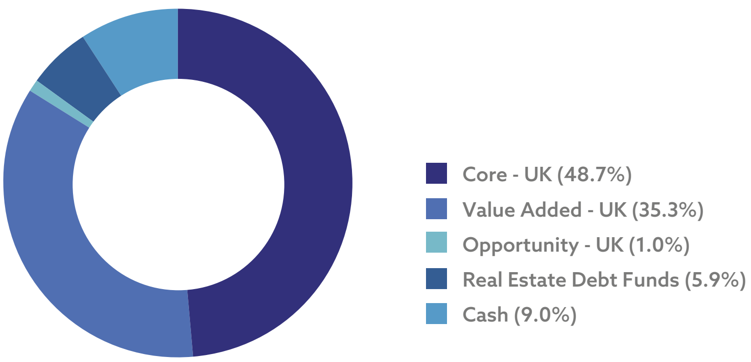



Note: Chart includes cash held with client

The look-through sector structure of the UK portfolio is broadly in line with the Schroder House View i.e. underweight to retail relative to the benchmark and overweight to industrials, regional offices and non-mainstream sectors. The major change in the House View over the last twelve months has been a more positive weighting to central London Offices. We have earmarked uncommitted cash to a central London strategy to reduce our underweight position to this sector and to take advantage of any distressed pricing that may result from the prevailing macro economic uncertainty.

By fund style, approximately 48.7% of the portfolio by value is invested in UK core style strategies. Core funds are typically lowly geared and open-ended in structure. 35.3% by portfolio value is invested in value added funds, these are typically sector focussed funds, may have a moderate exposure to leverage and are generally closed-ended. 5.9% of the portfolio is invested in real estate debt and 1.0% in opportunistic funds.

**Portfolio value by fund style**




Note: Chart includes cash held with client

## Performance

The impact of Covid-19 and the ensuing lockdown has had a negative impact on the performance of real estate portfolios. Valuers have applied 'Material Uncertainty' caveats to valuations in Q1 2020, which in effect means that they are unable to accurately price real estate assets due to the absence of transactional evidence. In addition to these caveats, some valuers have applied high-level mark downs to real estate valuations, although there has been inconsistency in the way that these mark downs have been applied. This has led to heightened volatility and inconsistency in the performance of the underlying real estate funds in the Dyfed Pension Fund's real estate portfolio. We are therefore exercising caution in interpreting quarterly performance numbers and take this opportunity to remind clients that real estate is a long-term investment.

Performance was very weak in Q1 2020, in part reflecting the inconsistent approach to pricing applied by valuers, but also the underlying weakness in the economy. The longer term performance of the UK portfolio remains strong. Returns are below benchmark over three months (-1.0%) and twelve months (-0.5%). Returns remain above benchmark over three years (+0.3% per annum) and five years (+0.1% per annum). Ten year performance (-0.4% per annum) remains below benchmark due to the impact of continental European holdings. The performance of the UK portfolio remains ahead of the benchmark over three, five and ten years.

## Sustainability

*"The unrelenting march of the coronavirus reminds us that environmental and social problems are increasingly clear financial risks that investors need to manage appropriately."*

Andrew Howard, Schroders' Head of Sustainability Research

The rapid spread of COVID-19 has highlighted the dramatic effect a change to our daily lives and routines can have on the environment. Most notably, we have seen a significant reduction in carbon emissions as travel has reduced to essential journeys. It has brought sustainability to the forefront of both landlords and tenants minds, and are likely to see a consequent increase in demand for sustainable assets. Within our real estate portfolios we have seen several Fund Managers and Advisers engaging with the community to provide support in this difficult time. For example, Fiera Real Estate, the Investment Adviser to Residential Land Partnership (a SRECaP Partnership Fund), alongside its development partner Angle Property, has offered Headley Court to the NHS at nil cost for the next six months. The former medical buildings, part-owned by the Residential Land Partnership, will be recommissioned to create a fully equipped temporary hospital for up to 300 patients, as well as on-site staff accommodation, helping meet the local needs for health care facilities at this time.

As active investors SRECaP monitors the strategy, performance, governance and sustainability initiatives of all the Funds on our Investment platform. We encourage Managers to adopt sustainability practices that are in line with Schroder Real Estate Sustainability policies and practices. Throughout Q1 2020, we have been working closely with the wider Schroder group to develop our ESG scoring matrix, a tool that forms a central part of how we monitor our investments. There are two tools of particular focus:

- **SustainEx:** a tool developed by Schroders to quantify companies' social and environmental externalities, putting a monetary figure to the positive and negative impacts that companies have on society.
- **CONTEXT:** our proprietary research tool for ranking companies on the strength of their stakeholder relationships.

## UK property outlook

The UK economy is now in recession, following the lockdown imposed by the Government to slow the spread of the Coronavirus. Consumer spending and investment will fall sharply in the second quarter of 2020, as people stay at home and businesses conserve cash. The Bank of England has cut base rate to 0.1% and the Government has announced a huge package of state-guaranteed loans, grants, tax holidays, wage supplements and other measures designed to support peoples' incomes and allow companies to hibernate until the virus has passed. Schroders' central scenario assumes that the lockdown is phased out over the summer and that the falls in GDP are partially recovered in 2021, albeit not recovering to the pre-virus peak by the end of 2021.

This scenario also assumes that either the UK and EU agree a trade deal by the end of this year, or the transition period is extended until the end of 2021. However, there is a clear downside risk that the recession is longer and deeper - potentially because the coronavirus re-surfaces and the lockdown has to be re-introduced, or because a lot of businesses do not survive and unemployment is permanently higher.

Despite the flexibility of many landlords and the Government's support, we expect that a number of mid-market retailers and restaurant chains who were already under financial pressure will fail over the next few months. Consequently, it seems probable that the Coronavirus will accelerate the increase in structural vacancy and decline in retail open market rents. We expect that supermarkets, convenience stores and bulky goods retail parks will be more defensive than shopping centres and department stores.

While the Coronavirus could increase the demand for warehouses to fulfil online orders, the impact is likely to be modest. The vast majority of warehouses are occupied by manufacturers, non-food retailers, third party logistics operators and local small businesses (e.g. kitchen fitters, garages) and much of their activity has halted or been disrupted by the virus. As a result, we expect overall demand for industrial space to fall in 2020, with a limited rise in vacancy and fall in rents, before recovering in 2021.

In the short term, the office sector has probably been least affected by the Coronavirus. Although most offices are deserted, a lot of occupiers have been able to carry on business almost as usual by staff working from home. The obvious exception is serviced offices and some providers will fail. Some smaller occupiers such as recruitment consultants also look vulnerable. We expect that office demand will recover quickly after the virus, driven by the growing tech sector, lawyers, and by the public sector as the Government recruits more staff.

The impact of the Coronavirus on niche sectors has been mixed. At one extreme, the crisis has increased demand for laboratories and data centres. Demand for social supported housing has also increased as the NHS and social services have tried to free up capacity in hospitals and care homes. At the other extreme, hotel occupancy has collapsed as business travel and tourism has ceased and demand for student accommodation could also fall sharply if the start of the next academic year in September is delayed, or if international students cannot travel. The government freeze on house sales has also temporarily halted the development of retirement villages, as purchasers typically need to sell their current home before buying an apartment.

Investment transaction volumes have declined as deals have stalled and few new transactions are being initiated given the practical impediments to completing the requisite due diligence, such as site visits. The lack of transactions coupled with some tenants, particularly retailers, deciding to defer rent means that valuers have decided to apply material uncertainty clauses, which in turn has forced many open-ended funds to suspend dealing of primary shares.

We expect that real estate yields will now rise despite the low level of bond yields, as investors price-in potential falls in rental income - albeit these should be short-lived in the office and industrial sectors. Given the uncertainty over the economy it is difficult to know how far capital values will fall, but our working assumption is that, on average, they will decline by 10-15% in the first half of the year, before partially recovering in the second half of 2020. Retail real estate and secondary assets are likely to be hit harder than office, industrial and prime assets.

Although there may be some distressed sales, we do not anticipate a repeat of the vicious circle of falling prices and forced sales which occurred between 2007-2009. In general, investors have borrowed less in recent years than in the run up to the global financial crisis and banks will probably tolerate temporary breaches of loan terms, provided there is a good prospect that rent and interest payments will resume once the virus has passed.

## Continental European property outlook

The lockdowns imposed by governments to slow the spread of the coronavirus have pushed the eurozone into recession. The impact will depend on how long the lockdowns last. In round terms, each month in lockdown cuts annual GDP growth by 3% (source INSEE). If the lockdowns are phased out over the summer then the second half of 2020 could see a strong recovery, as people begin to spend again in shops and on leisure activities and as businesses re-start investment.

A lot will depend on whether the huge package of tax breaks, loan guarantees and compensation for short-time working announced by the EU and by national governments succeed in keeping businesses afloat through the lockdowns. If they fail and there is a wave of insolvencies, then unemployment will be permanently higher and the recession will be deeper and longer.

There is also a risk that the jump in government debt equal to 10-15% of GDP will trigger a new sovereign debt crisis, if investors lose faith in the ability of countries such as Italy to re-pay. Although the lockdowns and travel bans have affected all commercial real estate, the biggest impact has been on leisure, retail and hotels. Except in Sweden, all restaurants, bars and leisure venues are shut and the only stores which are still open are banks, post offices, food stores and pharmacies. In short, the virus is likely to accelerate the increase in structural vacancy and decline in market rents. Supermarkets, convenience stores and big box units are likely to be more defensive than shopping centres and department stores.

In the industrial / logistics sector, the boost from higher on-line sales is positive, but must be put in context. The vast majority of warehouses are occupied by manufacturers, non-food retailers and logistics operators and their businesses have been seriously disrupted by the virus. Consequently, we expect that warehouse rents in continental Europe will fall by around 5% in 2020, before stabilising in 2021. In the long-term, the virus could increase demand for warehouses, if retailers and manufacturers decide to make their supply chains more resilient by holding more stock and by reshoring some production from Asia.

Office will probably be the main sector which is least affected by the coronavirus, for two reasons. First, in many cities vacancy was very low at the end of 2019, so office markets are relatively well placed to cope with a demand shock. Second, a lot of office occupiers have been able to maintain operations by asking staff to

work from home. The big question is whether the current experiment with remote working will persuade companies to re-think their long-term space requirements and cut office demand in future. While that could happen, it is also possible that people who have been isolated at home have a greater appreciation of the benefits of being in the office in terms of communicating with colleagues, meeting clients, training and sharing values.

Despite the low level of government bond yields, we anticipate that real estate yields will rise as investors price in potential falls in rental income - albeit those falls should be short-lived in the office and industrial sectors. There is also anecdotal evidence that banks have started to raise margins on new loans and or reduce financing for higher risk rated assets. If our assumption on real estate yields is correct, then capital values will probably fall on average by 10-15% in the first half of 2020. Retail real estate and secondary assets are likely to be hit harder than office, industrial and prime assets. The second half of this year could then see a partial recovery in capital values, if the economy starts to improve and investor appetite returns.

## Strategy

Portfolio sector structure is well aligned to our House View, being underweight relative to benchmark in retail and overweight to regional offices, industrials and alternatives.  There are currently undrawn commitments to real estate debt, social supported housing and retirement living.

In the short-term the strategy is to continue to reduce exposure to weaker balanced funds, subject to pricing and liquidity.  We have earmarked uncommitted cash to a central London office and recovery strategy, to increase exposure to a sector that is anticipated to outperform the benchmark and to take advantage of any distressed pricing that emerges as a result of the macro economic uncertainty.

## Summary

The pandemic has had an unprecedented impact on real estate markets globally.  Lockdown measures to prevent the spread of Covid-19 have exacerbated long-term structural weakness in the retail sector, but we have also seen a damaging impact on the trading performance of sectors which had been performing strongly. Student accommodation and leisure, which historically have offered investors a high income return and performance that is less correlated to the broader economy, have been impacted by the forced closure of businesses and academic institutions. Whilst we expect that some alternative property sectors will continue to offer defensive returns as social distancing measures are eased, the lockdown of the economy will most likely result in the closure of many retail businesses that had been struggling to survive before the crisis hit.

In response to the pandemic, Schroders launched the '#CollectiveAction' campaign, the Schroder charitable response to Covid-19 – which empowered colleagues around the word to raise £3.5 million in six weeks for charities around the world.

Performance was very weak in Q1 2020, in part reflecting the inconsistent approach to pricing applied by valuers, but also the underlying weakness in the economy. The longer term performance of the portfolio remains above benchmark. Returns are below benchmark over three months (-1.0%) and twelve months (-0.5%). Returns remain above benchmark over three years (+0.3% per annum) and five years (+0.1% per annum). Ten year performance (-0.4% per annum) remains below benchmark due to the impact of continental European holdings. The performance of the UK portfolio remains ahead of the benchmark over three, five and ten years.

We expect that real estate yields will now rise despite the low level of bond yields, as investors price-in potential falls in rental income - albeit these should be short-lived in the office and industrial sectors. Given the uncertainty over the economy it is difficult to know how far capital values will fall, but our working assumption is that, on average, they will decline by 10-15% in the first half of the year, before partially recovering in the second half of 2020. Retail real estate and secondary assets are likely to be hit harder than office, industrial and prime assets.

Whilst we are anticipating short-term volatility in performance, particularly given the difficulty in valuing the underlying assets, we take this opportunity to remind investors that real estate is a long-term investment. The Dyfed portfolio is well positioned being underweight relative to benchmark in retail, where we anticipate the most distress and overweight to regional offices and industrials which are forecast to be the most resilient. We are confident that the portfolio is well positioned to deliver above benchmark returns in the years ahead.

**Patrick Bone**
Fund Manager

Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

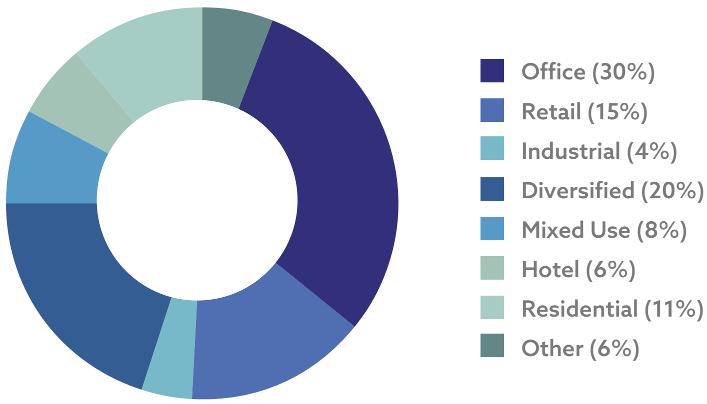
## Macroeconomic activity

Much of the activity and development seen in 2019 was and has been overshadowed by the first quarter of 2020, during which the global economy was unexpectedly hit by the COVID-19 pandemic, which has spread quickly to all parts of the world. In response, policy makers in the advanced world and emerging markets alike introduced severe lockdown and social distancing measures which turned a humanitarian concern into an economic crisis. The IMF expects the current downturn to be the worst since the Great Depression, with global real GDP contracting by 3% in 2020. Many countries are likely to experience sharp peak-to-trough GDP contractions of close to or above 10%. Uncertainty around this forecast is high, given the ambiguity surrounding the pace of easing lockdown measures and the possibility of renewed outbreaks.

Policy makers around the globe have introduced massive fiscal and monetary easing measures. Fiscal stimulus (direct spending) announced to-date amounted to nearly 3% of global GDP, with many additional billions of loan guarantees announced. Central banks are supporting corporate lending schemes, have reactivated asset purchase schemes and are providing liquidity to the banking sector amongst other measures. These responses should help in providing the liquidity needed by corporates and households that are subjected to temporary income losses and support the recovery after lockdown is eased.

## COVID-19: preliminary assessments by real estate sector and performance impact

In a matter of only weeks, social distancing measures due to the COVID-19 pandemic have changed the behaviour towards physical space during the first quarter of 2020. The unexpected hit from the pandemic has created headwinds for real estate markets across the globe.



P.G. Red Dragon allocation by property type as of 31 March 2020.

The most affected real estate markets were the retail, hospitality and leisure sectors. For the retail sector, rental cashflows are expected to come under pressure as many stores are closed and some tenants may seek rent deferrals or reductions. Additionally, the impact of structural changes – due to the rise of e-commerce - on the retail sector and retail properties pre-COVID-19, are expected to be exacerbated as online shopping activity further increases. Meanwhile, for the hospitality sector and leisure sector, revenues are projected to be reduced significantly in the short-term, as they are closed while rental income for leisure facilities is anticipated to decline as operators may seek rent deferrals or reductions. Furthermore, any potential permanent change to both business and leisure travel habits may have an impact on the demand for the hospitality and leisure sectors.

For the residential market, rental cashflows are expected to decline due to the effects of the COVID-19 pandemic on unemployment levels and local protective measures that could impact how landlords address delinquencies. Additionally, the supply of new residential properties is expected to be limited and downward pressure is expected on rent growth due to lower GDP levels. Meanwhile, occupancy levels in the senior housing sector are expected to remain flat as prospective tenants are not able to tour the properties. On the other hand, rental cashflows for the student accommodation sector may be reduced significantly as universities move to online learning. Furthermore, any permanent changes to student travel habits are expected to impact overseas education demand, which have underpinned certain student housing markets such as UK, Italy and Australia.

For the office sector, rental cashflows are anticipated to experience downward pressure from temporary rent reductions and deferrals, especially from tenants in industries that have been significantly affected by the COVID-

19 pandemic. On the other hand, productivity and engagement challenges posed by working from home may underpin future demand for high quality well-located offices but lower GDP may dampen rental growth prospects, while the full impact of various government support programs is still unclear and is likely to vary across geographies. Lastly, for the industrial and logistics markets, rental cashflows are expected to remain robust in the logistics sector in the short term (especially for logistics space for e-commerce related tenants), while rental cashflows in the industrial sector is anticipated to be subdued the short term. However, the long term impact on the industrial and logistics markets is expected to be limited as goods that would otherwise be in stores will be kept in warehouses.

P.G. Red Dragon office asset CB16, located in La Défense (Paris)

As a result of the sharp slowdown in the global economy and real estate markets due to the COVID-19 pandemic over the first quarter of 2020, the net multiple of Partners Group Red Dragon declined. In light of the pandemic-driven changes to the macro-level environment and the corrections observed in capital markets towards the end of the first quarter, valuations based on latest appraisals for real estate direct investments were updated to reflect emerging risks. At the same time, implied capitalization rates calculated on stabilized net operating income were adjusted upwards (i.e. risk premium adjustment for considering property type, location, tenant quality, rent collectability, vacancy) resulting in lower gross asset values of around 4% on average.

Meanwhile, for partnership investments, fair value adjustments - both asset specific and market driven - were conducted to bridge the time lag between the date of the latest available investment partner NAVs (i.e. quarter ending 31 December 2019) and our reporting date 31 March 2020. In addition to incorporating the movements seen in capital markets (asset-class specific market indices) in the fair value adjustment process, Partners Group reached out to various investment partners for indications around their first quarter NAVs. Overall, fair value adjustments applied during the first quarter of 2020 are significantly higher than (and negative relative to) those applied in prior quarters.

## Relative value analysis and outlook

Going forward, Partners Group will continue to focus on value-add opportunities, especially in challenging times when economic headwinds are more prominent than before, and value creation at the asset level is becoming increasingly important. We continue to overweight office, logistics/industrial, and residential properties in all regions (besides Asia-Pacific). For office properties, we focus on repositioning assets that also benefit from a stable base of existing rental cash flows in cities that benefit from strong underlying demographics and strong potential for employment growth in a post-COVID-19 environment. We overweight the logistics/industrial sector as we see strong occupier demand across all regions. Finally, we overweight residential and pursue affordable opportunities in cities with supply shortfalls and strong population growth. Even before the outbreak of COVID-19, our concerns over retail hardened to be heavily underweight due to the depth of the challenges in the sector.

We continue to be neutral to slightly underweight on traditional real estate secondaries, but we strategically overweight non-traditional secondary assets across all regions, especially where we can acquire assets outside of a competitive process.

For Partners Group Red Dragon, L.P. specifically, as approximately 30% of its portfolio investments (by NAV) have a vintage year of 2010 or earlier, the mandate is expected to continue benefiting from near to mid-term realization activity across its diverse portfolio of directs, secondaries and primaries in Europe. As of 31 March 2020, the commitment level of the Program was at 82.5%. Partners Group will continue to focus on sourcing for attractive investment opportunities, while supporting select value creation initiatives across the portfolio and exploring exit opportunities for certain mature portfolio investments.

**Courtney Bensen**
Client Solutions

# WALES PENSION PARTNERSHIP

## Background

The Wales Pension Partnership (WPP) was established in 2017. The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. Being democratically accountable means WPP provides the best of strong public sector governance and transparency.

WPP's operating model is designed to be flexible and deliver value for money. WPP appointed an external Operator (Link Fund Solutions) and uses external advisers to bring best of breed expertise to support the running of the Pool. The Operator has partnered with Russell Investments to manage the investments and assist in the reduction of investment management costs for all the Constituent Authorities.

Carmarthenshire County Council is the Host Authority providing administrative and secretarial support and implementing decisions made by the Joint Governance Committee of the WPP. The Council's Director of Corporate Services and Council's Monitoring Officer are the Responsible Finance Officer and Monitoring Officer for the WPP.

## Pooling Progress / Performance

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings, while continuing to deliver investment performance to their stakeholders. To date, three active equity sub-funds have been launched by the WPP and in February 2019, the Dyfed Pension Fund transitioned its global equity allocation (Baillie Gifford and Columbia Threadneedle) into WPP's Global Growth sub-fund. Managers within this sub fund currently include Baillie Gifford, Pzena and Veritas.

The Global Growth sub-fund completed its first full year of operation in 2019-20 and the performance is shown below. Baillie Gifford and Veritas outperformed the index by 5.61% and 6.57% respectively while Pzena underperformed by -13.83%.

| Manager | Return (%) | Benchmark* (%) | Difference (%) |
|---|---|---|---|
| Baillie Gifford | (1.13) | (6.74) | 5.61 |
| Pzena | (20.57) | (6.74) | (13.83) |
| Veritas | (0.17) | (6.74) | 6.57 |
| **Total – Global Growth Fund** | **(7.30)** | **(6.74)** | **(0.56)** |

*Benchmark – MSCI/AC World Index

The value of the Global Growth sub-fund as at  at 31 March 2020 was £1.96bn of which Dyfed Pension Fund investments equated to £546m .

The table below summarises Dyfed Pension Fund's total investments including those in WPP and under direct oversight of the pool. Currently 53% of Dyfed Pension Fund's assets are managed by the pool.

| Investments managed by WPP: 31 March 2020 | 31 March 2020 £'000 | % |
|---|---|---|
| Global Growth Fund | 545,586 | 23 |
| Pooled BlackRock Passive Equities | 713,934 | 30 |
| Assets managed outside of WPP | 1,118,099 | 47 |
| **Total Assets** | **2,377,619** | **100** |

Dyfed Pension Fund's corporate bonds will be transitioned in to the Global Credit fixed income sub-fund in July/August 2020.

## 2019-20 Overview

The WPP have achieved some significant milestones during the year and it is extremely pleasing to see that these milestones have been extended across a variety of areas, including, Investments, Governance, Communications and Training.

The WPP has continued to develop a robust governance framework. The WPP's Beliefs Statement has been formulated as well as the Governance Matrix which provides an overview of the WPP's governance structure and outlines the internal bodies that are responsible for key decisions and actions carried out by the partnership. These, along with other policies can be found on the WPP website: **www.walespensionpartnership.org**

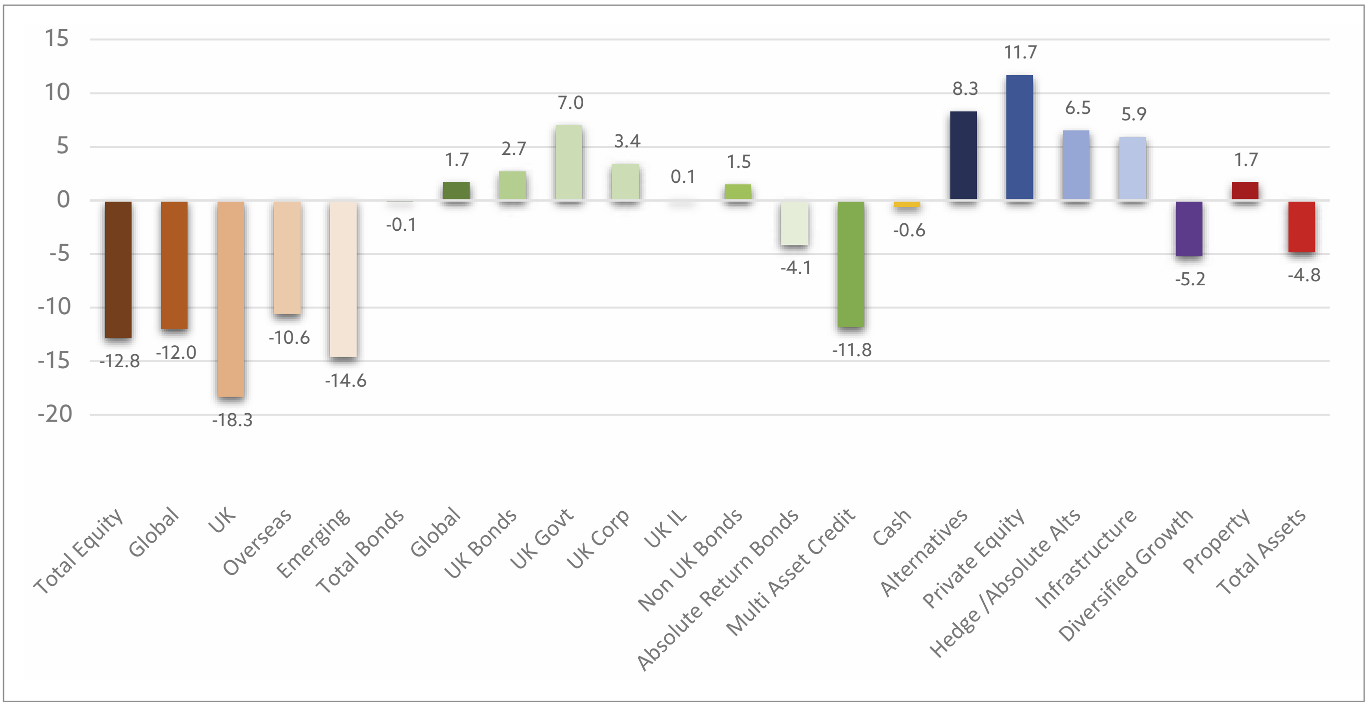
During 2019-20, WPP appointed Hymans Robertson LLP to act as Oversight Advisor and also announced the appointment of Robeco UK as Voting and Engagement provider. This demonstrates WPP's vow to exercise voting rights in line with the interest of their stakeholders and engage with investee companies to enhance the long-term value of the Constituent Authorities' investments within WPP.

The WPP believes that Responsible Investment should result in better outcomes for its stakeholders, hence it has been a key priority for the WPP since they were established in 2017. WPP's initial focus was on formulating a Responsible Investment (RI) Policy. This policy is representative of the broad range of investment beliefs within the Pool and all the Constituent Authorities were involved in the policy's formulation. Over the next 12 months, WPP will continue to deliver on the commitments made in the Policy, which will include the production of a Climate Risk Policy which is already being developed.

Improving the WPP's communication has been a key workstream during the last 12 months and as well as launching the WPP website, as detailed above, a Communication Policy has been formulated and a LinkedIn page launched. Both the website and LinkedIn are effective ways to keep up to date on the WPP and the informal updates on all if it's endeavours.

PIRC

## Universe Overview - Latest Year Performance




- Another year of global political uncertainty but this time was the unprecedented effects of COVID -19.
- The year saw the fastest ever decline in equity markets, albeit from close to record high levels, new lows in oil prices, much of the credit market becoming barely liquid and property and many alternatives difficult to value.
- Funds returned an average of -4.8% for the year, perhaps better than was expected by many.
- Equities fared worst - funds with higher exposures to more defensive assets will have performed relatively well.

| | 31/03/2019 (%) | 31/03/2020 (%) | Difference (%) |
|---|---|---|---|
| Equities | 55 | 51 | (4) |
| Bonds | 19 | 21 | 2 |
| Cash | 3 | 4 | 1 |
| Alternatives | 11 | 12 | 1 |
| Diversified Growth | 3 | 3 | 0 |
| Property | 9 | 9 | 0 |

## Asset Allocation

- Strategic asset allocation remained broadly static most of the change to fund weightings came about from the relative market movements over the year.

## Universe Longer Term Results

- Long term performance of the LGPS remains strong. The average funds delivered a positive return in 24 of the last 30 years and delivered an annualised performance of 7.9% p.a.
- Equities have driven the strong long term performance.
- Alternatives have performed strongly due in a large part to the excellent returns from private equity.

## Asset Allocation

- Equities remain the largest allocation within most fund's assets. 80% of this allocation is now invested overseas.
- Alternatives have increased markedly over the decade. Private equity makes up a half of this allocation with infrastructure increasing in recent years and expected to increase further.
- Within the bond allocation, there has been a continued move from index based towards absolute return mandates.

## Latest Year

- In the latest year the Fund return of -7.2% was well below the average of -4.8% and ranked in the 88th percentile.

## Fund Asset Allocation

- The Fund is structured quite differently from the average.
- The key difference is the relatively high level of equities and low investment in alternatives.
- Last year these differences reduced the relative performance by close to 3%.

## Fund Longer Term Returns

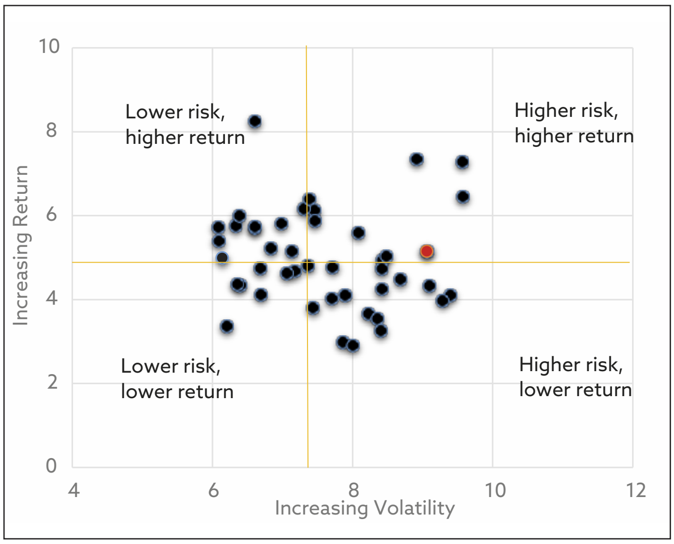
- The latest year result has brought down the three year performance to below average.
- Longer term results are still strong largely due to the strong returns delivered by the active equity managers.

| | 3 Years | 5 Years | 10 Years |
|---|---|---|---|
| Fund | 1.1% p.a. | 5.2% p.a. | 7.3% p.a. |
| Universe Average | 1.9% p.a. | 5.2% p.a. | 6.9% p.a. |
| Ranking | 76th | 34th | 27th |

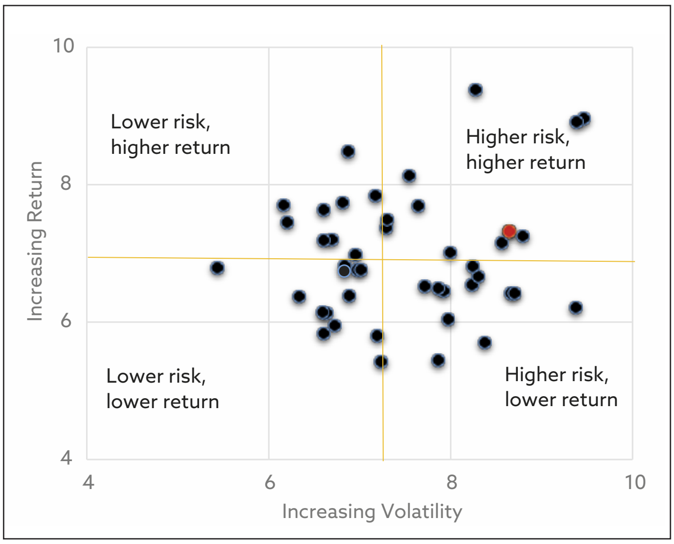
## Risk and Return

- Over the last ten years the Fund (red dot) produced a better than average return but experienced a slightly higher than average level of volatility.
- Similarly, over the last five years the Fund has been rewarded for the additional volatility that it has experienced.

**Last Five Years (% p.a.)**




**Last Ten Years (% p.a.)**




The charts show the funds (black dots) in the LGPS Universe in risk/return space. The further up the vertical axis a fund is the better the return achieved. The further along the horizontal axis the more risk has been taken. The yellow are the median results. These divide the funds into quadrants. Most funds would prefer to be in the top left quadrant.

**Karen Thrumble**
Local Authority Pension Performance Analytics (PIRC)

# INDEPENDENT INVESTMENT ADVISER

Eric Lambert finished last year's IIA report with a farewell after an impressive 15 years, so I should start mine with an introduction. My name is Adrian Brown, and I've been an investment manager for the last 15-odd years, looking after a number of LGPS Funds, and had a career in business before that. I am delighted to be succeeding Eric in the role, recognizing it will be a tough act to follow, and look forward to getting to know both you and the other stakeholders in the Dyfed Pension Fund over the coming years.

I was appointed in March 2020, and what a difference a month can make! For most of the 2019-20 financial year, markets were on a positive trend, with an easing in worries about the US/China trade war ahead of the US Presidential election and some greater clarity (at last!) on the UK's Brexit policy. Jobless numbers in most developed economies were near historical lows, and the world looked set for another year of steady growth against a backdrop of relatively supportive Central Bank policies. However, the global spread of COVID19, and governments' reactions to it, have significantly impacted that outlook. While all our concerns are initially for the human angle, there has clearly been a material economic and financial impact too.

Economics first: The lockdowns imposed around the world have resulted in a very sharp hit to economic growth, with forecasters now expecting the UK and US economies to decline by up to 10% in 2020, before bouncing back to some extent in 2021, but it is increasingly likely that there will be some longer term impact, too. Secondly, Governments have committed truly unprecedented amounts of money to support their economies, in the hope of minimizing the damage done, resulting in a huge increase in government debt. Central banks, too, have been very active, in many cases promising to buy much of the debt which governments will need to issue to finance their bail-out packages. This has important implications for two key risk factors for pension funds.

Firstly, inflation: while the immediate effect of the recession is deflationary (UK CPI fell to 0.8%, well below the 2% p.a. target rate), the enormous increase in fiscal stimulus and monetary financing ("money printing") combined with increased cost pressures as companies restructure more resilient/local supply chains are likely to put upward pressure on the long term inflationary expectations. These are important to pension funds, since liabilities are linked to inflation whether earnings (active members) or annual pension increases (deferreds and pensioners). Secondly, interest rates seem likely to be low for a long time, and indeed there is talk of UK rates going negative, following the Eurozone. The combination of these results in sustained, significantly negative real interest rates.

## So what about financial markets?

While global stock markets have recovered some of their first quarter losses, they are likely to remain volatile, as bad news on company earnings and dividends comes out over the next few months. Having said that stocks worldwide represent better value now, and are still expected to offer long term returns of over 5% p.a. better than government bonds. And even if dividends are cut by 1/4 longer term, the UK market, for example, would still be yielding some 4% p.a., making it an attractive source of income. Your Fund continues to hold the majority of its assets in equities.

Bond markets have been more mixed. While falling interest rates have been good for government bonds, it means they are now offering very little income (0.2% p.a. over 10 years) so that, unless interest rates fall further, their value is likely to be eroded by inflation. The UK corporate bonds, which are currently held in your Fund, offer a higher interest rate, because of the (slightly!) higher risk of lending to a large company rather than a Government. They are now yielding over 2% p.a., meaning they offer a return slightly greater than inflation, which is why your Fund holds more Corporate bonds than UK Government bonds.

## Given this backdrop, let's look at what has been happening in your Fund.

During the first half of 2019-20, our actuary was busy working on the triennial valuation of the Fund, based on 31 March 2019 data. This exercise looks at the current value of the Fund's assets against the expected cost of the future liabilities (pensions being paid and benefits accruing to current members) and assesses the return on assets which will be required to meet those liabilities (given the employer contributions proposed in the funding strategy). The good news is that, as at 31 March 2019, the Dyfed Pension Fund was more than fully funded, and therefore needed somewhat lower investment returns in order to continue to meet future liabilities : this so-called "discount rate" was reduced by 0.5% to CPI + 1.7%, or 4.1% p.a. in nominal terms, based on inflation expectations at the time.

The Dyfed Pension Fund started the 2019-20 year in a very strong funding position, having produced returns of 9.8% p.a. over the previous 5 years, well ahead of the inflation/earnings yardsticks and of the median LGPS fund, in part because of its high allocation to equities (compared with the average LGPS fund). Your Committee is comfortable with this equity-biased investment strategy, because equities were – and still are – expected to produce the best long-term returns, albeit at the "cost" of increased volatility. As a long-term investor, with sufficient cash flows from investment income, the Fund is able to accept this volatility, and benefit from the better returns. This same exposure has, however, meant that the Fund has experienced a material fall in valuation, as equity markets suffered in March 2020.

Over the year to 31 March 2020, the Fund value fell by -7.2%. However, it is worth pointing out that end March 2020 was near the low point for markets, and with the recovery in markets since end March 2020, the Fund's value is likely to have made back some of the loss during the year. Equally, the more important long term returns are, of course, less affected by recent events: for the 5 years to March 2020, the Dyfed Pension Fund returned 5.1% p.a., still ahead of the required actuarial discount rate.

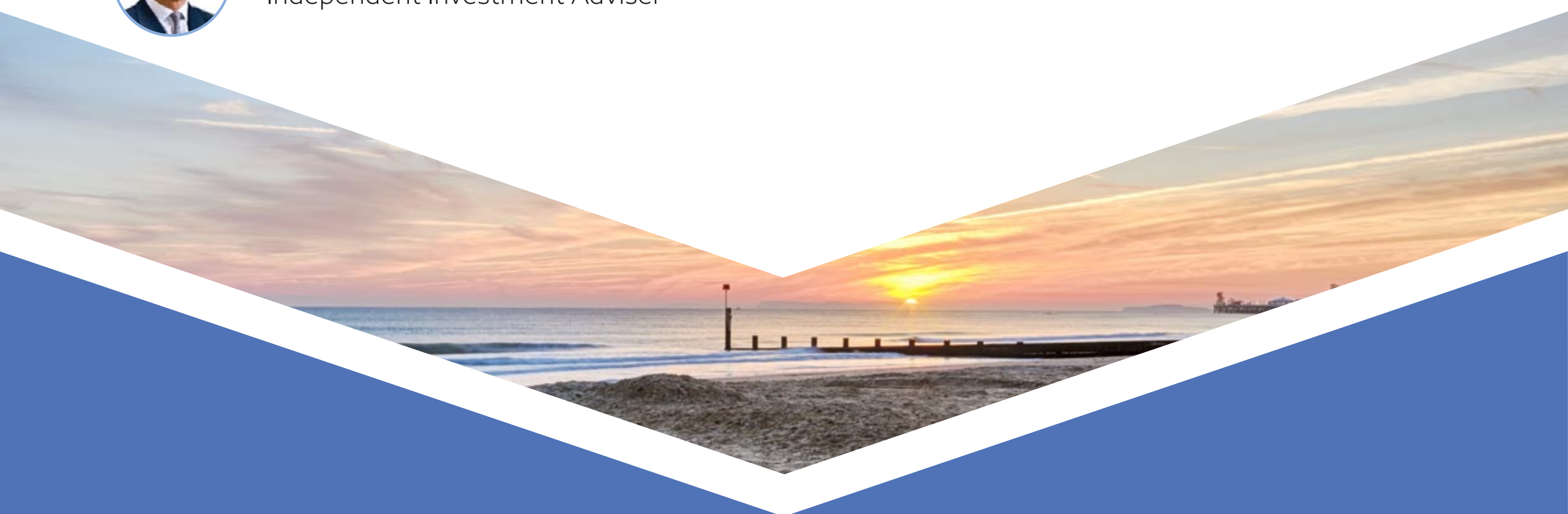
Following on from the valuation, your Committee reviews the Strategic Asset Allocation of the Fund, to assess whether the mix of different assets (equities, bonds, property etc) is likely to deliver – or, hopefully, continue to beat! - the return required by the actuary's future discount rate assumption. This work will look at current asset class return assumptions, but also, importantly, take into account the negative DwM cash flows ("Dealing with Members" cash flows, so Contributions less Benefits). As last time we expect the negative DwM cash flow to be a significant input to the strategy revision. This work is currently underway.

There have been relatively few changes in the make-up of the Fund over the year.

- The Global Equities portfolio, transitioned to Welsh Pension Partnership (WPP) in 2019, has performed satisfactorily, albeit over a short time period.
- Work with the WPP has continued, with the focus on the establishment of Fixed Income sub funds, to supplement the Global and UK equity strategies launched in 2019. It is planned to transition Dyfed's UK corporate bond portfolio into one of the sub funds following its launch later this year.
- The Committee has continued to build the Fund's allocation to infrastructure over the year, investing in the Blackrock SAIF strategy. This offers a steady income, superior to corporate bonds, as well as some inflation-linkage of returns. It also includes investments in renewable energy projects, helping reduce the Fund's carbon footprint.
- The WPP has also been working on developing a low-carbon passive global equity strategy, offering an even greater reduction in carbon footprint than current commercially available indices. This work is currently underway.

In conclusion, the Dyfed Pension Fund remains in a strong position, with a solid funding level and an investment strategy which takes advantage of the good covenants of our employers, keeping employer contributions at today's reasonable levels.

**Adrian Brown**
Independent Investment Adviser



# FUND ADMINISTRATION REPORT

The Pension Fund is governed by Regulations issued by the Ministry for Housing, Communities and Local Government (MHCLG). Under the provisions of the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulation 1995, the administering authority function was transferred to Carmarthenshire County Council. While employee contributions and benefits payable are set by Regulation, employer contributions are actuarially assessed at each valuation and areas of discretion are subject to local policies determined by each participating Fund Employer.

The scheme changed from being a final salary scheme to a Career Average Revalued Earnings (CARE) scheme on 1st April 2014. If you were an active member of the 2008 Scheme as at 31 March 2014, you will have automatically transferred to the LGPS 2014 on 1 April 2014.

## The main provisions of the LGPS 2014 scheme are:

- Benefit Accrual - From 1 April 2014, you will have a pension account per employment, which will be credited annually with the amount of pension that you have built up from 1 April to 31 March each year. This is based on your actual pensionable pay from 1 April to 31 March and a 1/49th accrual rate. Your pension account will then be re-valued each April in line with the Consumer Price Index (CPI). Your membership up to 31 March 2014 will be protected and continue to be calculated on a final salary basis when you retire with reference to your pensionable pay upon retirement and under the 2008 definition of pensionable pay.
- Tax free Lump Sum - individuals may convert an element of pension into an additional tax free cash lump sum, on the basis of £12 for each £1 of pension. Benefits accrued up to and including 31st March 2008 will automatically provide a Tax Free Cash Lump Sum at retirement.
- 50/50 Option - From 1 April 2014, you will have the option to pay half your normal contribution, to receive half the level of pension in return during this period. However, you will retain full ill health and death cover during this time.
- Normal Pension Age (NPA) - your NPA will be linked to your State Pension Age (SPA), therefore any future changes in your SPA will impact on your NPA.
- Enhanced pension if you retire on the grounds of ill-health.
- Death in Service - a Tax Free Cash Lump Sum of three times the annual salary payable to the estate. In addition, Spouse's, Civil Partners and Dependent's benefits are payable.
- A cohabiting partner's pension may also be payable if certain conditions are met.
- Death after retirement - Spouse's Pension, Dependents Pensions and in certain circumstances a Lump Sum Death Grant.
- Transfer of Pension Rights to either a new employer's approved scheme or to an approved personal pension plan.
- Employees who leave with more than 2 years service (or less than 2 years service where a transfer payment has been received) are entitled to a Preserved Inflation Proofed Pension payable at Normal Retirement Age.
- Additional pension contributions may be paid to increase pension benefits.

## Pensions Increase

Pensions are reviewed annually each April under the Pensions Increase Act as prescribed by Social Security legislation in line with the upgrading of various state benefits and is d etermined by the percentage increase in the Consumer Price Index (CPI) to the preceding September.

This year, pensions were increased by 1.7% from 6th April 2020 and represents the increase in the consumer price index for the 12 month period to the 30th September 2019. Pensions increase is normally applied to pensioners who are age 55 or over, or have retired at any age on ill-health grounds or are in receipt of a spouse's or child's pension. A pensioner who retired during the financial year will have a proportionate increase applied.

## Local Government Pensioner pay dates for 2020-21 are as follows

| | | |
|---|---|---|
| 30 April 2020 | 28 August 2020 | 24 December 2020 |
| 29 May 2020 | 30 September 2020 | 29 January 2021 |
| 30 June 2020 | 30 October 2020 | 26 February 2021 |
| 31 July 2020 | 30 November 2020 | 31 March 2021 |

## National Fraud Initiative

The Pension Fund continues to participate within the anti-fraud initiative organised by the Wales Audit Office where data provision includes Employee and Pensioner Payroll and Occupational Pension details. Such information is compared with other public body data which helps ensure:

- The best use of public funds
- No pension is paid to a person who has deceased, and
- Occupational Pension and employment income is declared by Housing Benefit, Universal Credit and Council Tax Reduction Scheme claimants.

## Legislative update

**Cohabiting Partners' benefits** - Scheme regulations provide that a survivor's pension will automatically be payable to a cohabiting partner without the need for the scheme member to have completed a form nominating them to receive a survivor's pension. In order to qualify, the following regulatory conditions must apply to you and your partner:

- Individual A is able to marry, or form a civil partnership with B,
- A and B are living together as if they were husband and wife or as if they were civil partners,
- Neither A nor B is living with a third person as if they were husband or wife or as if they were civil partners, and
- Either B is financially dependent on A or A and B are financially inter-dependent.

Further information and qualifying criteria can be obtained by either contacting the pensions section or via the website. It is understood that the Government intend to make further changes to survivor benefits to ensure equality requirements are met.

## Employee Contribution Rates

The LGPS 2014 amended the method of assessing your contribution rate from 'full time equivalent' pensionable pay to your **'actual** pensionable pay'. Pensions contributions will now also be payable on overtime. Responsibility for determining a member's earnings and contribution rate, including notification requirements, falls on the Employer. Where a member holds more than one post with an Employer, a separate assessment will be undertaken for each post held.

The earnings bands and contribution rates applicable from April 2020 are as follows:

| **Contribution table 2020-21** | | | |
|---|---|---|---|
| Band | Actual pensionable pay for an employment | Contribution rate for that employment | |
| | | Main section | 50/50 section |
| 1 | Up to £14,600 | 5.5% | 2.75% |
| 2 | £14,601 to £22,800 | 5.8% | 2.9% |
| 3 | £22,801 to £37,100 | 6.5% | 3.25% |
| 4 | £37,101 to £46,900 | 6.8% | 3.4% |
| 5 | £46,901 to £65,600 | 8.5% | 4.25% |
| 6 | £65,601 to £93,000 | 9.9% | 4.95% |
| 7 | £93,001 to £109,500 | 10.5% | 5.25% |
| 8 | £109,501 to £164,200 | 11.4% | 5.7% |
| 9 | £164,201 or more | 12.5% | 6.25% |

## Statutory Underpin protections

Protections are in place if you are nearing retirement to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2014. This protection is known as the 'underpin'. The underpin applies to you if you were:

- paying into the Scheme on 31 March 2012 and,
- you were within 10 years of your Normal Pension Age on 1 April 2012,
- you haven't had a disqualifying break in service of more than 5 years,
- you've not drawn any benefits in the LGPS before Normal Pension Age and
- you leave with an immediate entitlement to benefits.

The Pensions Section will automatically carry out the underpin calculation when you leave the Scheme. As a result of the 'McCloud' Judgement a consultation on the proposed LGPS changes was issued in July which will amend the above protections. Further information will be provided to scheme members when revised regulations come into force.

## The Rule of 85

The rule of 85 protects some or all of your benefits from the normal early payment reduction. To have rule of 85 protection you must have been a member of the LGPS on 30 September 2006. The rule of 85 is satisfied if your age at the date when you draw your pension plus your Scheme membership (each in whole years) adds up to 85 years or more.

If you have rule of 85 protection this will continue to apply from April 2014. The only occasion where this protection does not automatically apply is if you choose to voluntarily draw your pension on or **after age 55 and before age 60 without** your employer's permission.

For a more detailed understanding of your own position you should log in to 'My Pension Online' or contact the pension section directly.

## Tax Changes

From April 2020, the Lifetime Allowance (LTA) for tax-privileged pensions saving will increase from £1,055,000 to £1,073,100. This is the total value of all pension benefits you are able to build without triggering an excess benefits tax charge. Upon retirement you are required to declare all non LGPS pension benefits in payment, or due to come into payment, so that your LTA can be assessed. Further information on how these changes may impact upon you is detailed on the HMRC website. Please note that pensions staff cannot give financial or personal taxation advice.

You will recall from April 2014 the Annual Allowance limit reduced to £40,000 and this limit continues. To calculate the value of any annual increase in the LGPS you need to work out the difference in the total value of any accrued pension benefits between two 'pension input periods', usually April to March. This is done by multiplying the value of the increase in pension by 16 and adding the increased value of any lump sum and AVC fund. Your 2020 Annual Benefit Statement will contain further information regarding the impact of the annual allowance on your pension accrual in the LGPS. The outcome of this calculation must then be added to any increases in pension entitlement that may arise from any other pension arrangement an individual may have to ascertain whether the annual limit has been breached.

## Councillor Pensions

The LGPS 2014 has not impacted on the provisions for elected member pensions as their arrangement remains continues:

- on a career average revalued earning basis
- with contribution rates at 6%
- benefits accruing on a 1/80ths basis for Pensions and a 3/80ths for tax free lump sum.

## Communications Policy Statement

The Dyfed Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective manner possible, particularly in an ever changing pensions environment. There are 5 distinct groups with whom the fund needs to communicate:

- Scheme Members
- Prospective Scheme Members
- Scheme Employers
- Other Bodies
- Fund Staff

The policy document sets out the mechanisms which are used to meet those communication needs and is subject to periodic review. The Dyfed Pension Fund aims to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one method of communication as considered appropriate and meet all regulatory requirements regarding provision of Scheme and related information. This has been further enhanced with the introduction of 'My Pension Online' for active, deferred and pensioner members of the scheme. This is an internet based application that enables members to securely access and update their pension information online via the Fund's website. By developing its e-communication, the Fund aims to improve its service delivery as well as reducing printing & postage costs and its carbon footprint.

## Administration Strategy

In accordance with the Local Government Pension Scheme Regulations the Pension Fund has prepared an Administration Strategy. The objective of the strategy is to clearly define the roles and responsibilities of the Dyfed Pension Fund and the participating employers under the Regulations.

## Scheme Administration Statistics

### Number of Employers

A full schedule of employers (as at 31st March 2020) who either participate or have a relationship with the Dyfed Pension Fund is attached to the Statement of Accounts later in this report. The table below summaries the number of Scheduled and Admitted employers.

| | Active | Ceased | Total |
|---|---|---|---|
| Scheduled | 21 | 19 | 40 |
| Admitted | 25 | 27 | 52 |
| **Total** | **46** | **46** | **92** |

### Scheme Membership

The table below illustrates the increase in scheme membership over the last three years.

| | 31/03/2018 | 31/03/2019 | 31/3/2020 |
|---|---|---|---|
| Active | 18,575 | 18,446 | 18,564 |
| Pensioner | 13,143 | 13,256 | 14,059 |
| Deferred | 15,354 | 15,736 | 15,900 |
| Undecided Leaver | 1,871 | 2,073 | 2,259 |
| **Total** | **48,943** | **49,511** | **50,782** |

The table below shows the fund has performed against its benchmark.

| 01/04/2019 - 31/03/2020 | Total Completed | Benchmark (%) | Performance (%) |
|---|---|---|---|
| New Starters | 4,262 | 95.00 | 98.89 |
| Transfers into the Fund | 542 | 95.00 | 97.02 |
| Retirement Quotes | 606 | 95.00 | 99.01 |
| Payment of Retirement Benefits for New Pensioners | 1,049 | 95.00 | 95.02 |

## Analysis of leavers during 2019-20

| Category | 2019-20 |
|---|---|
| Refund of contributions | 361 |
| Transfers to other scheme | 99 |
| Death in Service | 31 |
| Ill health Retirements | 93 |
| Early / Normal Retirement | 551 |
| Redundancy Efficiency Retirements | 144 |
| Flexible Retirements | 13 |
| Late Retirements | 97 |
| Opt outs | 414 |
| Preserved Benefits | 794 |
| Other leavers* | 1,931 |
| Number of deferred members re-entering the scheme | 163 |
| **Total** | **4,691** |

*The majority of these cases are in respect of members deemed to be 'Next Day Transfers'.

| Completed and Outstanding LGPS Cases | 2019-20 |
|---|---|
| Number of Completed cases | 21,568 |
| Number of Outstanding cases | 1,076 |

## Data Quality Scores and Data Improvement Plan

The Fund's initial Data Quality review took place in December 2017 and a Data Improvement Plan was subsequently created. The improvement plan primarily aims to address the key issues identified in the Fund's Data Quality review and demonstrates the appropriate steps the Fund is taking to tackle the issues raised in the review and how it will improve the data held.

A Data Quality review is undertaken annually. The improvement plan has been revised and addresses the key issues identified in the Fund's Data Quality review which took place in December 2019.

The data quality review undertaken in December 2019 again split the assessment of data held between two data categories:

- Common Data
- Scheme Specific Data

Tests were undertaken on the data held by the Fund on its Scheme members to identify whether data is present and accurate.

The Common Data items are specific in the Pensions Regulators guidance however, the Scheme Specific data items are not prescriptive but is generally data key to running the Scheme and meeting legal obligations. The Pensions Regulator does not set the data items for the Scheme Specific data as it is deemed to be identifiable and relevant to each individual Pension Scheme. However, illustrative examples of the data required to running a Pension Scheme has been published by the Pensions Regulator and these examples were taken into consideration when identifying the Scheme Specific data to be checked. Below is a table with the LGPS Data Quality scores which are reported to the Pensions Regulator.

| LGPS Data area | Common data (%) | Scheme specific data (%) | Aim (%) |
|---|---|---|---|
| December 2019 data score | 98.3 | 98.1 | 100 |
| December 2018 data score | 96.5 | 95.8 | 100 |
| December 2017 data score | 94.5 | 85.3 | 100 |

## Administration Cost per member (SF3 costs table)

The table below compares the administration cost per scheme member with that of the All Wales average from the SF3 return.

| Year | Dyfed Pension Fund Cost per member (£) | All Wales Average (£) |
|---|---|---|
| 2018-19 | 25.14 | 30.04 |
| 2017-18 | 22.71 | 27.46 |
| 2016-17 | 20.73 | 28.10 |
| 2015-16 | 27.45 | 28.28 |
| 2014-15 | 21.66 | 28.36 |
| 2013-14 | 20.94 | 30.20 |

## The Administration Team

In addition to the primary role of administering the Local Government Scheme and its provisions, the Pension Section provides, by agreement, similar services to the Chief Constable and Chief Fire Officers administering the Police and Fire-fighter's Pension Schemes for Dyfed Powys Police, Mid & West Wales Fire and Rescue Service, North Wales Fire and Rescue Service respectively.

The pension's team has 32 permanent FTE staff to administer the above pension schemes. During the year to 31st March 2020, the following staff turnover occurred; 5 staff left the team and 4 staff joined the team. The permanent members of staff dedicated to the LGPS is 22.2 FTE. As at 31st March 2020, there were 50,782 LGPS members of the Dyfed Pension Fund which equates to 2,287 scheme members per pensions administration team member. The average number of cases completed per team member during the year was 972.

## Your Pension Section:

In addition to implementing legislative changes by set timescales. Your Pension Section additionally:

- Ensured that the Scheme Actuary was provided with clean and accurate data by set timescales for the 2019 Fund Valuation and notified Carmarthenshire CC, Ceredigion CC, Pembrokeshire CC, Dyfed Powys Police and Mid and West Wales Fire and Rescue Service of their reassessed contribution rates applicable from 1st April 2020.
- Undertook further employer and scheme member presentations on 'My Pension On-line'. This internet based application enables you to securely access and update your own pension record(s). The initiative is designed to provide statutory information and improve service delivery whilst also reducing printing & postage costs and the funds carbon footprint.
- Ensured employers formulate, publish and keep under review a policy statement in respect of their discretions under the LGPS 2014.

- Continued with their internal staff training programme. Alongside its training for participating Fund Employers, this investment is viewed as key for the effective delivery of pension administration services in an ever changing regulation environment and increasing stakeholder expectations.
- Continued with the production and issue of Annual Benefit Statements (ABS) for Deferred (individuals who have left the Scheme with a future entitlement to pension benefits) and Active (contributing) Scheme members. The ABS production was undertaken on an all Wales Pension Funds basis, improving both cost and consistency with the Dyfed Pension Fund taking the lead.
- Continued with the 'Life Certificate' exercise aimed at pension payments paid by cheque in addition to also undertaking monthly mortality checks on UK based pensioners.
- Continued to utilise Western Union in order to undertake mortality checks on overseas pensioners.
- Continued with the production of a more detailed and personalised update for each pensioner outlining the increase in pensions arising from annual pension increase awards.
- Participated in the Audit Commission's - National Fraud Initiative exercise as outlined above.
- Continued to engage with colleague LGPS Fund authorities in Wales to examine available partnership opportunities and share best practice in Scheme administration.
- Ensured model fund data was received by the Government Actuary's Department
- Through the IAS19 exercise ensured that each employer who had to comply with these pension accounting requirements received their results and disclosure needs by their required account closure timescales.
- Continued with the GMP Reconciliation exercise which had to be undertaken in respect of all scheme members to ensure HMRC do not have incorrect information on their records. However, HMRC continue to have outstanding data queries which have yet to be returned to the Dyfed Pension Fund.
- Implemented i-connect for additional employers to facilitate the direct transfer of data from employer payroll systems directly into the pensions system.
- Undertook a Data Quality exercise for the Local Government, Police and Firefighter Pension Scheme in accordance with The Pensions Regulator's Code of Practice 14 requirements and reported findings to both the Pension Committee and The Pensions Regulator. A Data Improvement Plan was created to address issues identified.
- Undertaken a review of the performance of each fund and investment options chosen by scheme members who contribute to AVC's.

## Looking Forward

The pensions section anticipates yet another busy year, as in addition to their core functions, your Pension Section intends to:

- Notify employers of their reassessed contribution rates applicable from 1st April 2021 as a result of the Actuarial Valuation exercise.
- Increase the number of registered 'My Pension On-line' users by conducting further promotional events with each employing authority to actively encourage scheme member take up by increasing the number of desktop visits.
- Respond to consultations on scheme arrangements and implement changed structures as a result of amending legislation.
- Continue to liaise with all scheme employers to ensure appropriate processes and procedures are in place in order to comply with auto enrolment requirements.
- Continue to undertake data validation and integrity checks for data which is issued by HMRC in respect of the GMP Reconciliation exercise in order that the correct state benefits are recorded and paid.
- Continue to work with all scheme employers to ensure that clean and accurate data is consistently provided.
- Undertake a data quality exercise in accordance with The Pensions Regulator's Code of Practice 14 requirements and report findings to both the Pension Committee and The Pensions Regulator. Update and review the Data Improvement Plan.
- Implement i-connect for further employers which facilitates the direct transfer of data from employer payroll systems directly into the pensions system.

The inherent complexities and retrospective protections that apply to the Local Government, Police and Fire schemes remain which staff have to continually ensure are applied appropriately in each individual case.

I would like to take the opportunity to record my sincere thanks to all staff involved in Scheme Administration not only for the work done over the last scheme year and their enthusiasm to embrace change and meet ever changing regulatory and stakeholder requirements, but also for ensuring that during the unprecedented coronavirus pandemic they ensured that pensioner payments, retirement processing and bereavement payments were prioritised and continued to be paid.

## My Pension Online

### What will My Pension Online allow me to do?

Whether you're an active, deferred or pensioner member of the Scheme, you will be able to view and update your basic details, access relevant forms and receive all publications immediately, including your annual benefit statement, newsletters and factsheets. If you're an active member, you will be able to perform benefit calculations at your convenience, so that you can actively plan for your retirement.

If you're a pensioner, you will be able to view your pension details, submit any change of bank or building society account details or change of address, view your payment history and tax code, your payment dates, payment advice slips, P60 statements and pension increase statements.

### How do I register for My Pension Online?

It couldn't be easier, all you need to do is contact the Dyfed Pension Fund by either telephoning **01267 224909** or by e-mailing: **pensions@carmarthenshire.gov.uk** to request an activation key. Your activation key will be emailed to you or it can also be sent to your home address and you will be required to log in to the 'My Pension Online' area via the Fund website: **www.dyfedpensionfund.org.uk.**

You will be asked to enter your surname, National Insurance number, date of birth and activation key and then prompted to set up your own username, password and security questions.

# ACTUARIAL REPORT

All LGPS Pension Funds are required to commission and publish a valuation of the Fund on a specified date every three years. The last valuation of the Dyfed Pension Fund took place as at March 2019, the Actuarial Statement is detailed in the Statement of Accounts (Section 6) and the full report can be found on the Dyfed Pension Fund website.

## The Actuary's View

It's with a number of mixed feelings that I put pen to paper for this article. It's my final one for the annual report and accounts as I plan to retire later this year. I'd been hoping to pen a few words about how successful the Fund had been, with the 2019 actuarial valuation having shown a healthy improvement in funding level and (for most employers) some modest reductions in the overall contribution requirements. And then the Covid-19 pandemic hit.

Before thinking about the Fund, we need to remember the real human costs of the current pandemic. Many of us have lost their lives, others their livelihoods, and I would not be surprised to see some of the impacts on our mental health lasting for years to come. On a more upbeat note, I have seen some real senses of community, with neighbours being ready to rally round and assist one another, an increased recognition of the more vulnerable in society, and many workers going the extra mile to ensure that we can still operate semi-normally on a day to day basis.

Financially, the pandemic initially left stock markets reeling, although they have since recovered some of those losses. It's quite difficult to comment about what this will have done to the funding level of the Dyfed Pension Fund because investment markets in general were on the rise until mid-February, suffered some dramatic falls over the next month and then recovered a little over the period to the end of May. Over this period we estimate that the funding level will have fluctuated between the position at the 2019 actuarial valuation (105%) and around the 90% mark, and by the time you are reading this article, the position will certainly have changed again. The key factor at the moment is the volatility of the markets, as a result of which the funding position has been changing quite significantly on a daily basis, and there is much uncertainty over the future direction of the markets, not least due to the fact that (at the time of writing this article) the risks of further outbreaks of Covid-19 still loom large.

The assets is, though, only half the story. One has also to consider the liabilities, which are the long-term benefit payments that the Fund will need to pay out in the future. These benefit payments will still extend several decades from now, and are unlikely to have changed substantially from the position as calculated at the 2019 actuarial valuation. The point which will be critical, however, is whether the assets and the expected future investment returns on those assets will still be sufficient to finance the liabilities, and we expect to engage with the Fund officers in more detail about that over the course of 2020.

Having said that, it is fair to say that some sectors of the economy will have benefited financially from the crisis (think of online shopping, video streaming, delivery services) I am sure that most of the Fund's employers will be finding life more difficult than previously. The Fund can, however, afford to take a longer-term view overall, and despite the fluctuation in funding level which has arisen from the volatility in the markets, we have not proposed a knee-jerk reaction and are therefore not advocating large scale increases to contributions at the present time. Whist there may be some exceptions by way of employers for whom shorter-term considerations will come more to the fore, in our view it is better to take a more considered view at a point when some more stability has returned to the markets.

This is of course testament to the hard work from fund officers, employers, investment managers and others which has gone into putting the Fund in a resilient position, with its funding level at the top end of the LGPS league table. Long may that continue, and I will watch the development of the Fund with interest from the fortunate position of being a recipient of a pension, rather than someone who is looking after everyone else's.

**John Livesey**
Actuary, Mercer Limited

# GOVERNANCE

## Pension Board Annual Report

This is my fifth annual report as Chair of the Dyfed Pension Board since my appointment in June 2015. The Board was set up with effect from April 2015 under new arrangements for the governance of Local Authority Pension Funds. The purpose of the Board to assist Carmarthenshire County Council (as the scheme manager) in the management of the Local Authority Pension Scheme (LGPS), and to provide oversight and challenge. The terms of reference for the Board are available on the Fund website.

The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair. This is in line with the regulations requiring equal employee and employer representation. Details of the members of the Board are shown in the Appendix to this report. The Board is not a decision making body and can only provide advice and comment on the management of the LGPS by the Council. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way. In my capacity as Chair I have regular contact with officers at Carmarthenshire County Council to ensure that the Board addresses the issues necessary to discharge its responsibilities. Councillor Elwyn Williams as Pension Committee Chair is also invited to attend each Pension Board meeting.

The Board met on 3 occasions during 2019-20 in July and October 2019 and January 2020. The fourth planned meeting to be held in March 2020 had to be cancelled because of the Covid19 outbreak. This meant that the Council as Scheme Manager had to respond quickly to maintain service delivery and overall management of the Fund. Inevitably some of the Board's planned work schedule had to be deferred into 2020-21. However, through online meetings the work of the Board and governance of the Fund will continue.

This cycle of meetings follows the timetable for the Pension Committee and helps strengthen the overall governance of the Fund. The Board continues to focus on the key issues affecting the Fund and its beneficiaries, and agrees a forward work plan at the start of the year to ensure that it best placed to support the Council in the delivery of the LGPS in Dyfed. For example, this included regular monitoring of the risk register; monitoring and review of the performance of the pension administration service; and a review of the annual accounts.

There have been full agendas for each meeting and the issues discussed during the year included:

- The development of an annual work plan for the Board.
- Briefings and discussion on the performance of the pension administration service. Improving data quality is an area of focus for the Pensions Regulator
- Briefing and discussion on the Investment performance on the Fund
- Consideration of the Dyfed Pension Fund Business Plan
- Review and discussion of the decisions of the Pensions Committee
- Review of compliance with the Pensions Regulator's Code of practice
- Consideration of developments affecting the LGPS including progress with the Wales Pension Partnership (WPP)
- Audit and risk management issues affecting the Fund
- Consideration and discussion on the Funding Strategy Statement.

During 2019-20 there were some changes of members, with 1 member standing down and 2 new members joining the Board. In July 2019 Ian Eynon stood down as a member following his retirement from local government. I would like to thank Ian for his positive and helpful contributions during his time as a Member from the inception of the Board in April 2015 and wish him well for the future.

During the year Cllr. Gareth Lloyd and Paul Ashley-Jones joined the Board ensuring that it was at full complement during 2019-20. There was an improvement in attendance over the 3 meetings to 71% compared with 64% in the previous year. Detailed attendance of Board Members is set out in the Appendix to this report.

At the end of March 2020, the Dyfed Pension Fund had total assets of £2.4 billion and a membership of 50,782. Pension Fund investment and administration is becoming ever more complex so training and development for Members of the Pension Committee and Board is an essential support to good governance. A structured programme of training and development is essential for individual members and the Board collectively to discharge its responsibilities.

With this in mind, members of the Board have attended various training sessions over the past year. This has included:

- A presentation on the WPP progress in implementing the new pooling arrangements.
- A CIPFA training event on progress in establishing Pension Boards across local government.
- A structured training programme for new Board members organised by the LGA.
- A specific WPP training day covering issues such as Fund wrappers and structures; Transition and Liquidity; and different Asset Classes

Regular training sessions will continue to be arranged and incorporated as part of Board meetings. This is an area of attention from the Pensions Regulator as part of their role in promoting high standards of corporate governance in Pension Funds.

The LGPS nationally continues to go through major change and upheaval. Across England and Wales eight asset pools have been set up to manage the investment of local authority pension funds. The rationale behind pooling is to reduce costs and provide the scale to access illiquid asset classes to help diversification and improve investment returns. Together with pension board chairs from the other Welsh Funds, Gwyn Jones represented the Board at a briefing on progress in establishing the WPP with presentations from the host authority (Carmarthenshire County Council) and their partners Link and Russell Investments. This was an opportunity for Chairs to ask questions and scrutinise progress in establishing the new investment pool. This proved to be a successful engagement and it has been agreed to hold similar meetings on a 6 monthly basis in future. This new forum will help build good working relationships between Boards and the Pool, and strengthen overall governance of the Welsh pension funds.

Assets are now being moved into the WPP and the Pension Board have been updated on developments at each meeting. Progress has been hindered with the outbreak of the Covid virus. We will continue to monitor this process and work alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

### Members of the Dyfed Pension Board 2019-20

**John Jones**, Independent Chair

**Cllr. Gareth Lloyd**, Employer Representative (replaced Mark Miles in March 2019)

**Mike Rogers,** Pensioner Representative

**Paul Ashley-Jones,** Employer Representative (replaced Ian Eynon in July 2019)

**Gwyn Jones,** Employee Representative

**Cllr. Philip Hughes,** Employer Representative

**Tommy Bowler,** Trade Union Representative

**Board Member Attendance 2019-20**

| | 2 July 2019 | 23 October 2019 | 23 January 2020 |
|---|---|---|---|
| John Jones | ✓ | ✓ | ✓ |
| Mike Rogers | | ✓ | ✓ |
| Cllr. Philip Hughes | | ✓ | |
| Gwyn Jones | ✓ | ✓ | ✓ |
| Tommy Bowler | ✓ | | ✓ |
| Cllr. Gareth Lloyd | ✓ | ✓ | |
| Paul Ashley-Jones | ✓ | ✓ | ✓ |

The meeting scheduled for 26 March 2020 was cancelled because of the Covid-19 outbreak.

**John Jones**
Independent Chair

# Governance Policy Statement

## Introduction

The Dyfed Pension Fund is administered by Carmarthenshire County Council (the administering authority). All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy, under Regulation 73A of the LGPS 1997 Regulations. This regulation is superseded by Regulation 31 of the LGPS (Administration) Regulations 2008 and the 2013 Regulations. Additionally, one of the key requirements in the Public Service Pensions Act (PSPA) 2013 is for each Administering Authority in the LGPS to create a local Pension Board.

This policy has been prepared by the administering authority in consultation with appropriate interested persons.

## Purpose of the Governance Policy

The regulations on governance policy requires an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

- whether it delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority, if it does so:
  - The frequency of any committee or sub-committee meetings
  - The terms, structure and operational procedures of the delegation
  - Whether such a committee or sub-committee includes representatives of employing authorities (including
    non-scheme employers) or scheme members, and if so, whether those representatives have voting rights
- the extent to which a delegation, or absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

## Governance of the Dyfed Pension Fund

Within Carmarthenshire County Council's constitution, a pension committee must be set up for the Dyfed Pension Fund to:

- To decide on all the policy matters and strategic direction relating to the investments of the Pension Fund
- To review and monitor the investment performance of the Fund
- To review and determine on all Pension Fund Valuation matters of the fund
- To determine on Administering Pension Fund Authority policy and strategic matters.

Operational matters of both the Investments and Administration Functions are delegated to Director of Corporate Services.

Powers delegated to the Head of Financial Services for Pensions Administration, in accordance with The Local Government Pension Scheme Regulations 1997 or subsequent amending legislation, include:

To collect employee and employer contributions from participating employers
- To make payments in respect of scheme benefits
- To collect and make pension transfer payments as elected by scheme members
- To determine non policy related discretions as an Employing / Administering Pension Authority
- To undertake Stage 1 determinations on disputes arising from the Local Government Pensions Scheme or related legislation
- To update and maintain the Fund's website **www.dyfedpensionfund.org.uk**
- Maintenance and update of membership records
- The calculation and authorisation of benefit payments
- Provision of membership data for actuarial valuation purposes
- Preparation and maintenance of the Communication Policy Statement and the Pensions Administration Strategy Statement.

The Head of Financial Services will accept for admission into the Dyfed Pension Fund employees of authorities and bodies as prescribed in Regulations, subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.

## The Pension Committee

### Terms of Reference

- To exercise the County Council's responsibility for the management of the Dyfed Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets
- To meet at least quarterly, or otherwise as necessary
- To produce an Annual Report by 30 September each year on the state of the Fund and on the investment activities during the year
- To have overall responsibility for investment policy and monitor overall performance
- To review governance arrangements and the effective use of its advisers to ensure good decision-making
- To receive regular reports on Scheme administration to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers that the Fund is being run on an effective basis
- To appoint Investment Managers to discharge functions relating to the management of the Fund's investments
- To appoint the Fund's custodian, performance measurement adviser, actuary, independent adviser and AVC provider
- To approve a Funding Strategy Statement and Investment Strategy Statement.

### Membership

The Committee comprises of:

- three members (one acting as Chair) plus a nominated substitute to act in the absence of a member. Each member of the committee has voting rights and each committee member and the substitute are nominated by Carmarthenshire County Council, the Administering Authority, from its elected membership. At least three members must attend each committee meeting.
- at least two Carmarthenshire County Council officers from the Director of Corporate Services, Head of Financial Services, Treasury and Pension Investments Manager and Pensions Manager.
- the independent investment adviser.

The Director of Corporate Services, as Treasurer of the Dyfed Pension Fund, will also maintain all necessary accounts and records in relation to the Fund. The Treasury and Pension Investments Manager and officers in the Treasury and Pension Investments team support the Director of Corporate Services and Head of Financial Services in the responsibility for the monitoring and review of the investments of the Fund including:

- preparation and maintenance of the accounts of the Dyfed Pension Fund including preparation of the Dyfed Pension Fund Annual Report
- preparation and distribution of the annual Dyfed Pension Fund Newsletter
- servicing the Committee meetings
- regular dialogue with the Fund's advisers, investment managers and custodian
- monitoring and reconciliation of investment manager and custodian records
- preparation and maintenance of the Fund's Investment Strategy Statement, Funding Strategy Statement, Governance Policy and compliance with the Myners review
- monitoring the activity and performance of the Fund's investment managers including compliance with policy and performance objectives
- interpretation of new legislation and research in respect of the investments and accounts of the Fund
- monitoring the corporate governance activity of the Fund including attendance at the Local Authority Pension Fund Forum (LAPFF)
- arrangement and provision of appropriate training for committee members.

## Committee Meetings

The Pension Committee meets four times a year. All meetings are held in Carmarthenshire. An agenda, minutes from the previous meeting and written reports are sent to each Committee member by the Democratic Services Unit before each meeting. During the Committee meeting the Committee members receive reports presented by Officers of Carmarthenshire County Council, the Independent Investment Adviser and any other person the Committee invites to speak at the meeting. Committee decisions are formally minuted by the Democratic Services Unit.

During the year meetings are held with the Directors of Finance of the three County Councils, where Fund performance and other items dealt with at the Committee meetings are discussed. Issues raised at this meeting that the Committee need to be made aware of are reported back to the following Committee meeting for discussion.

## The Annual Consultative Meeting (ACM)

The Dyfed Pension Fund is committed to the widest inclusion of all stakeholders in respect of consultation and communication arrangements. Any major policy changes are put to consultation with all participating employers, Trade Union representatives and retired member representative, before a decision is made.

An Annual Consultative Meeting (ACM) is held in Carmarthenshire. The ACM is open to all participating employers, retired member representatives and Trade Union representatives. Interested bodies are notified of the ACM in advance. The Chair of the Pension Committee, the Director of Corporate Services, the Head of Financial Services, the Fund Advisers and Investment Managers attend the ACM.

## Local Pension Board

The Board has an oversight/assisting role not a decision making role. It assists the Administering Authority (Carmarthenshire County Council) in securing compliance with regulations and requirements imposed by the Pensions Regulator and the Department for Communities and Local Government and ensuring effective and efficient governance and administration of the Fund.

There must be equal numbers of scheme member representatives and employer representatives on the Board. The Dyfed Pension Fund Board has three scheme member and three employer representatives and an independent member who is also the Chair of the Board.

## Governance Compliance Statement

DCLG is committed to ensure that all LGPS committees operate consistently at best practice standards. Therefore, in addition to the regulatory requirement to produce this Governance Policy, the LGPS regulations 1997 were further amended on 30 June 2007 to require administering authorities to report the extent of compliance to a set of best practice principles to be published by DCLG, and where an authority has chosen not to comply, to state the reasons why. The Dyfed Pension Fund's Governance Compliance Statement is shown overleaf.

This Governance Policy will be updated when necessary and reviewed at least annually. The last review was in 2019.

# Governance Compliance Statement

The purpose of the guidance is:

- To provide best practice principles against which compliance can be measured
- To provide guidance on how the compliance statement should be completed

The guidance sets out the best practice principles in relation to the following governance areas:

**A.** Structure
**B.** Representation
**C.** Selection
**D.** Voting
**E.** Training, facility time and expenses
**F.** Meetings (frequency / quorum)
**G.** Access
**H.** Scope
**I.** Publicity

## Best Practice Principle A: Structure

The guidance acknowledges that not all administering authorities are structured in the same way. It is not the intention to level out these differences but to ensure that structures reflect the following principles:

- The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council
- Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioners and deferreds) are members of either the main or secondary committee (established to underpin the work of the main committee)
- Where a secondary committee or panel has been established the structure ensures effective communication across both levels
- Where a secondary committee or panel has been established at least one seat on the main committee is allocated for a member from the secondary committee or panel.

**COMPLIANCE STATEMENT: NOT FULLY COMPLIANT**

## Justification:

The Dyfed Pension Fund Committee exists and meets four times a year. The Committee has three members and a substitute, officers (all from Carmarthenshire County Council) and an independent investment adviser. Other scheme employers, admitted bodies and scheme members do not attend Committee but they are all invited to the annual ACM where all Committee members and advisers report and are available to answer questions. Carmarthenshire County Council officers meet with officers of the other 2 major employers (Pembrokeshire County Council and Ceredigion County Council) after each Committee meeting where Committee minutes are made available. This system is supported by all parties and has worked very well as evidenced by the fact that the investment performance of the Fund is in the top 10% of funds over 10 years.

There is no secondary committee for the Dyfed Pension Fund.

## Best Practice Principle B: Representation

The number of stakeholders affected by the local management of the pension scheme and governance of pension funds is vast and it is accepted that it would be impractical to expect individual committee structures to encompass every group or sector that has an interest in the decisions that fall to be made under the scheme's regulations.

That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- employing authorities (including non-scheme employers, e.g. admitted bodies as well as scheduled bodies)
- scheme members (including deferred and pensioner scheme members)
- independent professional observers and expert advisors (on an ad-hoc basis).

That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

**COMPLIANCE STATEMENT: NOT FULLY COMPLIANT**

### Justification:

The Committee has representatives from Carmarthenshire County Council and the independent investment adviser. Other scheme employers, admitted bodies and scheme members do not attend Committee but they are all invited to the annual ACM where all Committee members and advisers report and are available to answer questions. Carmarthenshire County Council officers meet with officers of the other 2 major employers (Pembrokeshire County Council and Ceredigion County Council) during the year where Committee minutes are made available. There is no secondary committee for the Dyfed Pension Fund.

## Best Practice Principle C: Selection

It is important to emphasise that it is not part of the fund authority's remit to administer the selection process for lay members sitting on main or secondary committees or to ensure their attendance at meetings, unless they wish to do so. Their role is to determine what sectors or groups are to be invited to sit on LGPS committees or panels and to make places available. Effective representation is a two way process involving the fund authorities providing the opportunity and the representative bodies initiating and taking forward the selection process under the general oversight of fund authority. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

**COMPLIANCE STATEMENT: FULLY COMPLIANT**

### Justification:

The Dyfed Pension Fund's Governance Policy lists the delegated functions the Committee is to perform. If Committee members change the new member/members are informed of their status, role and function they are required to perform.

## Best Practice Principle D: Voting

The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

**COMPLIANCE STATEMENT: FULLY COMPLIANT**

### Justification:

All Committee members can vote. Carmarthenshire County Council is the Administering Authority and all functions are delegated to the Committee.

## Best Practice Principle E: Training, facility time and expenses

In 2001, the Government accepted the ten investment principles recommended by Paul Myners in his report, "Institutional Investment in the UK". The first of those principles, "Effective Decision Making", called for decisions to be made only by persons or organisations with the skills, information and resources necessary to take them effectively. Furthermore, where trustees - or in the case of the LGPS, members of formal committees - take investment decisions, that they have sufficient expertise to be able to evaluate critically any advice they take.

- That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision- making process
- That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

**COMPLIANCE STATEMENT: FULLY COMPLIANT**

### Justification:

The Committee have regular training sessions run by the Fund Managers, the Actuary, the Consultant and officers. New Committee members attend intense training sessions on commencement of their committee duties, including the LGPC pension training session.

## Best Practice Principle F: Meetings (frequency / quorum)

An administering authority's main committee or committees meet at least quarterly.

An administering authority's secondary committee or Committee meet at least twice a year and is synchronised with the dates when the main committee sits.

Administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

**COMPLIANCE STATEMENT: FULLY COMPLIANT**

### Justification:

The Dyfed Pension Fund Committee meets quarterly. The Annual Consultative Meeting is held annually where other scheme employers, admitted bodies and scheme members are invited.

## Best Practice Principle G: Access

That subject to any rules in the council's constitution, all members of main and secondary committees or Committees have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

COMPLIANCE STATEMENT: FULLY COMPLIANT

### Justification:

All papers are circulated in advance to all members of the Committee, including the Committee's independent investment adviser.

## Best Practice Principle H: Scope

That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

COMPLIANCE STATEMENT: FULLY COMPLIANT

### Justification:

The Committee receives and votes, on an ad-hoc basis, any major administration issues that affect the Fund. The officer managing the administration of the Fund provides regular training and updates for Committee members.

## Best Practice Principle I: Publicity

That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

COMPLIANCE STATEMENT: FULLY COMPLIANT

### Justification:

The Dyfed Pension Fund Governance Policy is reviewed annually. A Newsletter and Annual Report are produced annually. All published material (including the Governance Policy) are on the Dyfed Pension Fund website.

## Summary

| Best Practice Principle | Fully Compliant | Not Fully Compliant | Explanation for Non-Compliance |
|---|---|---|---|
| Structure | | ✔ | The DPF structure is supported by all parties and has worked well. |
| Representation | | ✔ | Regular meetings and discussion with other major stakeholders occur and an Annual Consultative Meeting is held. |
| Selection | ✔ | | |
| Voting | ✔ | | |
| Training, facility time & expenses | ✔ | | |
| Meetings (frequency/quorum) | ✔ | | |
| Access | ✔ | | |
| Scope | ✔ | | |
| Publicity | ✔ | | |

# STATEMENT OF ACCOUNTS

## Narrative Report

The Dyfed Pension Fund accounts are set out on the following pages and provide information about the financial position, performance and financial adaptability of the Fund for the year 2019-20. They show the results of the stewardship of management, that is, the accountability of management for the resources entrusted to it, and of the disposition of its assets at the period end.

The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 (the "Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the public sector. Reference is also made to the Financial Reports of Pension Schemes – A Statement of Recommended Practice published by the Pensions Research Accountants Group (PRAG) where it is felt that these disclosures provide more sufficient detail.

For readers with a more detailed or specialist interest of the operation of the Dyfed Pension Fund during 2019-2020, reference should be made to the Annual Report and Accounts 2019-20 (when published).

The main accounts and reports contained within this Statement of Accounts are as follows:

- The Fund Account
- The Net Assets Statement
- The Statement by the Consulting Actuary

## Statement of Responsibilities for the Statement of Accounts

### The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of the pension fund's affairs and to secure that one of its officers has the responsibility for the administration of these affairs. In this Authority, that officer is the Director of Corporate Services
- To manage the pension fund affairs to secure economic, efficient and effective use of resources and safeguard its assets
- To approve the Statement of Accounts

### The Director of Corporate Services' Responsibilities

The Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Kept proper and timely accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities;
- Complied with the Code

## Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Dyfed Pension Fund at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

**Chris Moore FCCA,** Director of Corporate Services

**Dated:** 16 October 2020

## Audit Committee Approval

Approval of Dyfed Pension Fund Statement of Accounts post audit

**Chair of Audit Committee**

**Dated:** 16 October 2020

## Fund Account for the Year Ended 31 March 2020

| 2018-19 £'000 * Restated | Dealings with members, employers and others directly involved in the Fund | Note | 2019-20 £'000 |
|---|---|---|---|
| | **Contributions** | | |
| | **Employer** | | |
| 45,164 | Normal | | 48,008 |
| 6,895 | Augmentation | | 7,881 |
| 4,107 | Past Service Deficit | | 4,349 |
| | **Member** | | |
| 18,883 | Normal | | 19,961 |
| 103 | Additional voluntary | | 221 |
| 6,651 | Transfers in from other pension funds | 6 | 6,851 |
| **81,803** | | | **87,271** |
| | **Benefits payable** | | |
| (68,875) | Pensions payable | | (72,859) |
| (12,933) | Commutation and lump sum retirement benefits | | (14,708) |
| (1,923) | Lump sum death benefits | | (2,200) |
| (3,853) | Payments to and on account of leavers | 7 | (3,597) |
| **(87,584)** | | | **(93,364)** |
| **(5,781)** | **Net Additions (Withdrawals) from dealings with Members** | | **(6,093)** |
| (12,532)* | Management Expenses | 8 | (11,387) |
| **(18,313)** | **Net Additions (Withdrawals) including fund management expenses** | | **(17,480)** |
| | **Returns on Investments** | | |
| 12,213* | Investment Income | 9 | 13,436 |
| (56) | Taxes on Income (Irrecoverable Withholding Tax) | 10 | 0 |
| | Changes in the market value of investments | | |
| (26,956)* | Unrealised | 11.2 | (217,439) |
| 168,686 | Realised | 11.3 | 30,270 |
| **153,887** | **Net Return on Investments** | | **(173,733)** |
| **135,574** | **Net Increase (Decrease) in the net assets available for benefits during the year** | | **(191,213)** |
| 2,440,112 | Opening Net Assets of Scheme | | 2,575,686 |
| **2,575,686** | **Closing Net Assets of Scheme** | | **2,384,473** |

* Management Expenses restated to include Implicit costs within the Transaction costs. Implicit costs represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the asset immediately before the trade entered the market. Investment Income has been restated to take indirect fees to the Net Asset Value.

## Net Assets Statement for the year ended 31 March 2020

| 31/03/19 £'000 | | Note | 31/03/20 £'000 |
|---|---|---|---|
| 2,563,796 | Investment Assets | | 2,365,404 |
| 7,052 | Cash deposits | | 12,215 |
| 0 | Investment liabilities | | 0 |
| **2,570,848** | | **11.1** | **2,377,619** |
| 9,245 | Current assets | 16 | 10,386 |
| (4,407) | Current liabilities | 17 | (3,532) |
| **4,838** | **Net Current Assets/(Liabilities)** | | **6,854** |
| **2,575,686** | **Total Net Assets** | | **2,384,473** |

## Reconciliation of the movement in Fund Net Assets

| 2018-19 £'000 | | 2019-20 £'000 |
|---|---|---|
| 2,440,112 | Opening Net Assets | 2,575,686 |
| (6,156) | Net New Money Invested | (4,044) |
| 141,730 | Profit and losses on disposal of investments and changes in the market value of investments | (187,169) |
| **2,575,686** | **Closing Net Assets of Fund** | **2,384,473** |

# Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2020

## 1. Description of the Fund

The Dyfed Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Carmarthenshire County Council.

The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report and Accounts 2019-2020 (when published) and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### 1.1 General

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

- the LGPS Scheme Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016.

It is a contributory defined pension scheme administered by Carmarthenshire County Council to provide pensions and other benefits for pensionable employees of Carmarthenshire County Council, Pembrokeshire County Council, Ceredigion County Council and a range of other scheduled and admission bodies within the former Dyfed geographical area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Dyfed Pension Fund Committee (the Committee).

### 1.2 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 Dyfed Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admission bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admission bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 66 employer organisations within the Dyfed Pension Fund as at 31 March 2020 and these are detailed in Note 21. The membership details of these organisations are summarised below:

| 31/03/2019 | | 31/03/2020 |
|---|---|---|
| 18,446 | Number of active contributors in the Fund | 18,564 |
| 13,256 | Number of pensioners | 14,059 |
| 15,736 | Number of deferred pensioners | 15,900 |
| **47,438*** | **Total membership** | **48,523** |
| 48 | Number of employers with active members | 46 |

*Restated to include Councillor Members

These figures reflect the recorded position as at 31 March 2020 but are always subject to some movement post year end for notifications from employing bodies received after this date.

### 1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuation as at 31 March 2016. Currently, employer contribution rates range from 7.4% to 27.6% of pensionable pay as detailed in Note 21.

### 1.4 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 31 March 2008 - 31 March 2014 |
|---|---|---|
| **Pension** | Each year is worth 1/80 x final pensionable salary. | Each year 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 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits.

For more details, please refer to the Dyfed Pension Fund website – **www.dyfedpensionfund.org.uk**

## 2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2019-2020 financial year and its position at year end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020 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 after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed in the Statement by the Consulting Actuary.

## 3. Summary of Significant Accounting Policies

**Fund Account – revenue recognition**

### 3.1 Contributions

Normal contributions, both from 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.

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

### 3.2 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.

Individual transfers in/out are accounted for when received/paid, 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 to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

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

### 3.3 Investment income

#### 3.3.1 Interest income

Interest income is recognised in the fund 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 (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

#### 3.3.2 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.

#### 3.3.3 Distributions from pooled funds

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.

### 3.3.4 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.

### 3.4 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.

### 3.5 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.

As Carmarthenshire County Council is the administering Authority, VAT is recoverable on all Fund Activities. The Accounts are shown exclusive of VAT.

### 3.6 Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses 2016.

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.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

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.

An element of one of the Investment Managers' fees is performance related. The performance related fee was £0.76m in 2019-2020 (2018-2019: Fee was £0.67m).

Where an investment manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2019-2020, no fees are based on such estimates (2018-2019: £0).

The costs of the council's pension investments team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund. The Council charged the Pension Fund an amount of £1.1m (£1.0m in 2018-19) in respect of administration and support during 2019-20.

## Net Assets Statement

### 3.7 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 by the Fund.

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

### 3.7.1 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.

### 3.7.2 Fixed interest securities

Fixed interest securities are recorded at net market value.

### 3.7.3 Unquoted investments

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the investment manager.

### 3.7.4 Limited partnerships

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

### 3.7.5 Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if available. If this is not available then these investments will be valued at the closing single price. In the case of accumulation funds, the change in market value will also include income which is reinvested in the Fund.

### 3.8 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 value of overseas investments and purchases and sales outstanding at the end of the reporting period.

### 3.9 Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. 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.

The Fund has had its own bank accounts, which deal with the transactions of the Fund, since 1 April 2011, in accordance with section 6 of the Local Government Pension Scheme (Management and Investment of Pension Funds) Regulations 2009. Cash balances held by the Fund are invested on a short term basis on the London Money Market by Carmarthenshire County Council until it is required to meet its liabilities or to transfer surplus cash to the investment managers for reinvestment.

### 3.10 Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset 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.

### 3.11 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 the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a reference in the accompanying actuarial report.

### 3.12 Additional voluntary contributions (AVC)

Occupational Pension Schemes are required by Statute to provide in-house AVC arrangements. The Fund has joint providers: Prudential, Standard Life and UTMOST (previously Equitable Life), where a range of investment options are available.

It is for individual scheme members to determine how much they contribute (subject to HM Revenue & Customs limits) and the investment components or its mix.

AVC's are invested separately from the assets of the Fund and are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Pension Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only - Note 18.

## 4. Critical Judgements in Applying Accounting Policies

### 4.1 Fund liability

The Fund's liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes to the underlying assumptions.

### 4.2 Unquoted Property investments – Partners Group Red Dragon Limited Partnership

In assessing the fair value of non-traded financial instruments, the Limited Partnership uses a variety of market and income methods such as time of last financing, earnings and multiple

analysis, discounted cash flow method and third party valuation and makes assumptions that are based on market conditions and expected market participant assumptions existing at the end of each reporting period. Other information used in determining the fair value of non-traded

financial instruments include latest financial reports, subsequent cash flows and internally performed monitoring of triggering events (such as exits and IPOs) as well as pricing movements in comparable investments together with techniques such as option pricing models

and estimated discounted value of future cash flows. These practices are in line with widely used international industry guidelines. The value of the Partners Group Red Dragon Limited Partnership as at 31st March 2020 was £36.0m (31st March 2019: £36.0m).

## 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 31st March 2020 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 effects on the net pensions liability of changes in individual assumptions can be measured.<br><br>However, the assumptions interact in complex ways. |
| Property – Limited Partnership investments | The Limited Partnership property investments are valued in line with widely used industry guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Fair value adjustments were conducted to bridge the time lag between the latest available investment Net Asset Values. Incorporating the movements seen in capital markets in the fair value adjustment process, Partners Group liaised with various investment partners for indications around their first quarter Net Asset Values. Overall, fair value adjustments applied during the first quarter of 2020 are significantly higher than those applied previously. | The total Limited Partnership property investments are £36.0m. There is a risk that this investment may be under or overstated in the accounts. |

## 6. Transfers in from other pension funds

| 2018-19 £'000 | | 2019-20 £'000 |
|---|---|---|
| 0 | Group transfers in from other schemes and scheme mergers | 0 |
| 6,651 | Individual transfers in from other schemes | 6,851 |
| **6,651** | | **6,851** |

## 7. Payments to and on account of Leavers

| 2018-19 £'000 | | 2019-20 £'000 |
|---|---|---|
| (144) | Refunds to members leaving service | (196) |
| (5) | Payments for members joining state scheme | 20 |
| 0 | Group transfers | 0 |
| (3,704) | Individual transfers | (3,421) |
| **(3,853)** | | **(3,597)** |

## 8. Management Expenses

| 2018-19 £'000 *Restated | | 2019-20 £'000 |
|---|---|---|
| (1,188) | Administrative costs | (1,274) |
| (10,784)* | Investment management expenses | (9,495) |
| (560) | Oversight and governance costs | (618) |
| **(12,532)*** | | **(11,387)** |

* Management Expenses restated to include Implicit costs within the Transaction costs.

2019-20 Audit fees of £28,280 included within Oversight and governance costs. (2018-19 £28,322)

## 9. Investment Income

| 2018-19 £'000 *Restated | | 2019-20 £'000 |
|---|---|---|
| 5,512* | Income from equities | 645 |
| 6,630* | Pooled property investments | 11,057 |
| 0 | Income from Alternatives | 1,630 |
| 55 | Interest on cash deposits | 104 |
| 16 | Other | 0 |
| **12,213*** | | **13,436** |

* Investment Income restated to include Implicit costs within the Transaction costs and exclude indirect fees included in Net Aseet Value.

## 10. Taxation

| 2018-19 £'000 | | 2019-20 £'000 |
|---|---|---|
| (56) | Withholding tax - equities | 0 |
| **(56)** | | **0** |

## 11. Investments

### 11.1 Net investment assets

| Fair value 31/03/2019 £'000 | Investment assets | Fair value 31/03/2020 £'000 |
|---|---|---|
| | **Bonds** | |
| | UK Corporate Bonds | |
| 265,299 | - BlackRock | 272,772 |
| | Indexed Linked Securities | |
| 138,699 | - BlackRock | 107,390 |
| | **Equities** | |
| | UK Quoted Equities | |
| 510,928 | - BlackRock | 424,727 |
| | **Alternatives** | |
| 27,626 | - BlackRock UK SAIF | 53,198 |
| | **Pooled Investments** | |
| | Overseas equities | |
| 704,690 | - BlackRock | 642,005 |
| | Global equities | |
| 588,671 | - Wales Pension Partnership | 545,586 |
| | **Pooled property investments** | |
| 293,605 | - Schroders | 285,681 |
| 27,011 | - Partners Group | 28,022 |
| | **Property** | |
| 327 | - Schroders | 286 |
| 6,044 | - Partners Group | 5,680 |
| | **Cash deposits** | |
| 259 | - BlackRock | 27 |
| 4,293 | - Schroders | 10,388 |
| 2,500 | - Partners Group | 1,800 |
| | **Investment income due** | |
| 689 | - Schroders | 0 |
| | **Tax reclaims due** | |
| 85 | - BlackRock | 16 |
| 122 | - Schroders | 41 |
| 0 | **Amounts receivable for sales** | 0 |
| **2,570,848** | **Total investment assets** | **2,377,619** |
| | **Investment liabilities** | |
| 0 | **Amounts payable for purchases** | 0 |
| **0** | **Total investment liabilities** | **0** |
| **2,570,848** | **Net investment assets** | **2,377,619** |

The outbreak of Coronavirus (COVID-19) has impacted global financial and property markets. Due to these market conditions, a material valuation uncertainty has been included in a year end valuation report for the Dyfed Pension Fund's investments with Schroders (Pooled Property Investments £285,681k, Property £286k) and BlackRock SAIF investments (£53,198k). The specific wording included in the report is "As at 31st March 2020, RICS (Royal Institute of Chartered Surveyors) have advised there is currently material valuation uncertainty of UK Real Estate Funds due to market conditions."

### 11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £91m whilst sales totalled £65m. The sales realised a net gain of £26m. Acquisition costs are included in the purchase price of the investment.

| | Fair value 31/03/2019 £'000 | Purchases at Cost £'000 | Sales at Cost £'000 | Fees included in NAV £'000 | Cash movement £'000 | Change in unrealised gains/(losses) £'000 | Fair value 31/03/2020 £'000 |
|---|---|---|---|---|---|---|---|
| Bonds | 403,998 | 181 | (31,817) | 0 | 0 | 7,800 | 380,162 |
| Equities | 510,928 | 11,754 | 0 | 0 | 0 | (97,955) | 424,727 |
| Pooled investments | 1,293,361 | 37,350 | (22,073) | (4,493) | 0 | (116,554) | 1,187,591 |
| Pooled property investments | 320,616 | 16,155 | (11,221) | (2,505) | 0 | (9,342) | 313,703 |
| Property | 6,371 | 0 | 0 | 0 | 0 | (405) | 5,966 |
| Alternatives | 27,626 | 25,866 | 0 | 0 | 0 | (294) | 53,198 |
| | **2,562,900** | **91,306** | **(65,111)** | **(6,998)** | **0** | **(216,750)** | **2,365,347** |
| **Other investment balances** | | | | | | | |
| Cash deposits | 7,052 | 0 | 0 | 0 | 5,163 | 0 | 12,215 |
| Amount receivable for sales investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment income due | 689 | 0 | 0 | 0 | 0 | (689) | 0 |
| Tax reclaims due | 207 | 0 | 0 | 0 | (150) | 0 | 57 |
| Amounts payable for purchases investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **2,570,848** | **91,306** | **(65,111)** | **(6,998)** | **5,013** | **(217,439)** | **2,377,619** |

| | Fair value 31/03/2018 £'000 | Purchases at Cost £'000 | Sales at Cost £'000 | Fees included in NAV £'000 | Cash movement £'000 | Change in unrealised gains/(losses) £'000 | Fair value 31/03/2019 £'000 |
|---|---|---|---|---|---|---|---|
| Bonds | 489,582 | 243,490 | (280,773) | 0 | 0 | (48,301) | 403,998 |
| Equities | 480,061 | 0 | (170) | 0 | 0 | 31,037 | 510,928 |
| Pooled investments | 1,220,499 | 588,983 | (500,092) | (4,353) | 0 | (11,676) | 1,293,361 |
| Pooled property investments | 231,874 | 97,771 | (7,544) | (2,437) | 0 | 952 | 320,616 |
| Property | 6,057 | 0 | 0 | 0 | 0 | 314 | 6,371 |
| Alternatives | 0 | 27,332 | 0 | 0 | 0 | 294 | 27,626 |
| | **2,428,073** | **957,576** | **(788,579)** | **(6,790)** | **0** | **(27,380)** | **2,562,900** |
| **Other investment balances** | | | | | | | |
| Cash deposits | 6,587 | 0 | 0 | 0 | 465 | 0 | 7,052 |
| Amount receivable for sales investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment income due | 265 | 0 | 0 | 0 | 0 | 424 | 689 |
| Tax reclaims due | 225 | 0 | 0 | 0 | (18) | 0 | 207 |
| Amounts payable for purchases investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | **2,435,150** | **957,576** | **(788,579)** | **(6,790)** | **447** | **(26,956)** | **2,570,848** |

### 11.3 Realised gains and losses

| 2018-19 £'000 | | 2019-20 £'000 |
|---|---|---|
| 64,649 | Bonds | 3,350 |
| 101,488 | Pooled Equity Investments | 26,375 |
| 2,549 | Pooled property investments | 545 |
| **168,686** | | **30,270** |

### 11.4 Geographical analysis of investments

| Fair value 31/03/2019 £'000 | Geographical analysis | Fair value 31/03/2020 £'000 |
|---|---|---|
| 1,329,108 | UK | 1,208,494 |
| 198,650 | Europe (excl UK) | 179,147 |
| 623,301 | North America | 573,598 |
| 117,561 | Japan | 120,750 |
| 57,013 | Pacific Rim | 45,218 |
| 230,322 | Emerging Markets | 234,714 |
| 14,893 | International pooled funds | 15,698 |
| **2,570,848** | | **2,377,619** |

### 11.5 Fund manager analysis

| Fair value 31/03/2019 £'000 | Fund manager analysis | Fair value 31/03/2020 £'000 |
|---|---|---|
| 1,647,585 | BlackRock | 1,500,135 |
| 299,036 | Schroders | 296,395 |
| 35,556 | Partners Group | 35,503 |
| 588,671 | Wales Pension Partnership | 545,586 |
| **2,570,848** | | **2,377,619** |

### 11.6 Wales Pension Partnership (WPP)

Included in Management Expenses (Table 8) is the cost of our involvement in the Wales Pension Partnership (WPP) collective Investment Pooling arrangement. The Oversight and Governance costs are the annual running costs of the pool which includes the Host Authority costs and other External Advisor costs. These costs are funded equally by all eight of the local authority Pension Funds in Wales. The Investment Management Expenses are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees (which also includes the operator fee and other associated costs), transaction costs and custody fees. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). Further details on the WPP can be found in the Annual Report.

Wales Pension Partnership costs included in the Dyfed Pension Fund accounts for 2018-19 and 2019-20 are below:

| 31/03/2019 £'000 | | 31/03/2020 £'000 |
|---|---|---|
| | **WPP oversight and governance costs** | |
| 111 | Running Costs | 70 |
| | **WPP Investment Management expenses** | |
| 347 | Fund Manager fees | 2,437 |
| 0 | Transaction costs | 199 |
| 18 | Custody Fees | 93 |
| **476** | | **2,799** |

The full year effect of the global growth sub funds launched in January/February 2019 is reflected in the 2019-20 Wales Pension Partnership manager fees.

## 12. Concentration of Investments

The following investments represent more than 5% of the Fund's total net assets as at 31st March 2020:

| | Value as at 31/03/2020 £'000 | Proportion of Investment Portfolio (%) |
|---|---|---|
| Wales Pension Partnership (Global Growth Fund) | 545,586 | 21.22 |
| BlackRock Aquila Life UK Equity Index Fund | 424,725 | 16.52 |
| Blackrock Ascent Life US Equity Fund | 269,630 | 10.49 |
| Blackrock Active Selection Fund UK | 272,772 | 10.61 |
| Blackrock active selection fund - Emerging Market Index Fund | 164,162 | 6.39 |

## 13. Investment Management Expenses

| 2018-19 £'000 *Restated | | 2019-20 £'000 |
|---|---|---|
| (4,513) | Management fees | (5,032) |
| (671) | Performance related fees | (763) |
| (29) | Custody fees | (30) |
| (5,571)* | Transaction costs | (3,670) |
| **(10,784)*** | | **(9,495)** |

* Investment Management Expenses restated to include Implicit costs within the Transaction costs.

## 14. Financial Instruments

### 14.1 Classification of financial instruments

Accounting policies describe how different asset classes 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.

| 2018-19 | | | | | 2019-20 | | | |
|---|---|---|---|---|---|---|---|---|
| Designated at fair value through profit and loss £'000 | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 | Total £'000 | Financial assets | Designated at fair value through profit and loss £'000 | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 | Total £'000 |
| 403,998 | 0 | 0 | 403,998 | Bonds | 380,162 | 0 | 0 | 380,162 |
| 510,928 | 0 | 0 | 510,928 | Equities | 424,727 | 0 | 0 | 424,727 |
| 27,626 | 0 | 0 | 27,626 | Alternatives | 53,198 | 0 | 0 | 53,198 |
| 1,293,361 | 0 | 0 | 1,293,361 | Pooled investments | 1,187,591 | 0 | 0 | 1,187,591 |
| 320,616 | 0 | 0 | 320,616 | Pooled property investments | 313,703 | 0 | 0 | 313,703 |
| 6,371 | 0 | 0 | 6,371 | Property | 5,966 | 0 | 0 | 5,966 |
| 0 | 12,259 | 0 | 12,259 | Cash | 0 | 17,164 | 0 | 17,164 |
| 896 | 0 | 0 | 896 | Other investment balances | 57 | 0 | 0 | 57 |
| 0 | 4,038 | 0 | 4,038 | Debtors | 0 | 5,437 | 0 | 5,437 |
| **2,563,796** | **16,297** | **0** | **2,580,093** | | **2,365,404** | **22,601** | **0** | **2,388,005** |
| | | | | **Financial liabilities** | | | | |
| 0 | 0 | 0 | 0 | Other investment balances | 0 | 0 | 0 | 0 |
| 0 | 0 | (4,407) | (4,407) | Creditors | 0 | 0 | (3,532) | (3,532) |
| **0** | **0** | **(4,407)** | **(4,407)** | | **0** | **0** | **(3,532)** | **(3,532)** |
| **2,563,796** | **16,297** | **(4,407)** | **2,575,686** | **Total** | **2,365,404** | **22,601** | **(3,532)** | **2,384,473** |

### 14.2 Net gains and losses on financial instruments

| 2018-19 £'000 | Financial assets | 2019-20 £'000 |
|---|---|---|
| 141,730 | Fair value through profit and loss | (187,169) |
| **141,730** | **Total financial assets** | **(187,169)** |
| 0 | Total financial liabilities | 0 |
| **141,730** | **Total** | **(187,169)** |

### 14.3 Fair value of financial instruments and liabilities

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

| Carrying value 31/03/19 £'000 | Fair value 31/03/19 £'000 | | Carrying value 31/03/20 £'000 | Fair value 31/03/20 £'000 |
|---|---|---|---|---|
| | | **Financial assets** | | |
| 1,971,208 | 2,563,796 | Fair value through profit and loss | 1,994,998 | 2,365,404 |
| 16,297 | 16,297 | Loans and receivables | 22,601 | 22,601 |
| **1,987,505** | **2,580,093** | **Total financial assets** | **2,017,599** | **2,388,005** |
| | | **Financial liabilities** | | |
| 0 | 0 | Fair value through profit and loss | 0 | 0 |
| (4,407) | (4,407) | Financial liabilities at amortised cost | (3,532) | (3,532) |
| **(4,407)** | **(4,407)** | **Total financial liabilities** | **(3,532)** | **(3,532)** |
| **1,983,098** | **2,575,686** | **Total** | **2,014,067** | **2,384,473** |

### 14.4 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. Transfers between levels are recognised in the year in which they occur.

**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 interest securities, quoted index linked securities and certain 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 would include limited partnerships, where fair value is ascertained from periodic valuations provided by those controlling the partnership. Assurance over the valuation is gained from the independent audit of the partnership.

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

| Fair values at 31 March 2020 | 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 | 969,374 | 1,076,628 | 319,402 | 2,365,404 |
| Loans and receivables | 22,601 | 0 | 0 | 22,601 |
| **Total financial assets** | **991,975** | **1,076,628** | **319,402** | **2,388,005** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 0 | 0 | 0 | 0 |
| Financial liabilities at amortised cost | (3,532) | 0 | 0 | (3,532) |
| **Total financial liabilities** | **(3,532)** | **0** | **0** | **(3,532)** |
| **Net financial assets** | **988,443** | **1,076,628** | **319,402** | **2,384,473** |

| Fair 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 | 1,105,917 | 1,131,163 | 326,716 | 2,563,796 |
| Loans and receivables | 16,297 | 0 | 0 | 16,297 |
| **Total financial assets** | **1,122,214** | **1,131,163** | **326,716** | **2,580,093** |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 0 | 0 | 0 | 0 |
| Financial liabilities at amortised cost | (4,407) | 0 | 0 | (4,407) |
| **Total financial liabilities** | **(4,407)** | **0** | **0** | **(4,407)** |
| **Net financial assets** | **1,117,807** | **1,131,163** | **326,716** | **2,575,686** |

### 14.5 Fair value – Basis of valuation

| Description of Asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the Valuations provided |
|---|---|---|---|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |
| Pooled Investments – Quoted Equity | Level 2 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing set on a forward pricing policy | Not required |
| Pooled Investments – Property Funds | Level 3 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing set on a forward pricing policy | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
| Unquoted Equity | Level 3 | Comparable valuation of similar companies in accordance with International Private Equity and Vanture Capital Valuation Guidelines (2012) | EBITDA multiple Revenue multiple Discount for lack of marketability control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

### 14.6 Reconciliation of fair value measurements within level 3

| Asset Type | Market Value 31 March 2019 £'000 | Transfers into Level 3 £'000 | Transfers out of Level 3 £'000 | Purchases £'000 | Sales £'000 | Unrealised Gains / (Losses) £'000 | Realised Gains / (Losses) £'000 | Market Value 31 March 2020 £'000 |
|---|---|---|---|---|---|---|---|---|
| Equities - Unquoted overseas | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Property | 326,716 | 0 | 0 | 16,155 | (10,639) | (13,215) | 385 | 319,402 |
| **Total** | **326,716** | **0** | **0** | **16,155** | **(10,639)** | **(13,215)** | **385** | **319,402** |

### 14.7 Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2019-20.

# 15. Nature and Extent of Risks Arising from Financial Instruments

### 15.1 Risk and risk management

The Fund has developed a formal risk assessment process and maintains a risk register which is updated annually. This ensures that risks are identified appropriately and are assessed and managed effectively. For more details, and to view the Risk Register, please refer to the Fund's website - **www.dyfedpensionfund.org.uk**

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 portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Authority 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 Committee. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. Policies are reviewed regularly to reflect changes in activity and market conditions.

### 15.2 Market risk

Market risk is the risk of loss from fluctuations in equity prices and interest and foreign exchange rates. The Fund is exposed to market risk from 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 Committee and its independent investment adviser undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in three ways:

- The exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments
- By investing in a diverse portfolio in terms of managers and investments and again by the actuary only anticipating a long-term return on a relatively prudent basis to reduce risk of under-performing

### 15.3 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 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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

As a result of the COVID-19 pandemic spread early in 2020, global financial markets reflected the impending risks, with resultant material falls in valuations of most asset classes in February and March of 2020.

At the March 2020 reporting date, property fund managers consider that they can attach less weight to previous market evidence for comparison purposes. They are faced with an unprecedented set of circumstances on which to base judgement. The fall in transactions and lack of clarity on pricing means that all major industry valuers have now added Material Uncertainty clauses to their property fund valuations.

LGPS defined benefit pensions are not linked to stock market performance and are set out in statute. Although short term investment values may vary, the LGPS as a long-term investor is securely managed to address any longer term impacts.

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

### 15.4 Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities shown below, are consistent with a one standard deviation movement in the change in value of the assets over the latest three years, see table on the right.

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

| Asset Type | Potential market movements (+/-) |
|---|---|
| Equity | 13.20% |
| Bonds | 6.70% |
| Index Linked | 8.50% |
| Property | 2.80% |
| Cash | 1.00% |

| Asset Type | Value as at 31 March 2020 £'000 | Change % | Value on Increase £'000 | Value on Decrease £'000 |
|---|---|---|---|---|
| Cash | 12,215 | 1.00% | 12,337 | 12,093 |
| UK Equities | 424,727 | 13.20% | 480,791 | 368,663 |
| Overseas Equities | 642,005 | 13.20% | 726,749 | 557,260 |
| Global Pooled Equities inc UK | 545,586 | 13.20% | 617,603 | 473,568 |
| Alternatives | 53,198 | 13.20% | 60,220 | 46,176 |
| UK Corporate Bonds | 272,772 | 6.70% | 291,048 | 254,496 |
| Index Linked Gilts | 107,390 | 8.50% | 116,518 | 98,262 |
| Property | 319,669 | 2.80% | 328,620 | 310,718 |
| Sales receivable | 0 | 0.00% | 0 | 0 |
| Purchases payable | 0 | 0.00% | 0 | 0 |
| Income receivables | 57 | 0.00% | 57 | 57 |
| **Total Assets** | **2,377,619** | | **2,633,943** | **2,121,293** |

| Asset Type | Value as at 31 March 2019 £'000 | Change % | Value on Increase £'000 | Value on Decrease £'000 |
|---|---|---|---|---|
| Cash | 7,052 | 0.50% | 7,087 | 7,017 |
| UK Equities | 510,928 | 10.50% | 564,576 | 457,281 |
| Overseas Equities | 704,690 | 10.50% | 778,682 | 630,697 |
| Global Pooled Equities inc UK | 588,671 | 10.50% | 650,481 | 526,861 |
| Alternatives | 27,626 | 10.50% | 30,527 | 24,725 |
| UK Corporate Bonds | 265,299 | 6.50% | 282,543 | 248,054 |
| Index Linked Gilts | 138,699 | 9.80% | 152,291 | 125,106 |
| Property | 326,987 | 2.60% | 335,489 | 318,485 |
| Sales receivable | 0 | 0.00% | 0 | 0 |
| Purchases payable | 0 | 0.00% | 0 | 0 |
| Income receivables | 896 | 0.00% | 896 | 896 |
| **Total Assets** | **2,570,848** | | **2,802,572** | **2,339,122** |

### 15.4.1 Sensitivity of assets valued at level 3

| Asset Type | Value as at 31 March 2020 £'000 | Change % | Value on Increase £'000 | Value on Decrease £'000 |
|---|---|---|---|---|
| Equities - Unquoted overseas | 0 | 13.20% | 0 | 0 |
| Property | 319,402 | 2.80% | 328,345 | 310,459 |
| **Total Level 3 Assets** | **319,402** | | **328,345** | **310,459** |

### 15.5 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 by the Committee in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates against the relevant benchmarks.

The actuary, as part of their triennial valuation and dictated by the Funding Strategy Statement, will only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Progress is analysed at three yearly valuations for all employers.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| 31/03/19 £'000 | Asset Type | 31/03/20 £'000 |
|---|---|---|
| 7,052 | Cash and cash equivalents | 12,215 |
| 5,207 | Cash held at CCC | 4,949 |
| 403,998 | Bonds | 380,162 |
| **416,257** | **Total** | **397,326** |

### 15.6 Interest rate risk sensitivity analysis

Interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The analysis 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 | Value as at 31 March 2020 £'000 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +1% | -1% |
| Cash and cash equivalents | 12,215 | 122 | (122) |
| Cash held at CCC | 4,949 | 49 | (49) |
| Bonds | 380,162 | 3,802 | (3,802) |
| **Total change in available assets** | **397,326** | **3,973** | **(3,973)** |

| Asset Type | Value as at 31 March 2019 £'000 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +1% | -1% |
| Cash and cash equivalents | 7,052 | 71 | (71) |
| Cash held at CCC | 5,207 | 52 | (52) |
| Bonds | 403,998 | 4,040 | (4,040) |
| **Total change in available assets** | **416,257** | **4,163** | **(4,163)** |

### 15.7 Discount Rate

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 fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

### 15.8 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 (£ GBP Sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than £ GBP Sterling.

The Fund's currency rate risk is routinely monitored by the Committee in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at 31 March 2020:

| 31/03/19 £'000 | Asset Type | 31/03/20 £'000 |
|---|---|---|
| 1,213,890 | Overseas Equities | 1,143,481 |
| 27,846 | Property | 25,578 |
| 4 | Cash | 66 |
| **1,241,740** | **Total** | **1,169,125** |

### 15.9 Currency risk sensitivity analysis

The aggregate currency exposure within the Fund as at 31 March 2020 was 7.40% (2018-19: 8.80%).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.40% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Asset Type | Fair value 31/03/20 £'000 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +7.40% | -7.40% |
| Overseas equities | 1,143,481 | 84,618 | (84,618) |
| Property | 25,578 | 1,893 | (1,893) |
| Cash | 66 | 5 | (5) |
| **Total change in available assets** | **1,169,125** | **86,516** | **(86,516)** |

| Asset Type | Fair value 31/03/19 £'000 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +8.80% | -8.80% |
| Overseas equities | 1,213,890 | 106,822 | (106,822) |
| Property | 27,846 | 2,450 | (2,450) |
| Cash | 4 | 0 | 0 |
| **Total change in available assets** | **1,241,740** | **109,272** | **(109,272)** |

### 15.10 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 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.

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 Carmarthenshire County Council monitors membership movements on an annual basis.

New employers to the Fund have to agree to the provision of a bond to prevent the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. Carmarthenshire County Council currently guarantees to meet any future liabilities falling on the Fund as a result of cessation. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers. No collateral is held as security on financial assets. Carmarthenshire County Council does not generally allow credit to employers.

All investments held by investment managers are held in the name of the Dyfed Pension Fund at the custodian – Northern Trust, so if the investment manager fails the Fund's investments are not classed amongst the manager's assets. Any cash held is in the Carmarthenshire County Council accounts and is invested in line with Carmarthenshire County Council's approved credit rated counterparty list.

### 15.11 Liquidity risk

This refers to the possibility that the Fund might not have sufficient Funds available to meet its commitments to make payments.

Carmarthenshire County Council has a comprehensive cash flow management system that seeks to ensure that cash is available when needed. The amount held in the Fund's bank accounts meet the normal liquidity needs of the Fund and any surplus cash is invested. The Fund's actuaries establish what contributions should be paid in order that all future liabilities can be met.

The investments of the Fund are mainly of a liquid nature. Although any forced liquidation of the investments may be subject to a financial loss.

## 16. Current assets

| 31/03/19 £'000 | Contributions due from employer | 31/03/20 £'000 |
|---|---|---|
| 1,804 | - Employer | 2,428 |
| 1,624 | - Employee | 1,696 |
| 5,207 | Cash Balances | 4,949 |
| 610 | Debtors | 1,313 |
| **9,245** | | **10,386** |

### 16.1 Analysis of Current assets

| 31/03/19 £'000 | | 31/03/20 £'000 |
|---|---|---|
| 3 | HMRC | 3 |
| 7,731 | Other local authorities | 8,021 |
| 1 | NHS bodies | 1 |
| 0 | Public corporations and trading funds | 1,117 |
| 1,510 | Other entities and individuals | 1,244 |
| **9,245** | | **10,386** |

## 17. Current liabilities

| 31/03/19 £'000 | | 31/03/20 £'000 |
|---|---|---|
| (2,266) | Unpaid benefits | (1,884) |
| (2,141) | Creditors | (1,648) |
| **(4,407)** | | **(3,532)** |

### 17.1 Analysis of Current liabilities

| 31/03/19 £'000 | | 31/03/20 £'000 |
|---|---|---|
| (759) | HMRC | (689) |
| (106) | Other local authorities | (35) |
| (684) | Public corporations and trading funds | (606) |
| (2,858) | Other entities and individuals | (2,202) |
| **(4,407)** | | **(3,532)** |

## 18. Additional Voluntary Contributions (AVC)

Occupational Pension Schemes are required by Statute to provide in-house AVC arrangements. The Fund has joint providers: Prudential, Standard Life and UTMOST (previously Equitable Life), where a range of investment options are available.

It is for individual Scheme members to determine how much they contribute (subject to HMRC limits) and the investment components or its mix.

The contributions made to separately invested AVC schemes and the value of these investments as at the balance sheet date are shown below:

| AVC Provider | Value as at 31 March 2019 £'000 | Contributions £'000 | Expenditure £'000 | Change in Market Value £'000 | Value as at 31 March 2020 £'000 |
|---|---|---|---|---|---|
| Prudential | 5,754 | 1,712 | (1,075) | (115) | 6,276 |
| UTMOST | 522 | 9 | 0 | (38) | 493 |
| Standard Life | 3,326 | 423 | (905) | (47) | 2,797 |
| **Total** | **9,602** | **2,144** | **(1,980)** | **(200)** | **9,566** |

## 19. Funding arrangements

In line with Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contributions rates for the forthcoming triennial period. The valuation that these financial statements are based on took place as at 31 March 2016. The last such valuation took place as at 31 March 2019.

For more details, and to view the Funding Strategy Statement (FSS), please refer to the Fund's website – **www.dyfedpensionfund.org.uk** and the Annual Report and Accounts 2019-20.

## 20. Related Party Transactions

The Fund is administered by Carmarthenshire County Council (the Authority), consequently there is a strong relationship between the Authority and the Fund.

The Authority incurred costs of £1.108 million (2018-2019: £1.038 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund.

The Authority is also the single largest employer of members in the Fund and contributed £35.015 million to the Fund in 2019-2020 (2018-2019: £32.441 million)

The Fund holds part of its cash balance with the Authority in order to meet its day to day expenditure. This cash is invested on the Money Markets by the Authority's Treasury Management section. During the year to 31 March 2020, the Fund had an average investment balance of £18.64 million (2018-2019: £13.58 million) earning interest of £140,466 (2018-2019: £88,575).

### 20.1 Governance

#### Pension Committee

There are three members and one substitute member of the Pension Committee. During 2019-20 these were Councillor Elwyn Williams, Councillor Robert Evans who was replaced by Councillor Deryk Cundy in January 2020, Councillor Jim Jones (active member) and the substitute was Councillor Dai Thomas (active member).

The Director of Corporate Services, Mr Chris Moore, who has the role of Section 151 Officer for the Authority, played a key role in the financial management of the Fund and is also an active member of the Fund.

The Committee members and the Senior Officers that advise the Committee are required to declare their interest at each meeting. The Committee members and Director of Corporate Services accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

#### Pension Board

A Pension Board was approved by County Council on the 11th February 2015 effective from 1st April 2015 in line with the Public Service Pension Act 2013. It consists of three employer representatives, three member representatives and an independent chair.

For more details, and to view the Governance Policy, please refer to the Fund's website – **www.dyfedpensionfund.org.uk** and the Annual Report and Accounts 2019-20.

### 20.2 Key Management Personnel

The key management personnel of the fund is the Section 151 Officer. Total remuneration payable to key management personnel is set out below:

| 31/03/19 £'000 | | 31/03/20 £'000 |
|---|---|---|
| 14 | Short-term benefits | 14 |
| 3 | Post-employment benefits | 3 |
| **17** | | **17** |

## 21. Employing Bodies Contribution Rates, Contributions Receivable and Benefits Payable

| 2018-19 | | | | | 2019-20 | | | |
|---|---|---|---|---|---|---|---|---|
| Contri-bution rate | Deficit Contri-bution | Contri-butions | Benefits payable | | Contri-bution rate | Deficit Contri-bution | Contri-butions | Benefits payable |
| % | £'000 | £'000 | £'000 | **Scheduled bodies** | % | £'000 | £'000 | £'000 |
| 15.1 | 2,623 | 29,818 | 35,528 | Carmarthenshire County Council | 15.1 | 2,720 | 32,295 | 37,661 |
| 15.6 | 864 | 16,468 | 17,794 | Pembrokeshire County Council | 15.6 | 889 | 18,210 | 19,553 |
| 15.3 | 140 | 11,505 | 11,621 | Ceredigion County Council | 15.3 | 241 | 11,799 | 13,417 |
| 13.5 | 90 | 4,732 | 3,002 | Office for the Police & Crime Commissioner for Dyfed-Powys | 13.5 | 93 | 4,875 | 3,100 |
| 14.1 | 74 | 1,294 | 1,248 | Mid & West Wales Fire Authority | 14.1 | 76 | 1,346 | 1,194 |
| 16.2 | 0 | 291 | 313 | Coleg Ceredigion | 16.2 | 0 | 402 | 509 |
| 16.1 | 113 | 1,531 | 1,058 | Coleg Sir Gar | 16.1 | 117 | 1,628 | 1,005 |
| 15.8 | (84) | 633 | 778 | Pembrokeshire Coast National Park Authority | 15.8 | (87) | 667 | 910 |
| 15.0 | 84 | 1,081 | 423 | Pembrokeshire College | 15.0 | 87 | 1,129 | 551 |
| | **3,904** | **67,353** | **71,765** | | | **4,136** | **72,351** | **77,900** |
| | | | | **Designated (Resolution) bodies** | | | | |
| 23.0 | 0 | 11 | 13 | Aberystwyth Town Council | 23.0 | 0 | 16 | 13 |
| 24.9 | 0 | 0 | 0 | Aberaeron Town Council | 24.9 | 0 | 0 | 0 |
| 17.9 | 17 | 80 | 111 | Carmarthen Town Council | 17.9 | 18 | 80 | 99 |
| 21.6 | 0 | 31 | 0 | Cwmamman Town Council | 21.6 | 0 | 33 | 0 |
| 21.7 | 0 | 12 | 0 | Llanedi Community Council | 21.7 | 0 | 14 | 0 |
| 24.0 | 1 | 5 | 4 | Gorslas Community Council | 24.0 | 1 | 6 | 4 |
| - | 0 | 11 | 31 | Haverfordwest Town Council | - | 0 | 12 | 32 |
| 27.6 | 9 | 13 | 12 | Kidwelly Town Council | 27.6 | 10 | 15 | 12 |
| 20.7 | 0 | 2 | 1 | Llanbadarn Fawr Community Council | 20.7 | 0 | 2 | 1 |
| 24.9 | 0 | 0 | 1 | Llanarthne Community Council | 24.9 | 0 | 0 | 1 |
| 15.9 | 6 | 194 | 156 | Llanelli Rural Council | 15.9 | 6 | 213 | 214 |
| 19.1 | 7 | 57 | 91 | Llanelli Town Council | 19.1 | 7 | 62 | 104 |
| 15.9 | 0 | 8 | 0 | Llangennech Community Council | 15.9 | 0 | 9 | 0 |
| 19.5 | 5 | 39 | 21 | Llannon Community Council | 19.5 | 5 | 34 | 12 |
| 19.6 | (2) | 39 | 7 | Pembrey & Burry Port Town Council | 19.6 | (2) | 53 | 42 |
| 16.3 | (2) | 10 | 12 | Tenby Town Council | 16.3 | (2) | 10 | 19 |
| 16.6 | 1 | 13 | 0 | Pembroke Town Council | 16.6 | 1 | 14 | 0 |
| 13.5 | 1 | 10 | 0 | Pembroke Dock Town Council | 13.5 | 1 | 10 | 0 |
| | **43** | **535** | **460** | | | **45** | **583** | **553** |

| 2018-19 | | | | | 2019-20 | | | |
|---|---|---|---|---|---|---|---|---|
| Contri-bution rate % | Deficit Contri-bution £'000 | Contri-butions £'000 | Benefits payable £'000 | | Contri-bution rate £'000 | Deficit Contri-bution £'000 | Contri-butions £'000 | Benefits payable £'000 |
| | | £'000 | £'000 | **Admission bodies Community Admission Body (CAB)** | % | £'000 | £'000 | £'000 |
| 17.9 | 11 | 44 | 53 | CAVO | 17.9 | 12 | 46 | 24 |
| 15.1 | (21) | 1,148 | 1,323 | Careers Wales | 15.1 | (21) | 932 | 1,126 |
| 17.0 | 10 | 32 | 40 | CAVS | 17.0 | 10 | 29 | 35 |
| 27.6 | (9) | 10 | 0 | Carms YFCs | 27.6 | (9) | 13 | 118 |
| 15.9 | 2 | 14 | 40 | Iaith Cyf | 15.9 | 2 | 13 | 41 |
| 23.3 | 5 | 3 | 15 | Leonard Cheshire Disability | 23.3 | 5 | 3 | 16 |
| 0.0 | 0 | 0 | 34 | Llanelli Burial Board | 0.0 | 0 | 0 | 38 |
| 11.7 | 11 | 71 | 11 | Menter Bro Dinefwr | 11.7 | 11 | 72 | 11 |
| 10.5 | 29 | 36 | 32 | Menter Cwm Gwendraeth | 10.5 | 30 | 36 | 32 |
| 10.8 | 1 | 38 | 0 | Menter Gorllewin Sir Gar | 10.8 | 1 | 55 | 0 |
| 7.4 | (2) | 13 | 10 | Menter Iaith Castell-Nedd Port Talbot | 7.4 | (2) | 12 | 10 |
| 19.3 | (3) | 9 | 15 | Narb. & Dist. Comm & Sports Assoc. | 19.3 | (3) | 4 | 10 |
| 20.1 | 1 | 66 | 100 | PAVS | 20.1 | 1 | 61 | 56 |
| 13.7 | 4 | 83 | 69 | PLANED | 13.7 | 5 | 82 | 27 |
| 15.8 | (5) | 267 | 222 | Tai Ceredigion | 15.8 | (6) | 253 | 220 |
| 18.4 | 72 | 602 | 497 | University of Wales-Trinity St David | 18.4 | 74 | 659 | 669 |
| 22.3 | 83 | 11 | 219 | Aberystwyth University | 22.3 | 86 | 11 | 214 |
| 14.7 | (24) | 223 | 334 | Welsh Books Council | 14.7 | (24) | 236 | 413 |
| 14.8 | 5 | 28 | 41 | West Wales Action for Mental Health | 14.8 | 5 | 31 | 41 |
| 15.8 | (3) | 26 | 73 | Valuation Tribunal Wales | 15.8 | (3) | 29 | 75 |
| 14.2 | 1 | 7 | 0 | Swim Narberth | 14.2 | 1 | 6 | 0 |
| | **168** | **2,731** | **3,128** | | | **175** | **2,583** | **3,176** |
| | | | | **Transferee Admission Body (TAB)** | | | | |
| 19.3 | 0 | 16 | 38 | Grwp Gwalia | 19.3 | 0 | 17 | 38 |
| 26.6 | (1) | 6 | 54 | DANFO | 26.6 | 0 | 0 | 14 |
| 15.3 | 0 | 214 | 27 | Llesiant DELTA Wellbeing | 15.3 | 0 | 398 | 4 |
| 21.2 | (7) | 117 | 106 | Human Support Group (HSG) | 21.2 | (7) | 65 | 122 |
| | **(8)** | **353** | **225** | | | **(7)** | **480** | **178** |
| | | | | **Bodies with no pensionable employees** | | | | |
| 0.0 | 0 | 5 | 6 | DVLA | 0.0 | 0 | 6 | 7 |
| 0.0 | 0 | 0 | 13 | Cardigan Swimming Pool | 0.0 | 0 | 0 | 13 |
| 0.0 | 0 | 0 | 90 | PRISM | 0.0 | 0 | 0 | 41 |
| 0.0 | 0 | 52 | 317 | Dyfed Powys Magistrates Courts | 0.0 | 0 | 52 | 320 |
| 0.0 | 0 | 1 | 7 | Carmarthen Family Centre | 0.0 | 0 | 1 | 7 |
| 0.0 | 0 | 2 | 10 | Milford Haven Town Council | 0.0 | 0 | 2 | 4 |
| 0.0 | 0 | 0 | 2 | Mencap | 0.0 | 0 | 0 | 2 |
| 0.0 | 0 | 0 | 7,668 | Dyfed County Council | 0.0 | 0 | 0 | 7,527 |
| 0.0 | 0 | 0 | 2 | Dyfed AVS | 0.0 | 0 | 0 | 2 |
| 0.0 | 0 | 7 | 7 | NHS | 0.0 | 0 | 7 | 7 |
| 0.0 | 0 | 4 | 16 | Welsh Water | 0.0 | 0 | 4 | 16 |
| 0.0 | 0 | 0 | 7 | Cwm Environmental | 0.0 | 0 | 0 | 7 |
| 0.0 | 0 | 0 | 6 | Cartrefi Cymru | 0.0 | 0 | 0 | 5 |
| 0.0 | 0 | 2 | 2 | Rent Officer Service | 0.0 | 0 | 2 | 2 |
| | **0** | **73** | **8,153** | | | **0** | **74** | **7,960** |
| | **4,107** | **71,045** | **83,731** | **Total** | | **4,349** | **76,071** | **89,767** |

### 21.1 Bodies with No Pensionable Employees where pension increase is recharged

It has been assumed that for the following bodies, the proportion of pension increases stated below will continue to be recharged.

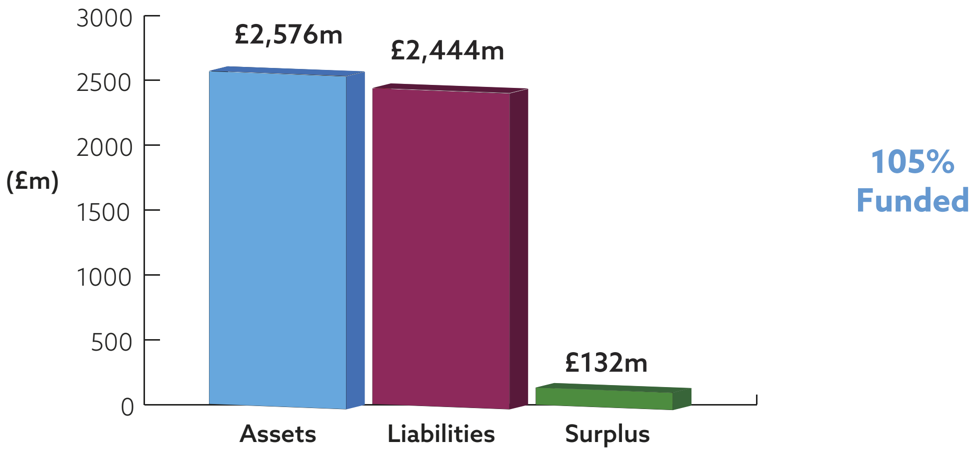
| Proportion to be recharged | % |
|---|---|
| DVLA | 100 |
| Milford Haven Town Council | 100 |
| National Health Service | 100 |
| Carmarthen Family Centre | 100 |
| Dwr Cymru Welsh Water | 50 |

## 22. Actuarial Statement

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Dyfed Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £2,576 million represented 105% of the Fund's past service liabilities of £2,444 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £132 million.




The valuation also showed that a Primary contribution rate of 18.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 14 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an offset of approximately £3m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

| | For past service liabilities (Solvency Funding Target) | For future service liabilities (Primary rate of contribution) |
|---|---|---|
| Rate of return on investments (discount rate) | 4.1% per annum | 4.65% per annum |
| Rate of pay increases (long term) | 3.9% per annum | 3.9% per annum |
| Rate of increases in pensions in payment (in excess of GMP) | 2.4% per annum | 2.4% per annum |

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

### The McCloud Judgement

The "McCloud judgement" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgement. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £28 million and an increase in the Primary Contribution rate of 1.1% of Pensionable Pay per annum. Provision for these costs has been included within the secondary rate for all employers (and also within the whole Fund average Secondary rate of £3 million per annum offset shown above).

### Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

| | 31 March 2019 | 31 March 2020 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.4% per annum | 2.4% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 2.2% per annum | 2.1% per annum |
| Rate of pay increases | 3.7%* per annum | 3.6% per annum |
| Rate of increases in pensions in payment (in excess of GMP)/ Deferred revaluation | 2.3% per annum | 2.2% per annum |

* This is the long-term assumption. An allowance corresponding to that made at the previous formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £3,291 million excluding the potential impact of the McCloud Judgment. Interest over the year increased the liabilities by c£80 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£66 million (this includes any increase in liabilities arising as a result of early retirement and GMP indexation – see comments elsewhere in this statement). Allowing for the potential impact of the McCloud judgment increased the liabilities by £38 million.

There was also a decrease in liabilities of £28 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £3,447 million.

**GMP Indexation**

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £10 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

**John Livesey**

Fellow of the Institute and Faculty of Actuaries

**Laura Evans**

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

May 2020

The Actuary has based the figures for the provision for McCloud broadly on the proposed remedy in the HM Treasury consultation issued in July 2020 with an increase of approximately £28m in past service liabilities, this is included within the secondary rate for all employers.

## 23. Current Economic Climate

As a result of the COVID-19 pandemic, pension fund investments have been subject to volatility. The markets, however, have continued trading and while it is recognised that the volatility exists, information is available to measure the financial instruments at 31 March 2020. Some investment markets, in particular equities, have recouped a significant proportion of the losses incurred from the lows of late March 2020 with the fund value at the end of August 2020 at £2.733billion, an increase of more than 15% from 31 March 2020. However, the outlook remains highly uncertain for financial markets and the economy, both in the UK and globally.

The impact for the Dyfed Pension Fund will possibly be seen next financial year with a potential financial impact with increased costs and potential loss of dividend / investment income during 2020-21. This area is being managed carefully with regular contact and updates being received from the investment managers and the Dyfed Pension Fund independent adviser.

# INDEPENDENT AUDITOR'S STATEMENT

## The independent auditor's statement of the Auditor General for Wales to the members of Dyfed Pension Fund on the Annual Report

I have examined the pension fund accounts and related notes contained in the 2019-20 Annual Report of Dyfed Pension Fund to establish whether they are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by Dyfed Pension Fund for the year ended 31 March 2020 which were authorised for issue on 16 October 2020. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

**Opinion**

In my opinion the pension fund accounts and related notes included in the Annual Report of Dyfed Pension Fund Pension Fund are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by Dyfed Pension Fund for the year ended 31 March 2020 which were authorised for issue on 16 October 2020 on which I issued an unqualified opinion. My opinion on the Statement of Accounts included an Emphasis of Matter paragraph where I drew attention to the material uncertainty disclosed in fund managers year-end valuation reports for the UK property fund and the alternatives fund they manage on behalf of Dyfed Pension Fund. The Fund disclosed this uncertainty in the Statement of Accounts and my audit opinion was not modified in respect of this matter.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the pension fund's Statement of Accounts, 22 October 2020 and the date of this statement.

**Respective responsibilities of the Administering Authority and the Auditor General for Wales**

The Administering Authority, Carmarthenshire County Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on whether the pension fund accounts, and related notes contained in the Annual Report are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts of the Pension Fund. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts. This other information comprises Chairman's Foreword, Introduction, Management and Financial Performance Reports, Investment Policy and Performance Reports, Fund Administration Report, Actuarial Report, Governance Reports, Funding Strategy Statement, Investment Strategy Statement and Communications Policy Statement.

Adrian Crompton
Auditor General for Wales
6 November 2020

24 Cathedral Road
Cardiff
CF11 9LJ

The maintenance and integrity of the Dyfed Pension Fund website is their responsibility; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

# FUNDING STRATEGY STATEMENT

This Statement has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (the Fund), as required by legislation, following the completion of the 2019 actuarial valuation. The full document including appendices is published on our website: **http://www.dyfedpensionfund.org.uk/local-government-pension-scheme/investments-fund-info/funding-strategy-statement/**

## Introduction

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively, "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Dyfed Pension Fund the Administering Authority will prepare and publish its funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
    - the guidance issued by CIPFA for this purpose; and
    - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

### Benefits

The benefits provided by the Dyfed Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Dyfed Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. 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.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

### Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the Fund Actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

### Primary Rate

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

## Secondary Rate

The "Secondary rate" is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

# Purpose of FSS in Policy Terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Fund Actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

# Aims and Purpose of the Fund

**The aims of the fund are to:**

- manage employers' liabilities effectively and ensure that sufficient resources (i.e. liquid assets) are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

**The purpose of the fund is to:**

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations.

# Responsibilities of the key parties

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

## Key parties to the FSS

**The Administering Authority should:**

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund Actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

**The Individual Employer should:**

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the Fund Actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.
- Understand the pension impacts of any changes to their organisational structure and service delivery model
- Understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer higher contributions than otherwise would be the case if the data was high of quality

**The Fund Actuary should:**

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations

- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

**The Fund's Investment Manager(s) should:**

- invest funds given in accordance with the ISS and the Investment Management Agreement (IMA)
- meet investment performance targets and risk constraints, and
- comply with all the legislative, commercial and mandate requirements.

# Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

## Solvency and long term efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

## Determination of the Solvency Funding Target and Deficit Recovery Plan

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix A. The Employer Deficit Recovery Plans are set out in Appendix B.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

Individual employer contributions will be expressed and certified as two separate elements:

- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the Secondary rate: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.

## Recovery Plan

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall deficit contributions payable. The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery are as follows:

- The Fund does not believe it appropriate for monetary contribution reductions to apply compared to the existing funding plan (allowing for indexation of deficit contributions where applicable) where deficits remain unless there is a compelling reason to do so.
- Certain employers may follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.
- As a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Recovery Plan in Appendix B). Application of these principles has resulted in the target recovery period of 11 years being adopted across Fund employers.
- Subject to affordability and other considerations, the end point of individual employer recovery plans is expected to be maintained at this valuation, which means that recovery periods will normally be three years shorter than at the 2016 actuarial valuation. The target recovery period for employers at this valuation is therefore 11 years (3 years less than the corresponding target of 14 years from the previous valuation). In practice, individual employer circumstances could cause their recovery period to be different from this.
- Over and above this, the Fund is now giving more recognition to the potential liabilities in the event that an employer will exit the Fund at some point. With this in mind, closed employers will normally have their contributions underpinned at existing levels. In addition, any employer in surplus on the ongoing actuarial valuation assumptions will not normally be allowed to use that surplus to offset its future contribution requirements to the Fund. These restrictions will not apply if the body has a surplus on its termination basis: in this event a surplus on the termination basis may be used to offset future contribution requirements.
- In order to allow employers time to adjust their budgets, contributions for 2020/21 will normally be maintained at their existing levels, other than for the major scheduled bodies, before moving to the new rates in 2021/22. Where there is a material increase in contributions required at this valuation, in certain circumstances the Fund may agree to the increase being phased in over the period to 2022/23. Employers should be aware that any stepping or deferral of increases may affect the contribution requirements arising at future valuations.

## Ceasing Participation in the Fund

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. The policy for employers who have a **guarantor** participating in the Fund is as follows:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

Otherwise, in the event of a deficit, the Fund will seek to recover this from the exiting employer in the first instance. However, if this is not possible, then to maintain a consistent approach between treatment of surplus and deficit, the Fund will then seek to recover the deficit from the guarantor via an additional cash payment, unless otherwise agreed with the Administering Authority. In the event of a surplus the Administering Authority will have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount of any exit credit payable, and any such amount determined will be paid to the exiting employer within 6 months of cessation or such longer period as may be agreed in the individual case.

The policy for employers who **do not** have a **guarantor** participating in the Fund is:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of cessation or such longer period as may be agreed in the individual case).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.
- The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. The termination policy is set out in Appendix C.

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

## Funding for Non-Ill Health Early Retirement Costs

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in certain circumstances by agreement with the Fund, through instalments over a period not exceeding 3 years or if less the remaining period of the body's membership of the Fund.

## Funding for Ill Health Retirement Costs

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. Because the cost of an individual ill-health retirement can be substantial in relation to an employer's contribution requirements, the Fund has introduced a "captive" whereby the costs of ill health retirements (other than for the five major scheduled employers) will be spread across a wider employer base. The treatment of any ill-health retirement strain cost emerging will therefore vary depending on the type of employer:

- For those employers who participate in the ill-health captive, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.
- For those employers who do not participate in the ill-health captive, the "primary rate" payable over 2020/23 will include an allowance for ill-health retirement costs (alongside any allowance made for voluntary early retirements). Where ill-health retirement strain costs exceed an employer's allowance over the inter-valuation period (or should an employer not have an allowance within their "primary rate"), the excess strain costs will be included in the employer's deficit (and subsequent deficit contributions) at the 2022 valuation.

# Link to Investment Policy and the Investment Strategy Statement (ISS)

The results of the 2019 valuation show the liabilities to be 105% covered by the current assets (104% if the estimated effects of the McCloud judgment were to be allowed for), so there is a small surplus of existing assets over the past service liabilities.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is normally possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would typically, in normal circumstances, consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance nor any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of negative 0.9% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 65%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is shown below:

| | Benchmark (%) | Range (%) |
|---|---|---|
| US Equities | 8.00 | 3.00-13.00 |
| Japanese Equities | 4.00 | 0.00 - 9.00 |
| Other regional Equities | 33.00 | 28.00 - 38.00 |
| Global Equities | 20.00 | 15.00 - 25.00 |
| Fixed income | 10.00 | 5.00 - 15.00 |
| Pan European Property | 15.00 | 10.00 - 20.00 |
| Infrastructure | 5.00 | 3.50 - 6.50 |
| Alternatives | 5.00 | 3.50 - 6.50 |
| Cash | 0.00 | 0.00 - 10.00 |
| **Total** | **100.00** | |

Based on the investment strategy in the ISS and the Actuary's assessment of the return expectations for each asset class, the overall best estimate average expected return is 2.7% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations, and this is expected under the Regulations and guidance.

# Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of some of the major risk factors.

## Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the All Wales pool.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

## Demographic

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. As described above, for smaller employers the Fund has also implemented an internal "captive" approach to spreading the cost of ill-health retirements across a wider employer base.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements.** Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

### Insurance of Certain Benefits

The contributions for any employer may be varied as agreed by the Fund Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

### Regulatory

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

### Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. This version of the FSS is being consulted on from December 2019 and the final Statement will be formally approved prior to 31 March 2020 in accordance with Council delegations.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes to senior Fund Officers and the Panel membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

## Monitoring and Review

The Administering Authority has taken advice from the Fund Actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits e.g. resolution of the McCloud remedy
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

## The McCloud Judgment

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and included within the contribution requirements quoted as part of the 2019 actuarial valuation for individual employers. For whole fund reporting purposes, in line with guidance issued by the LGPS Scheme Advisory Board, the McCloud costs have not been included within the disclosed funding level or primary contribution rate. The effects have, however, been separately quantified and are set out in the actuarial valuation report.

# INVESTMENT STRATEGY STATEMENT

This is the Investment Strategy Statement (the "Statement") of Dyfed Pension Fund (the "Fund") as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations").

The regulations require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The ISS is an important governance tool for the Fund. The document sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund's investments are managed, acts as a high level risk register, and has been designed to be informative for all stakeholders. This document replaces the Fund's Statement of Investment Principles.

In preparing this Statement, the Fund has consulted with such persons as it considers appropriate and the document will be updated based on any factors that the Fund considers material to its liabilities, finances or attitude to risk.

This statement will be reviewed at least triennially or more frequently if appropriate.

## Investment Objectives and Beliefs

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time.

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund's investment beliefs which help to inform the investment strategy are as follows:

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term.
- Value for money from investments is important, not just absolute costs. Asset pooling will help reduce costs whilst providing more choice of investments and will therefore be additive to Fund returns.
- Active management can add value to returns over the long term.

## Investment Strategy

### Asset Classes

Translating the Fund's investment and funding objectives into a single suitable investment strategy is challenging. The key objectives often conflict. For example, minimising the long term cost of the scheme is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Additionally, the employers in the Fund have different underlying characteristics and long term funding objectives.

It is the Pension Committee's policy to regularly monitor, in consultation with the actuary, the likely position regarding the solvency ratio in order that the risk of deterioration of the solvency ratio below 100% is minimised. The Pension Committee may consider amending the Investment Strategy should they be advised at some future stage that this would be the only acceptable route to avoid under funding.

The Pension Committee, following an asset liability study, has set a benchmark mix of asset types and ranges within which the investment managers may operate with discretion. This is shown in Appendix A. The Committee believes that this mix of assets will fulfil the assumptions within the valuation undertaken, as well as taking account of the liability profile of the Fund. This mix will also help to control the risks outlined below.

A review of the strategic asset allocation is undertaken every three years following the actuarial valuation that provides the assurance that the investment strategy is aligned to the long term funding plan. This review utilises both qualitative and quantitative analysis, and covers;

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security.

## Managers

The Pension Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Pension Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

# Risk Measurement and Management

The Fund assesses risks both qualitatively and quantitatively, with the starting point being the investment strategy review which is undertaken every three years. The Fund's approach to risk is informed by the Pension Fund Committee, its professional advisors and officers of the Fund.

The key risks that the Fund is exposed to can be grouped under the following headings asset, funding, operational and governance. These risks are identified, measured, monitored and managed on an active basis with the responsibility for oversight from the Treasury & Pension Investments Manager.

These risks are summarised as follows:

## Asset Risks

- **Concentration** – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- **Illiquidity** – The risk that the Fund cannot meet its liabilities because it has insufficient liquid assets.
- **Manager underperformance** – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

To manage asset risks the Committee provides a practical constraint on fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committee's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

## Funding Risks

- **Financial mismatch** - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities and the risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- **Changing demographics** – The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- **Systemic risk** – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial "contagion", resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. It has set a strategic asset allocation benchmark for the Fund and assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The asset allocation is rebalanced on a regular basis to ensure that it does not stray outside the ranges.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise.

## Operational risk

- **Transition risk** – The risk of incurring unexpected costs in relation to the transition of assets among managers. To date, no significant transitions have taken place within the Fund but if they were undertaken in future the Committee would take professional advice and consider the appointment of specialist transition managers.
- **Custody risk** – The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- **Credit default** – The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

## Governance Risk

Good governance is an essential part of the Fund's investment strategy and the Fund therefore identifies **poor governance** as a potential risk that can have a detrimental effect on the funding level and the deficit. The Fund ensures that its decision making process is robust and transparent and this is documented in the Governance Compliance Statement which is published on the Fund's website.

**Environmental, Social and Governance risks** – The Fund's investment strategy contains its own approach on Responsible Investment. Non-compliance would expose the Fund to financial and reputational risk. The Fund believes that effective management of financially material Responsible Investment risks should support the Fund's requirement to protect returns over the long term. The Fund will seek to further integrate Responsible Investment factors into the investment process across all relevant asset classes.

## Approach to Asset Pooling

The Fund has entered the Wales Pension Partnership (WPP) with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to a more diverse range of asset classes. The implementation of the Fund's investment strategy by an FCA regulated provider will lead to improved governance, transparency and reporting giving the Pension Fund assurance that its investment strategy is being implemented effectively.

Following a meeting with DCLG in late 2016, the WPP has formally been given permission to implement its proposals.

The key criteria for assessment of the WPP solutions is as follows:

- That the WPP enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a clear financial benefit to the Fund in investing in the solution offered by the WPP, should a change of provider be necessary.

At the time of preparing this statement the Fund has already jointly procured a single passive equity manager for the Wales funds as set out below. These funds currently sit outside of the WPP however the monitoring arrangements will still be carried out collectively on behalf of the WPP.

The Fund intends to invest the majority of its remaining assets into the WPP but will maintain some cash balances at the fund. Investment strategy will be retained by the Fund with advice from the fund manager/operator and any other relevant professional advisors.

| Asset class | Manager | % of Fund assets | Benchmark and performance objective |
|---|---|---|---|
| Passive Equity | BlackRock | 25-30 | FTSE All-Share and FTSE All-World Indices Benchmark Return |

## Structure and governance arrangements of the WPP

The WPP has appointed a third party operator authorised by the FCA (Link Fund Solutions) to provide a series of investment sub-funds in which the assets of the participating funds will be invested.

A Joint Governance Committee (JGC) has been formally established to oversee the operator. The JGC comprises of the eight Chairs of the committees of the participating funds. This arrangement provides accountability for the operator back to individual administering authorities.

It operates on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible.

The JGC is in regular discussions with the operator as to the specific sub-funds which should be set up within the WPP, both at the outset and on an ongoing basis.

Officers from each administering authority attend JGC meetings (in a non-voting capacity). The officers advise the JGC on the establishment and monitoring of the various sub-funds as well as liaison directly with the operator on any day-to-day investment matters. The fund representatives on the JGC report back to their respective individual funds' Pensions committees who are responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC.

The local Pensions Board seeks reassurance on aspects of the management of the Fund's investments and external scrutiny and formal due diligence of the operator and depositary will also be carried out by the FCA in their role as regulator.

The operator is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer as necessary. Listed bonds and equities will be invested through the UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle. It may be that alternative vehicles are more appropriate for some other asset classes. As well as considering the options with the operator, we also take external advice on the final proposed approach from a tax efficiency and legal compliance basis.

Under the proposed structure, the depository will hold legal title to the assets of the WPP. The operator is responsible for managing and operating the WPP, including entering into the legal contracts with the investment managers.

The operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds. The operator is responsible for selecting and contracting with investment managers for the management of the underlying assets. They are also responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance.

They are also responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and for electing a depositary to the WPP.

The WPP will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

**Responsible Investment and the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**

The Dyfed Pension Fund is a long term investor aiming to deliver a sustainable pension fund for all stakeholders.

Carmarthenshire County Council as the administering authority of the Fund has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members.

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in this Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

The Fund's core principles of responsible investment are:

1. We will apply **long-term thinking** to deliver **long-term sustainable returns**.
2. We will seek **sustainable returns** from **well-governed assets**.
3. We will use an **evidence-based** long term investment appraisal to inform **decision-making** in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

At the present time the Pension Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. They understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

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

### Voting rights

The Pension Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f).

### Stewardship

The Pension Committee has agreed in principle that the Fund becomes a signatory to the Stewardship Code as published by the Financial Reporting Council. They also expect both the WPP and any directly appointed fund managers to also comply with the Stewardship Code.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

## Myners Principles

Although not specifically referenced in the Regulations, the Fund continues to assess its own compliance with the Myners Principles of Good Investment Governance. A statement that sets out an assessment of compliance is presented at Appendix B.

## Advice taken

In creating this statement, the Fund has taken advice from its Officers, its Independent Investment Advisor and its Actuary, Mercer.

| | Benchmark (%) | Range (%) |
|---|---|---|
| US Equities | 8.00 | 3.00-13.00 |
| Japanese Equities | 4.00 | 0.00 - 9.00 |
| Other regional Equities | 33.00 | 28.00 - 38.00 |
| Global Equities | 20.00 | 15.00 - 25.00 |
| Fixed income | 10.00 | 5.00 - 15.00 |
| Pan European Property | 15.00 | 10.00 - 20.00 |
| Infrastructure | 5.00 | 3.50 - 6.50 |
| Alternatives | 5.00 | 3.50 - 6.50 |
| Cash | 0.00 | 0.00 - 10.00 |
| **Total** | **100.00** | |

## Myners 6 Principles and Compliance Checklist

| 1 | Effective Decision-Making | |
|---|---|---|
| | Define who takes investment decisions. | Included in the Investment Strategy Statement (ISS). |
| | Consider whether members have sufficient skills. | Training - LGC members seminar, LAPFF and NAPF conferences, investment manager training days, Employer Organisation training days. Training plan in place. |
| | Determine whether appropriate training is being provided. | Training - LGC members seminar, LAPFF and NAPF conferences, investment manager training days, Employer Organisation training days. Training plan in place. |
| | Assess whether in-house staffing support is sufficient. | Suitably qualified and trained staff. Training plan in place. |
| | Establish an investment committee with suitable terms of reference. | Pension Committee established with terms of reference agreed. |
| | Draw up a business plan. | A business plan has been published. An Actuarial Valuation Report, Investment Strategy Review, Funding Strategy Statement and ISS are updated and produced every three years. |
| | Priority is given to strategic asset allocation decisions. | Asset / liability study undertaken to determine asset allocation after full discussions. |
| | All asset classes permitted within the regulations have been considered. | Property has been considered and managers appointed. Other alternative asset classes will be considered in the future. |
| | Asset allocation is compatible with liabilities and diversification requirement. | Asset / liability study undertaken to determine asset allocation after full discussions. |
| | Separate contracts in place for actuarial services and investment advice. | Separate contracts currently in place. |
| | Terms of reference specified. | Clear specifications issued. |
| | Specify role of S151 officer in relation to advisers. | Section 151 officer role clear in constitution. |
| | Tender procedures followed without cost constraint factor. | Tendering taken place this year. |
| | **Overall Principle 1** | **Fully compliant** |

| 2 | Clear Objectives | |
|---|---|---|
| | Set overall investment objective specific only to the Fund's liabilities. | Customised benchmark following asset - liability study. |
| | Determine parameters for employer contributions. | Clear objectives outlined in ISS. |
| | Specify attitude to risk and limits. | Clearly outlined in ISS. |
| | Identify performance expectations and timing of evaluation. | Clearly outlined in ISS. |
| | Peer group benchmark in use for comparison purposes only. | In Place. |
| | Written mandate included in management contract containing elements specified. | Contract has been updated, ISS is clear on these issues. |
| | Constraints on the types of investment are in line with regulations. | In Place. |
| | Reasons stated if soft commissions permitted. | None used. |
| | **Overall Principle 2** | **Fully compliant** |

| 3 | Risk & Liabilities | |
|---|---|---|
| | In setting and reviewing the investment strategy account should be taken of the form and structure of liabilities. | Full asset liability study is undertaken following the triennial valuation and prior to setting and reviewing the investment strategy. |
| | The implications for the local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk should also be taken into account. | Included in asset liability study and investment strategy. |
| | **Overall Principle 3** | **Fully compliant** |

| 4 | Performance Assessment | |
|---|---|---|
| | Consider whether index benchmarks selected are appropriate. | Consideration given, and performance measured against both benchmark and market indices. |
| | Limits on divergence from index are relevant. | Fully considered and in ISS. |
| | Active or passive management considered. | Fully considered and in ISS. |
| | Targets and risk controls reflect performance expectations. | Fully considered and in ISS. |
| | Formal structure for regular monitoring in operation. | Fund returns regularly reported by independent organisation. |
| | Arrangements in place to assess procedures and decisions of members. | Audit and valuation reports. Best Value regime. |
| | Similar arrangements established for advisers and managers. | Regular monitoring/review undertaken by Committee and officers of managers and the Independent Adviser. |
| | **Overall Principle 4** | **Fully compliant** |

| 5 | Responsible Ownership | |
|---|---|---|
| | Incorporate US Principles on activism into mandates. | Custodian reports on corporate actions taken. |
| | Engage external voting agencies if appropriate. | Strong Corporate Governance policy in place through investment manager. |
| | Review manager strategies. | Own policy is in operation. |
| | Establish means to measure effectiveness. | Regular reporting in place. |
| | **Overall Principle 5** | **Fully compliant** |

| 6 | Transparency and Reporting | |
|---|---|---|
| | ISS updated as specified. | In Place. Included in the Annual Report. |
| | Consultation undertaken on amendments. | In Place. Consultation each year. |
| | Changes notified to stakeholders. | In Place. Included in the Annual Report. |
| | Publish changes to ISS and its availability. | In Place. Included in the Annual Report. |
| | Identify monitoring information to report. | In Place. Included in ISS and reports given at prescribed intervals. |
| | Inform scheme members of key monitoring data & compliance with principles. | In Place. Included in ISS. |
| | **Overall Principle 6** | **Fully compliant** |

# COMMUNICATIONS POLICY STATEMENT

The Dyfed Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective manner possible in an ever changing pensions environment.

The Fund aims to use the most appropriate communication medium for the audiences receiving the information, which may involve using more than one method of communication.

It ensures that all regulatory requirements concerning the provision of Scheme information is continuously met and assessed.

There are **5 distinct groups** with whom the Fund needs to communicate.

## Scheme Members

### Fund Website

The Fund has established an extensive website which sets outs Scheme provisions in a simple and concise manner. Information updates and news items are quickly added to notify members of any Scheme developments. Electronic copies of Fund literature, policies and reports are also readily available to download.

### My Pension Online

An integrated web portal via the Dyfed Pension Fund website, which allows members to view and update their pension details securely online. Members are able to perform accurate benefit calculations, update their death grant expression of wish and contact details, as well as view their annual benefit statement.

### Annual Report and Accounts

An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members via the My Pension Online service and the website. Hard copies are also available upon request.

### Annual Newsletter(s)

The Fund issues an annual newsletter to all active members, covering current pension topics within the Local Government Pension Scheme (LGPS) and the pensions industry in general. The newsletter is also issued to all pensioners, providing notification on pension matters and other matters of interest. Specific single topic newsletters are also published and distributed to members on an ad hoc basis.

### Annual Benefit Statements

Statements are uploaded automatically to a member's My Pension Online account, or sent directly to their home address if they have chosen not to register and have a hard copy request. The active statement sets out the current value of benefits (as at 31st March), a projection to Normal Pension Age, the current value of death benefits. The deferred statement on the other hand shows the up rated value of benefits. Supplementary notes of guidance are provided with each statement.

### Bilingual Scheme Literature

An extensive range of Scheme literature is produced by the Dyfed Pension Fund and is supplied to employing bodies and Scheme members directly. This Scheme literature forms part of the data held on the Fund's website.

### Statutory Notification

In compliance with Scheme Regulations, members are notified when any change occurs to their pension record, thereby affecting their pension benefits.

### Roadshows

Frequently held to raise member awareness and understanding towards general Scheme provisions.

### General Presentations & Courses

The Fund can deliver standard or tailored presentations on a wide range of LGPS related subjects.

### Pension Surgeries

Pension surgeries are available for groups of Scheme members by request, or for individual members on a surgery basis. Meetings are held at employer venues or alternatively members are able to make an individual appointment with the dedicated Communication & Training Officer.

### Pre-Retirement Courses

The Fund's dedicated Communication & Training Officer is available to attend pre-retirement courses to inform members who are near retirement about their entitlement and Local Government procedures.

### Correspondence

The Fund utilises both surface mail and e-mail to receive and send correspondence. Response will be made in the individuals preferred language of choice. The My Pension Online service also acts as another electronic medium.

### Payment Advice / P60

Pensioners are issued with payment advice slips every April and thereafter when a variance of £5 or more occurs, unless they have chosen to utilise the My Pension Online service. P60 notifications are also issued annually in May, providing a breakdown of the annual amounts paid.

### Pension Increase Statements

An annual statement is issued to all pensioners pending any increase in the appropriate cost of living index. These are issued electronically to those that have registered to the My Pension Online service.

### Existence Validation - (Life Certificate Exercise)

The Fund undertakes an annual exercise to establish the continued existence of pensioners in receipt of monthly pension payments via cheque.

## Prospective Scheme Members

### Scheme Booklet

All prospective Scheme members are provided with a Scheme booklet upon appointment.

### Corporate Induction Courses

The dedicated Communication & Training Officer will attend any employer corporate induction events in order to present to prospective Scheme members the benefits of joining the Scheme. A one-on-one pensions surgery session will also be offered to resolve any individual queries.

### Non Joiner Campaigns

The Fund will request formal notification of non-joiners from Scheme employers. The information will be used to market the Scheme to specific groups, with dedicated literature and campaigns being formulated in conjunction with Scheme employers from time to time.

### Pension Roadshows

As well as being a valuable aid for pensioners and current scheme members, road shows are used to target specific non-members. This ensures that members receive the information required to make an informed choice towards their pension provision.

### Website

The Fund's website contains a specific section for non-joiners. It highlights the benefits of planning for retirement and what's provided by the Scheme so again an informed choice can be made.

### Trade Unions

The Fund will endeavour to work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

## Scheme Employers

### Annual Consultative Meeting (ACM)

A meeting is held annually for all Scheme employers, at which detailed investment, financial and administrative reports are presented by Officers and Fund Managers. Other speakers may also be invited to discuss certain issues connected to the Pensions Industry.

### Periodic Meetings

Periodically meetings are arranged for employers. Specifically this has been used as a means of communicating major strategic issues, significant legislation changes and end of year / triennial valuation matters.

### Email Updates

Regulatory and administrative updates are frequently issued to all employers via email.

### Training

Bespoke sessions can be delivered by the dedicated Communication & Training Officer to resolve any administrative training issues identified by the employer, or the Fund. These sessions are held at employer venues or virtually, with developments being monitored and reviewed periodically thereafter.

### Website

The Fund website has a dedicated Employer section that provides all employers with the guidance needed to effectively discharge their administrative responsibilities. Various publications are also available to download.

### Access to Pensions Administration System

Each employer has the opportunity to access the pension records of their current members, providing the facility to provide pension benefit estimates directly to members.

### Administration Strategy

Published in compliance with Scheme Regulations, the Administration Strategy defines the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme. The strategy clearly sets out the level of performance expected from the Dyfed Pension Fund and all employers, as well as the consequence of not meeting statutory deadlines.

## Fund Staff

### Induction

All new members of staff undergo an induction program and are issued with an induction schedule. A periodic appraisal programme is also exercised to review and monitor employee performance and development.

### Meetings

Departmental and Section meetings are held on a regular basis. Items arising from such meetings are escalated through to Senior Managers and Chief Officers. Any relevant matters are cascaded to all staff.

### Training & Support

The Fund seeks to continually improve the capacity of staff to communicate effectively and to understand the importance of high-quality communication. Both general and pensions specific training is provided by the dedicated Communications & Training Officer and by the Local Government Pensions Committee (LGPC) as part of the Fund's commitment to continual improvement. Staff are also encouraged to undertake relevant professional qualifications (as provided by the Chartered Institute of Payroll Professionals (CIPP)).

### Seminars

Fund Officers regularly attend seminars and conferences held by associated bodies to obtain regulatory information and to further their knowledge and understanding. This information is later cascaded to all staff so that service delivery is improved.

## Other Bodies

### Other Pension Funds

The Fund works continuously to engage with other Pension Funds in Wales to evaluate specific partnership arrangements. The Fund is currently the lead authority within the All Wales Pension Funds Communication Working Group and also forms part of the Welsh Pension Funds Pensions Officer Group and Wales Pension Partnership.

### Trade Unions

Details of the Local Government Pension Scheme (LGPS) are brought to the attention of their members by local representatives. They also assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Scheme.

### National Information Forum

These meetings provide an opportunity to discuss issues of common interest and share best practice. The Ministry of Housing, Communities & Local Government (MHCLG) and the Local Government Pensions Committee (LGPC) are represented at each meeting.

### Seminars

Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

# GLOSSARY

**Active Management -** A mark through either Asset Allocation, Market Timing or Stock Selection (or a combination of these). Directly contrasted with Passive Management.

**Actuary -** An independent consultant who advises on the viability of the Fund. Every three years the actuary reviews the assets and liabilities of the Fund and reports to the County Council as administering authority on the financial position and the recommended employers contribution rates. This is known as the actuarial valuation.

**Asset Class -** A specific area/type of Investment e.g. UK Equities, overseas Equities, Fixed Income, Cash.

**Benchmark Return -** The benchmark return is the return that would be achieved if the Fund Manager had not deviated from the weightings of each asset class given to them by the Investment Panel, and had achieved returns in each of these asset classes consistent with the average return of all Local Authority Funds for that class. The Benchmark weightings of asset classes is outlined within the Investment Strategy Statement.

**Corporate Governance -** Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management.

**Equities -** Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

**Fixed Interest Securities -** Investments in mainly government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date but which can be traded on the Stock Exchange in the meantime.

**Fund Manager -** A person or company to whom the Investment of the whole or part of the assets of a fund is delegated by the Trustees.

**Investment -** An asset acquired for the purpose of producing income and Capital Gain for its owner.

**Independent Investment Adviser -** A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial Investment advice to companies, pension funds or individuals, for a stated fee.

**Market Indicators -** (i) The movement in Stock market are monitored continuously by means of an Index made up of the current prices of a representative sample of stock.
ii) Change in the rates at which currencies can be exchanged.

**Market Value -** The price at which an investment can be sold at a given date.

**Out performance/Under performance -** The difference in Returns gained by a particular fund against an 'Average' Fund or an Index over a specified time period ie a Target for a fund may be out performance of a Benchmark over a 3-year period.

**Passive Management -** (also called Indexation/Index Tracking) A style of Investment Management which aims to construct a Portfolio in such a way as to provide the same Return as that of a chosen Index i.e. Stocks are purchased to be as representative as possible of the make-up of the Index. Contrasts with Active Management.

**Performance -** A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the 'Average' Fund or a particular Benchmark.

**Performance Measurement -** A service designed to help investors evaluate the performance of their investments. This usually involves the comparison of a fund's performance with a selected Benchmark and/or with a Universe of similar funds. The main Performance Measurement Companies are The WM Company, which the Dyfed Pension Fund uses, and CAPS.

**Portfolio -** A collective term for all the investments held in a fund, market or sector.

**Preserved Benefits -** The pension benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the Pension scheme before normal retirement age.

**Return -** The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

**Risk -** Generally taken to mean the Variability of Returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them.

**Transfer Value -** Payments made between funds when contributors leave service with one employer and decide to take the value of their contributions to their new fund.

**Unrealised Increase/(Decrease) In Market Value -** The increase/(decrease) in market value, since the purchase date, of those investments held at the year end.