



ANNUAL REPORT

2019/20

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I. Foreword

Welcome to the Gwynedd Pension Fund's annual report for the financial year ended 31 March 2020. We have come through a challenging year, with the Fund achieving positive returns again in 2019/20, but the impact of COVID-19 can be seen on the Fund's value at 31 March 2020.

Excellent results were received from the triennial actuarial valuation of 2019, with the Fund being funded to a level of 108% at 31 March 2019 (a significant increase from where it was 91% funded at the 2016 triennial valuation). Although the position of each individual employer in our Fund is different, the Fund's strength has generally allowed us to take a flexible approach towards employer contribution rates effective since April 2020. This has been encouraging support for many of the main employers of the north-west Wales sub-region, considering the continuing pressure on the budgets of public bodies and voluntary organizations receiving a lower level of specific grants.

The Gwynedd Fund has continued to work closely with the other seven funds in Wales to pool investments. The bulk of the Fund's global equity assets have already been transferred to the 2 Wales Pension Partnership equity portfolios in February 2019, as well as the joint mandate with BlackRock for the passive equity investments of the eight Welsh funds. By 31 March 2020, 60% of the Fund's assets were in Partnership vehicles, which should improve the resilience of our Fund, while retaining ownership and responsibility for Gwynedd's investments. During the summer of 2020, we also transferred assets to the Wales Pension Partnership's fixed income funds, with emerging markets equity funds to follow next in the summer of 2021.

Following a review of the Fund's investment strategy in 2018/19, moderate de-risking has been implemented by transferring a portion of the equity assets to fixed income, although we continue to focus on growth assets which are expected to achieve more attractive returns over the longer term than lower risk investments.

Also, in line with the responsible investment principles developed in 2018/19, taking into account environmental factors, 12% of the pension fund's value was invested in more sustainable passive equity assets in the BlackRock low carbon fund. This fund reduces exposure to companies in the standard carbon-emitting Global Index. By tracking the MSCI Low Carbon Index, compared to tracking the standard index, this fund will reduce carbon exposure by up to 80%.

The Gwynedd Pension Fund takes the lead in doing whatever we can to ensure that we act responsibly now, and consider the impact that our actions will have on future generations. Further steps towards responsible investment with regard to environmental factors are under consideration in 2020/21.

This report provides further information on investment performance, and on the activities and management of the Pension Fund during the year. I hope this report provides useful information about your Pension Fund. However, it is important that we seek to improve the quality and suitability of the information provided in the report, so feedback is welcome. For more information about the Gwynedd Pension Fund, or to give your views on this report, contact details of relevant officers are provided in the report.

The Fund's staff have continued to ensure that we provide a high level of service in 2019/20. There have been great strides in developing electronic ways of working, with employers increasingly using the i-Connect system interface to share data, and scheme members increasingly using the interactive guidance and information on the Pension Fund's website.

I would like to thank the Gwynedd pension administration staff, and their colleagues in the investment team for their hard work over the last year, and the continuation of the service in recent months when we have all worked from home.

On 14 October 2020, Councillor Peredur Jenkins was elected as the Pensions Committee's new Chairman for 2020/21, and he has already started work with renewed vigour. I would like to thank Councillor John Pughe Roberts for his faithful service chairing the Pensions Committee for the past 2 years. The former Chairman can look back on a developmental and prosperous period for the Fund, when he was influential on behalf of Gwynedd as a member of the Wales Pensions Partnership Joint Governance Committee.

I hope you find the following report helpful. Many thanks for your support during 2019/20, and I look forward to continuing our constructive working relationship in 2020/21.



Councillor Peredur Jenkins
Pensions Committee Chairman



Dafydd L Edwards
Head of Finance

2. Management Structure

Administering Authority

Gwynedd Council

Pensions Committee

Councillor John Pughe Roberts (Chairman)
Councillor Peredur Jenkins (Vice Chairman)
Councillor Stephen Churchman
Councillor Simon Glyn (until 02/05/2019)
Councillor John Brynmor Hughes
Councillor Aled Wyn Jones
Councillor Peter Read
Councillor Ioan Thomas
Councillor Robin Wyn Williams (Co-opted Member)
The late Councillor David Cowans (Co-opted Member)

Pensions Board

Employer Representatives

Mr Anthony Deakin (Cartrefi Conwy) (until 08/08/2019)
Mr Huw Trainor (North Wales Police)
Councillor Aled Lloyd Evans (Gwynedd Council)
Mrs Sioned Parry (Cyngor Conwy)

Member Representatives

Mr Osian Richards
Mrs Sharon Warnes
Mr H. Eifion Jones

Head of Finance (“Section 151 Officer”)

Mr Dafydd L. Edwards

Advisor

Mr Paul Potter (Hymans Robertson)

Fund Managers

BlackRock
Fidelity International
Insight Investment
Lothbury
Partners Group
Threadneedle
UBS Global Asset Management Limited

Fund Website

www.gwynedd-pensionfund.org.uk

AVC Providers

Clerical Medical, Utmost Life and Standard Life

Pool

Wales Pension Partnership (WPP)

Pool Operator

Link Fund Solutions Ltd

Custodian

Northern Trust

Actuary

Hymans Robertson

Bank

Barclays Bank plc

Auditor

Wales Audit Office

Contact Details

Enquiries and more detailed information regarding:

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

Mr Meirion Jones,
Pensions Manager,
Gwynedd Council,
Council Offices,
Caernarfon,
Gwynedd. LL55 1SH
☎ 01286 679643

✉ meirionjones2@gwynedd.llyw.cymru

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

Mrs Delyth Jones-Thomas,
Investment Manager,
Gwynedd Council,
Council Offices,
Caernarfon,
Gwynedd. LL55 1SH
☎ 01286 679128



delythwynjonesstomas@gwynedd.llyw.cymru

3. Annual Report of the Gwynedd Pension Board for 2019/20 (the year to 31 March 2020)

Background / Constitution

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

Over the period between 1 April 2019 and 31 March 2020, the Board has met four times. Board members are invited as observers to meetings of the Pensions Committee and have agreed to take this role in turn in order to facilitate understanding as well as communication. This arrangement is reciprocated with the Chair of the Pensions Committee now attending Board meetings, where he is accountable, with officers for the governance and administration of the Fund. At times, the Board has asked for its views and recommendations to be submitted for consideration by the Committee.

During the year, Anthony Deakin retired from the Board and Sioned Parry joined as a new member. As the Board we would like to thank Anthony for his hard work and wish him well in his retirement. We would also like to welcome Sioned to the Board and hope she finds the challenge and work as rewarding and interesting as the rest of the Board.

Function of the Board

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

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

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

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

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

The work of the Board

Once again, the past year has been a busy year for the senior staff of the Administering Authority with the triennial valuation being undertaken as well as the continuing pooling. Therefore, Board members were aware of the need to prioritise requests in order for officers to prepare reports for the Board.

Attendance

	17/04/2019	24/09/2019	10/12/2019	03/03/2020
Anthony Deakin	✓			
Councillor Aled Evans	✓	✓		✓
H. Eifion Jones	✓	✓	✓	✓
Osian Richards		✓	✓	✓
Huw Trainor	✓		✓	✓
Sharon Warnes		✓	✓	✓
Sioned Evans Parry				✓

Work Plan

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

- Triennial valuation including assumptions
- Treasury Management Strategy Statement and Annual Investment Strategy
- Responsible Investment including low carbon equity
- Update to the Risk Register
- Communication- with employers and members, especially young members
- The Pension Fund's investment performance
- Pension Administration
- The Member Self Service system
- Wales Pension Partnership

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

In addition, Board members attended the annual meeting of the Fund in September 2019 and noted that the fund has performed highly satisfactory, compared with other LGPS funds.

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

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

The work plan for 2020/21 include:

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

Training

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

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

Responsible Investor's Annual Europe Investment Conference

LGPS Local Pension Board Members' Annual Event

LGPS Members Autumn Seminar in Cardiff

LAPFF Conference in Bournemouth

LGPS Governance Conference in York

LGC Investment Seminar in Carden Park

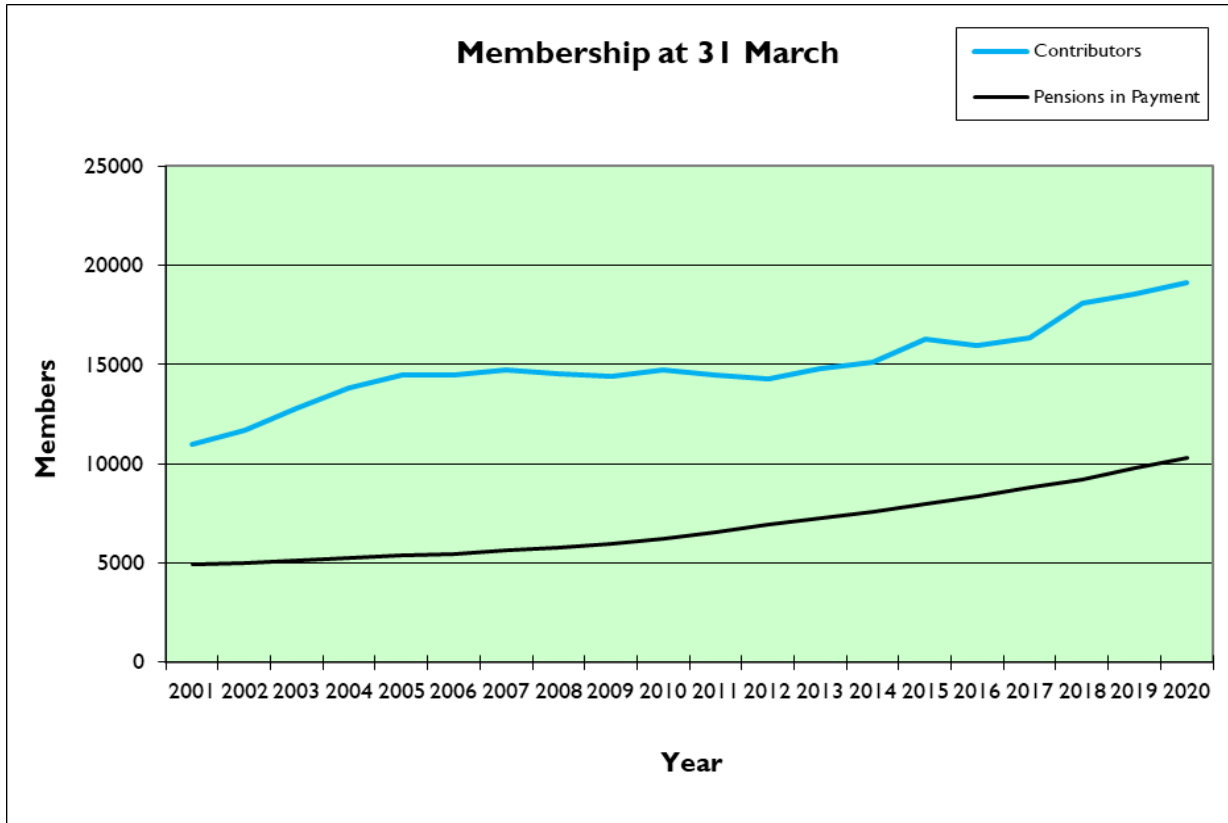
Thanks

The Chair wishes to thank his fellow members on the Board, who have volunteered their time to the roles, and the relevant officers for their support. The Board would also like to thank the officers Caroline Roberts and Nicholas Hopkins who retired during the year and congratulate their successors Delyth Jones- Thomas and Meirion Jones.

Osian Richards
Chair

4. Membership Summary

The graph below shows the changes in the Fund's membership over the last 19 years. It shows that the number of pensioners has slowly increased from 4,931 in 2001 to 10,308 in 2020 and the number of active contributors has also increased from 10,948 in 2001 to 19,129 in 2020.



The table below shows the membership summary:

31 March 2019	Description	31 March 2020
18,544	Contributors	19,129
11,793	Deferred Pensioners	12,464
9,777	Pensions in Payment	10,308
1,671	Unclaimed Benefits	1,803
41,785	Total Membership	43,704

5. Pensions Administration

5.1 Review of the Year

Introduction

2019/20 has been another busy year for the Pensions department. This report provides a general overview of pension administration over the past year. It includes information on the work carried out over the period and an update on various projects previously mentioned.

Performance Management

The Pension Fund is committed to improving its service delivery and will review the measures in place to monitor performance on an annual basis to identify where improvements may be made. Where areas of poor performance are identified, the Pensions department will review the reasons for poor performance and will endeavour to put in place appropriate processes to improve the level of service delivery in the future. This is the performance of the department's core duties for 2019/20 compared to 2018/19:

Ref.	Core Activities	Performance in 2018/19		Performance in 2019/2020	
		Number of cases	Average days taken	Number of cases	Average days taken
CD9.01	Average number of work days taken to send a quotation letter offering a transfer in	217	11.8	214	13.9
CD9.02	Average number of work days taken to send a quotation letter detailing a transfer out	64	11.9	94	5.2
CD9.03	Average number of work days taken to send a letter informing value of benefits – estimates	1,876	4.2	1,974	3.4
CD9.04	Average number of work days taken to send a letter informing value of benefits – actual	766	1.7	800	1.4
CD9.05	Average no of days taken to acknowledge death of active / preserved / pensioner member	17	3.4	30	6.6
CD9.06	Average number of work days taken to notify dependents benefits	205	7.7	296	6.9
CD9.07	Monthly pension payments processed and paid on time (figure based on number of payments in Month 12 of each year)	10,312	100%	10,806	100%
CD9.08	Number of cases where amended payments were necessary as a result of an error in the section.	0	n/a	0	n/a

As shown above, the performance of the department has improved. We will work to improve performance during 2020/21, and try to ensure that we will improve the performance of CD9.01 and CD9.05.

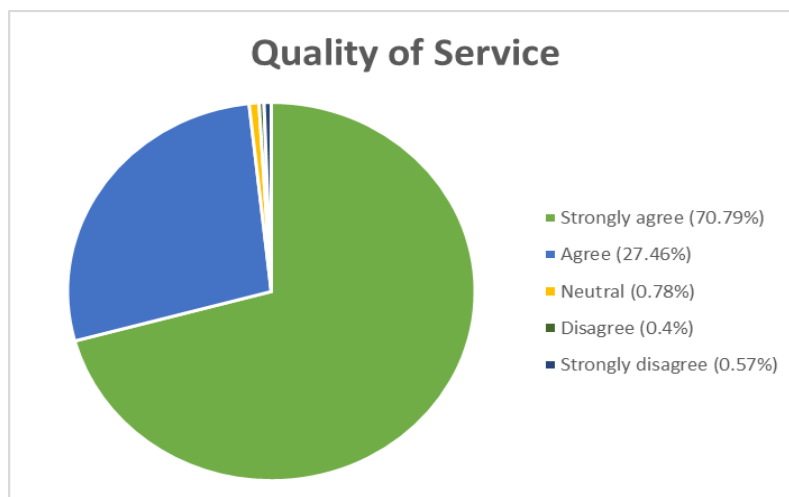
Member Satisfaction Survey

In order to ensure that we offer the best possible service to our members, a Member Satisfaction Survey is sent at the end of each process, e.g. retirements and payment of reimbursements to members for their views on the quality of service received and their views on the service provided by the department's staff.

Here is a summary of 2019/20 results:

Service Quality

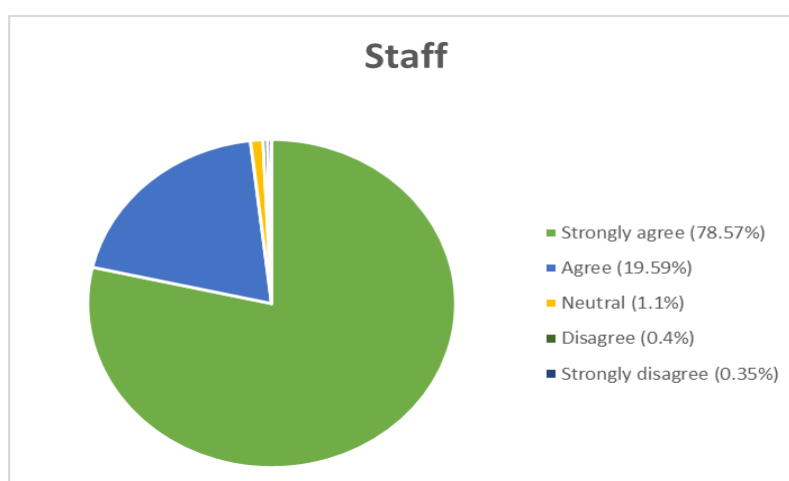
The graph below shows the percentage of users who are satisfied with four aspects of service performance based on: i) service as a whole; ii) clear information; iii) quality of service; iv) time to deal with the query.



As seen above, 98.25% of users strongly agree or agree that the quality of the service provided is of a high standard.

Staff

The graph below shows the percentage of users who are satisfied with four aspects of staff performance based on: i) politeness; ii) timeliness; iii) support provided; iv) level of knowledge.



A high percentage (98.16%) of users again strongly agree or agree that the quality of the service provided is of a high standard in the relation to the department's staff.

Complaints

Fortunately the number of complaints received is very low with the member satisfaction survey showing that the majority of members are very happy with the service provided. Most complaints relate to members who have been denied sickness retirement benefits, members who want a pension contribution refund following pension being deducted from their salary by the employer, and a delay in processing retirement benefits as we have not received the information from the employers. The complaints above are usually out of the control of the Pensions department, and we usually refer the member back to their employer.

Complaints arising from the performance of the pensions department itself include the delay (in the opinion of members) in processing their retirement benefits or repayments of pension contributions, a typing error in letters sent out and details of pensioners' BACS payments not changed as the payroll has closed. We correct any errors as soon as possible and try to change our processes, if appropriate, to avoid the same mistake happening again.

Members' Self-Service System

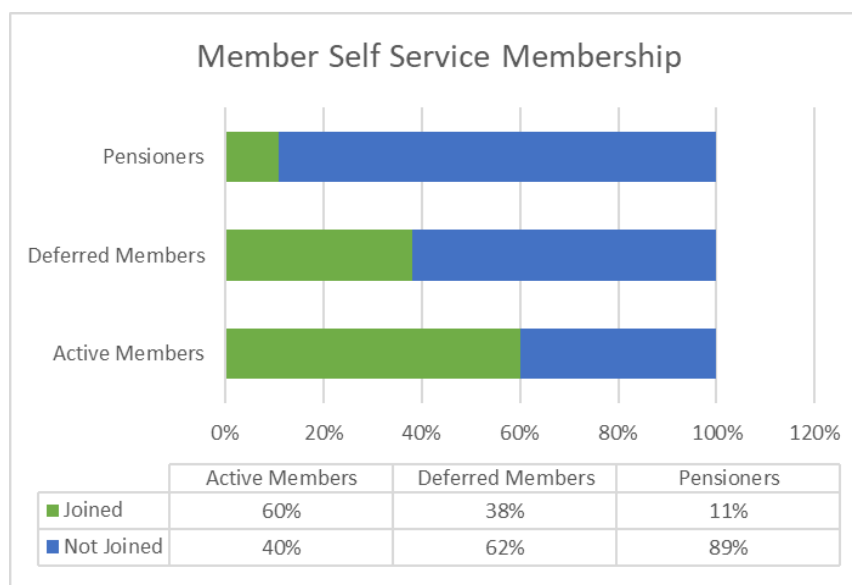
During 2019/20, work has been undertaken to upgrade the Members' Self-Service (MSS) website. It was hoped that the new site would be launched by the end of 2019. Unfortunately, due to various technical issues, this was not possible. However, the site was launched at the end of January 2020.

The new website gives our members a better online experience, with an interface that looks more engaging and easier to use. The MSS system allows members to:

- View and update personal details and address changes
- Find out how much they will receive when retiring
- Calculate the amount of extra lump sum they can take on retirement
- See the history of their service, including any transferred service
- View and update their nominated beneficiaries
- View their Annual Benefit Statement

It was intended at the end of the tax year to launch a promotional campaign on the new website. This project has been suspended at present while members are dealing with essential duties due to the Coronavirus.

At 31/03/2020 the following percentages of members have joined the self-service:



i-Connect

i-Connect updates members' data in our pension administration system on a monthly basis, avoiding the need for employers to send information at the end of the year.

Data is taken directly from a payroll system by i-Connect which then automatically identifies and presents details of new members, opt-outs and leavers.

During 2019/20, major progress was made with the project.

Gwynedd Council, Conwy County Borough Council, North Wales Police Authority and Llandrillo-Menai Group now submit their details on a monthly basis, as well as all the small employers within the fund.

This now leaves only one employer who does not use i-Connect to submit their details. Work will proceed in the 2020/21 tax year to move this employer to i-Connect.

Valuation

One of the major projects for 2019/20 was the valuation. In order to prepare, the department allocated extensive resources to the project to update members' records and to clear as many errors as possible following feedback from the Actuary.

Overall the project was success with the Actuary noting that the quality of data was of a high standard.

See Section 8 for the details of the valuation.

Annual Benefit Statements

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

Since 2018, these statements have been made available electronically on the Members' Self- Service section of our website. The 2019 statements were uploaded on the system for active and deferred members on 16/08/2019.

1,050 members have written in to confirm that they wish to continue to receive a paper copy of their statement. These statement were sent on 17/08/2019.

The Pensions Regulator- Measuring Data

In 2015, the Pensions Regulator (TPR) became responsible for Public Sector Pension Schemes. Prior to that, in June 2010, the TPR issued guidance on the approach they consider good practice in measuring the attendance of members' data.

We commissioned our software provider, Aquila Heywood to produce a Data Quality Report for our Fund in September 2019.

The report is divided into two sections:

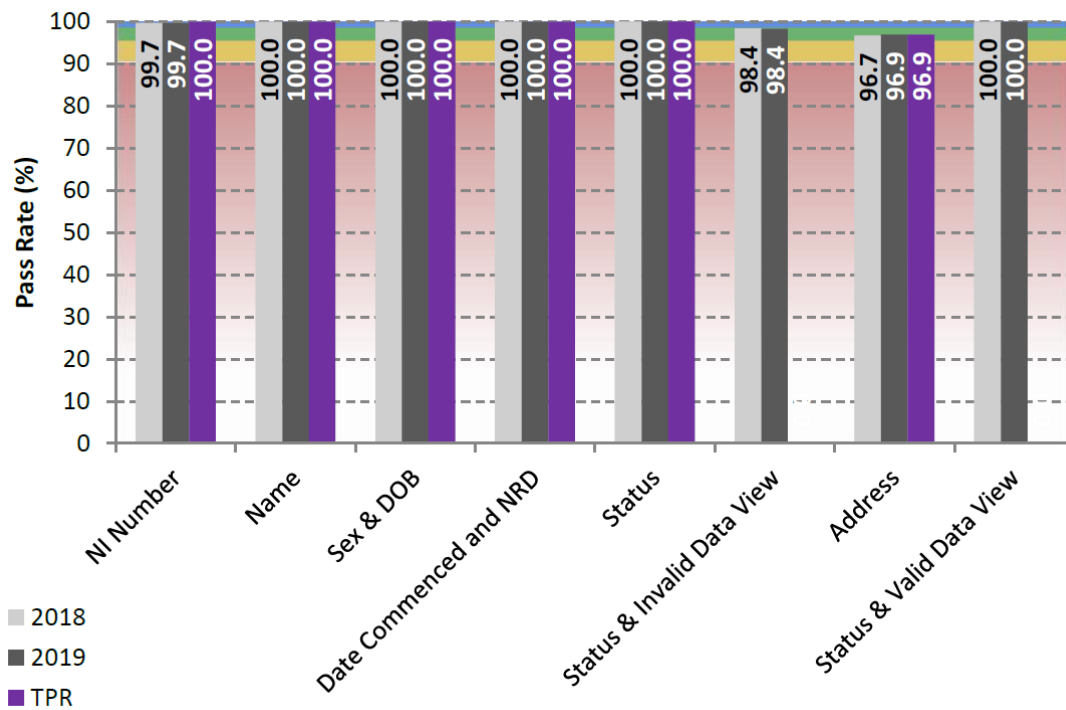
- **Common Data:** e.g. name, address, NI number, gender, date of birth, status and start date
- **Scheme Specific Data:** e.g. benefits in the scheme, transfer details, AVCS, salary details, contributions, service, lifetime allowance, annual allowance and GMP.

The summary of the results are given below:

Summary of Common Data Results

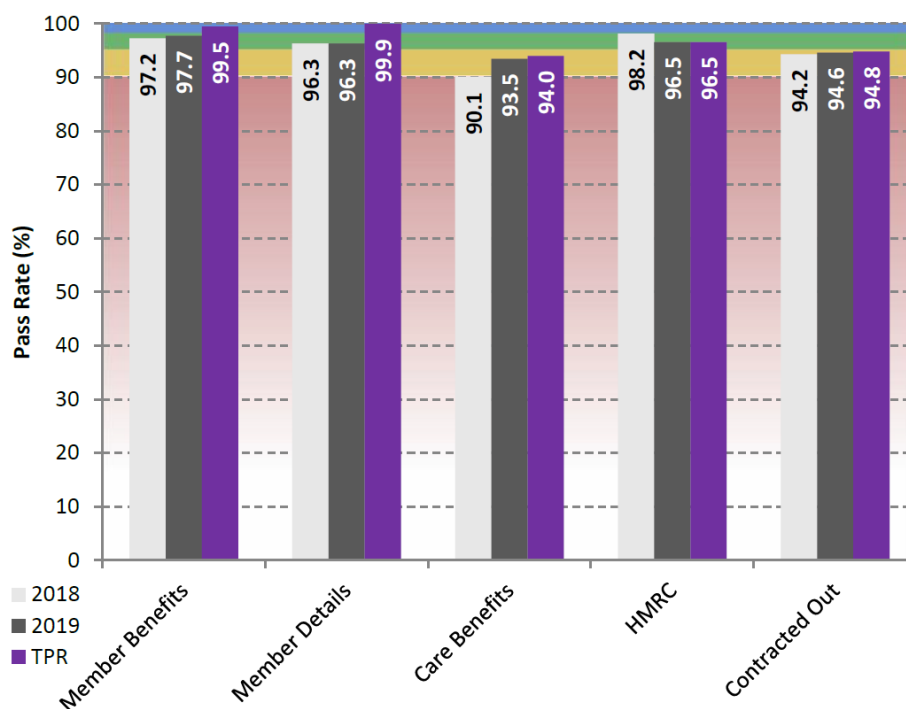
The graph below shows Gwynedd's performance for each data category against the agreed scheme benchmarks and the results of the 2018 tests. The results presented here are produced from data extracted from the Gwynedd Altair Living Service on 12 September 2019 for each test. The overall percentage of tests passed for Gwynedd common data is 99.4% which is a small improvement over the 2018 score of 99.3%.

7 of the 8 categories achieved the highest benchmark of more than 98% with 2 categories without recording individual failure. A further 3 categories have been rounded to 100% with pass rates over 99.95%. The only category that did not arrive the highest benchmark in question was member referrals with a score of 96.9%. With the exception of members' referrals, the overall quality of common data in Gwynedd is of a high standard. Some work needs to be done to trace members recorded as 'disappeared' to bring this category to the highest benchmark. The percentage of members' records without common data failure is 96.9% (94.9% last year) and this is the figure that TPR will receive on the scheme's returns.



Summary of Results of the Scheme Specific Data

The graph below shows Gwynedd's performance for each data category against the agreed plan benchmarks and the results of the 2018 tests. The results presented here are generated from data extracted from the Gwynedd Altair Living Service on 12 September 2019 for each test. The overall percentage of tests passed for plan-specific data is 96.1%. The percentage of members' records without the failure of individual scheme-specific data is 91.7% (81.6% last year) and this is the figure that TPR will receive on scheme returns.



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

Staffing

During the past year, a major change has taken place in the staff of the Pensions department with experienced staff leaving and a large number of new staff joining the team. In May 2019, Nicholas Hopkins commenced a period of flexible retirement, and retired entirely as Pensions Manager on 30 November 2019, with Meirion Jones taking full charge on 1 December 2019. Due to this change, interviews have been taking place over the past year to fully re-staff the department. We have therefore promoted a number of staff to the following roles:

- Senior Pensions and Governance Officer - Gwennan Williams
- Senior Communications Officer - Glesni Jones
- Pensions Officer - Ayesha Trainor
- Communications Officer - Bronwen Williams
- Pensions Technician - Leanne Hunt-Hughes
- Systems Technician - Eluned Hughes

Also, a large number of new staff have joined the team:

- Owain Pritchard - Systems Officer
- Elin Hughes - Pensions Assistant
- Rhiannon Hughes - Pensions Assistant
- Alwen Johnson - Pensions Assistant
- Wendy Owen - Pensions Assistant

With so many changes within the department, a lot of work has taken place to train the staff in their new roles.

Training

During 2019/20, three staff members have completed the Chartered Institute of Payroll Professionals (CIPP) Certificate of Pensions Administration course. This course involved the completion of six assignments and one exam.

In turn, four members of staff have started to study towards a Foundation Degree in Pensions Administration and Management. The Foundation Degree is a mix of assignments and exams and will take 2 years to complete. I am pleased to report that all four are progressing well with this course, with all assignments and examinations to date having been successfully completed.

A training session was recently held on annual and lifetime allowance to the relevant staff of the department by Ian Colvin, Head of Benefit Consultancy at Hymans Robertson. This session looked at the challenging calculations of annual and lifetime allowance. Positive feedback was received and it is hoped that the session will help us to better understand this complex set of regulations and provide a better service to our members.

Thanks

Overall 2019/20 has been a successful year for the Pensions department. I would like to thank all the staff for their hard work and support over the year, the employers for providing timely information and the actuary Hymans Robertson for their work and advice over the year. I would also like to wish Nick a long and happy retirement following 38 years of service to the Council.

Meirion Jones
Pensions Manager

5.2 Local Government Pension Scheme Regulations

General

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

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

From April 2014 employee contribution rates are determined in bands according to their actual pay indexed annually in line with inflation. Employees may opt to pay half rate contributions to accrue half rate personal benefits in what is called the 50/50 scheme, death and dependant benefits remain at full rate. The bandings for April 2019 – March 2020 are shown in the table below:

Pay Bands	Contribution Rates main scheme	Contribution Rates 50/50 scheme
Up to £14,400	5.5%	2.75%
£14,401 - £22,500	5.8%	2.9%
£22,501 - £36,500	6.5%	3.25%
£36,501 - £46,200	6.8%	3.4%
£46,201 - £64,600	8.5%	4.25%
£64,601 - £91,500	9.9%	4.95%
£91,501 - £107,700	10.5%	5.25%
£107,701 - £161,500	11.4%	5.7%
More than £161,501	12.5%	6.25%

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

Benefits

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

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

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

- **Annual Pension**

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

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

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

- **Lump Sum**

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

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

- **Conversion of Benefits**

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

Councillor Pensions

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

III-Health Retirement

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

The benefit payable depends on the ill health retirement awarded:

Tier 1

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

Tier 2

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

Tier 3

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

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

Early Retirement

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

Preserved Benefits

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

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

Death in Service

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

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

Death after Retirement

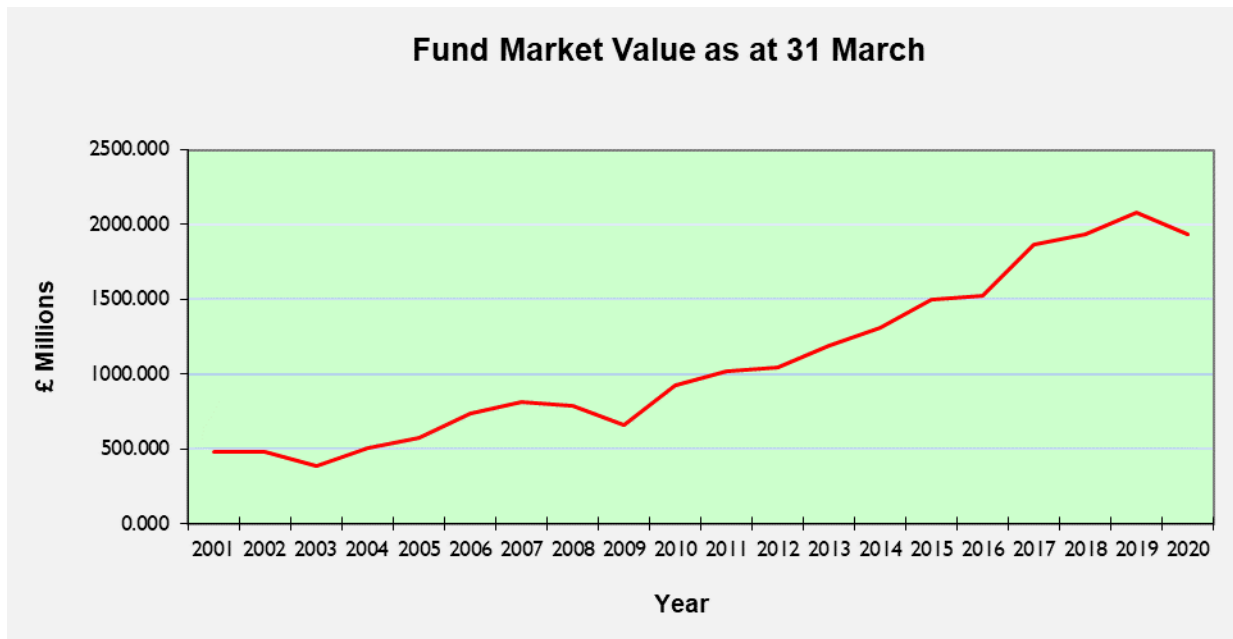
Pension payments come with a ten year guarantee, so that if death occurs within ten years of retirement and before age 75 a death grant may be payable on the excess of pension not paid up to a maximum that would have been paid up to age 75.

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

6. Investments

6.1 End of Year Position

The Fund has performed strongly since the 2008/09 crash with the value of the Fund increasing each year. This year has been extremely challenging with the positive increase in the first 9 months being reversed with a reduction of 25%-30% in equity markets in early 2020 as the effects of the COVID19 pandemic became clear with many economies closing down. This period has been uncertain and the recovery period will take time.



Investments by investment manager

Over the period of this report, there were 5 Investment Managers, as follows: BlackRock, Fidelity International (Fidelity), Insight Investment (Insight), WPP and Partners Group. The Fund has also invested directly in Lothbury Investment Management's (Lothbury) Property Fund, Threadneedle's Pensions Property Fund and UBS Life Triton Property Fund. Cash with Veritas follows the transfer to the WPP in February 2019.

Market Value at 31 March 2019 £'000		Market Value at 31 March 2020 £'000
	<u>Local Funds</u>	
656,262	BlackRock	565,379
192,395	Fidelity	181,742
285,253	Insight	280,282
61,073	Lothbury	60,570
145,614	Partners Group	157,230
20,862	Threadneedle	31,401
50,182	UBS	47,832
411	Veritas	625
	<u>Wales Pension Partnership Funds</u>	
643,081	Wales Pension Partnership	604,237
2,055,133		1,929,298

Asset Allocation

The main determinant of the Fund's long-term performance is the strategic allocation of assets. Following the allocation to infrastructure, the strategic allocation of the Fund's assets is 72.5% equity, 15% UK bonds, 10% property and 2.5% infrastructure.

The following table shows the Fund's benchmark allocation during 2019/20.

	Actual	Target	Difference
	%	%	%
UK Equity	16.2	19.0	-2.8
Global Equity	50.7	48.5	2.2
Private Equity	6.2	5.0	1.2
Total Equity	73.2	72.5	0.7
UK Bonds	14.5	15.0	-0.5
Property	10.0	10.0	0.0
Infrastructure	2.3	2.5	-0.2
Total	100	100	

At 31 March 2020, the Fund was overweight to equity and its infrastructure and bond allocations were slightly too low and property is in line with the 10% target. The Fund will allow circumstances to stabilise following the pandemic before looking at its future allocation.

6.2 Investment Performance

Quarterly Meetings

The performance of the Investment Managers is monitored on a quarterly basis. Investment Managers submit quarterly reports and valuations to the Pensions Committee, the relevant officers

at Gwynedd Council and the Fund's adviser. Every quarter a meeting is held between Investment Managers, the Committee, officers and the adviser to monitor their performance.

Performance Monitoring

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

Targets

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

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

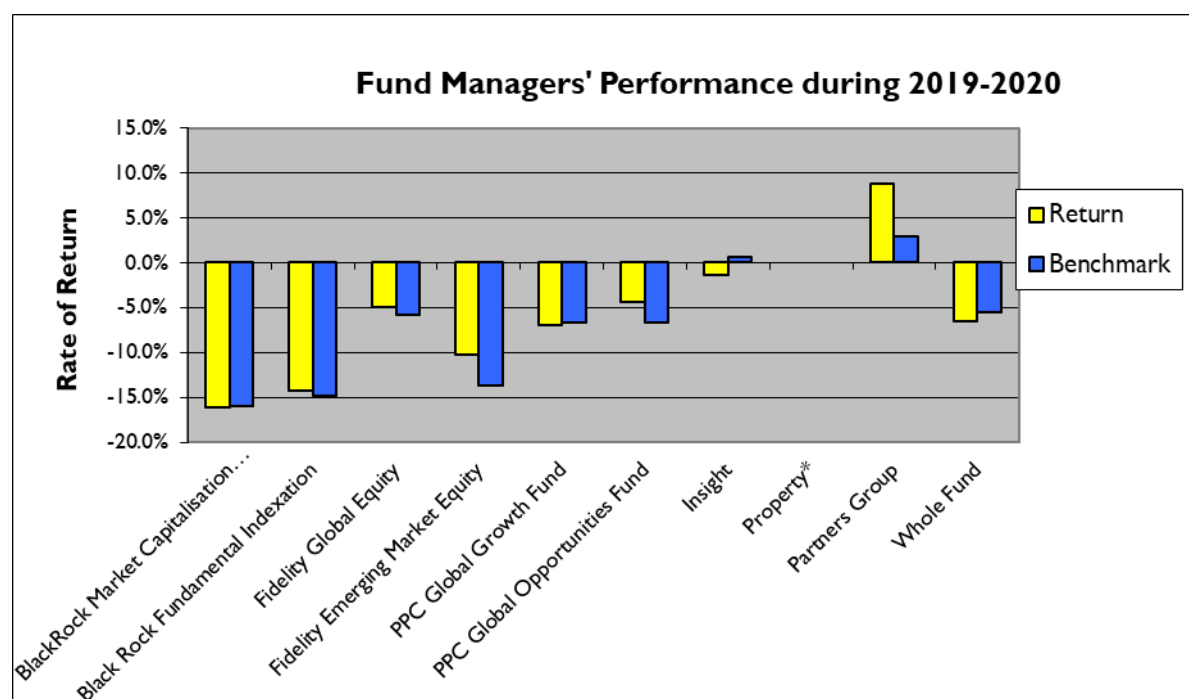
*Partners do not have an official performance target. The target stated above is purely for indicative purposes.

MSCI=Morgan Stanley Capital International

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

The Fund's Performance

The graph below shows the performance of the Managers over 1 year.



*The fund invests in property funds with Lothbury, BlackRock, UBS and Threadneedle.

With long-term performance shown in the table below:

	1 Year Return	1 Year Benchmark	3 Year Return	3 Year Benchmark	5 Year Return	5 Year Benchmark
Local Funds						
BlackRock Market Capitalisation Portfolio	-16.1%	-16.0%	-3.2%	-3.2%	+1.7%	+1.6%
Black Rock Fundamental Indexation	-14.2%	-14.8%	-2.4%	-3.0%	+4.1%	+3.5%
Fidelity Global Equity	-4.9%	-5.8%	+2.0%	+2.2%	+6.3%	+7.0%
Fidelity Emerging Market Equity	-10.2%	-13.7%	0.0%	-1.4%	+5.2%	+3.2%
WPP Global Growth Fund	-6.9%	-6.7%	n/a	n/a	n/a	n/a
WPP Global Opportunities Fund	-4.4%	-6.7%	n/a	n/a	n/a	n/a
Insight	-1.4%	0.7%	-1.1%	0.6%	+0.2%	+0.6%
Property (UBS, Lothbury, Black Rock, Threadneedle)	0.0%	0.0%	+5.0%	+4.8%	+5.6%	+5.8%
Partners Group	8.8%	3.0%	n/a	n/a	n/a	n/a
Wales Pension Partnership Funds						
WPP Global Growth	-6.9%	-6.7%	n/a	n/a	n/a	n/a
WPP Global Opportunities	-4.4%	-6.7%	n/a	n/a	n/a	n/a
Whole Fund	-6.5%	-5.5%	+1.3%	+1.2%	+5.1%	+4.8%

Against the benchmark, the Fund underperformed by -1.0% during the 2019/20 financial year. The Fund's performance was -6.5% against a benchmark of -5.5%. This negative performance is due to the impact of the restrictive measures on supplies around the world in the last quarter of the year due to the COVID pandemic. This is believed to be a short-term effect and the impact will be negligible in the long term, which is the main time horizon of the Fund.

The Fund's performance was 0.1% higher three years, with a return of +1.3%. Over a five year period, the Fund outperformed against the benchmark, with a return of +5.1% against a benchmark return of +4.8%.

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

6.3 Administrative and Custody Arrangements

Governance

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

Governance Policies

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

Copies can be seen in 10.4 and 10.5.

Specialist Advice

The Local Government Pension Scheme Regulations oblige the Council to take specialist advice on investment. This advice is provided by an independent advisor from Hymans Robertson (the Fund's

advisors), who joins the Pensions Committee in monitoring the Investment Managers. An advisor from Hymans Robertson is always present at the Pensions Committee's quarterly meetings with the Investment Managers.

Custodians

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

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

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

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

Administrative Procedures

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

6.4 Investment Powers

Investment Powers

The regulations require that the Fund have an Investment Strategy Statement.

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

6.5 Investment Management

General

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

Investment Manager Briefs

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

Investment Manager	Brief
BlackRock	Passive
Fidelity	Active
Insight	Active
WPP	Active
Partners	Active

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

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

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

6.6 Wales Pension Partnership Collaboration

Established in 2017, the Wales Pension Partnership (PCC) is a collaboration of eight LGPS funds covering the whole of Wales and is one of the eight national Local Government Pension pools. The operating model of WPP has been designed to be flexible and secure value for money, providing investment options that allow the Gwynedd Pension Fund to operate a strategy of our own, but with important cost savings. Link Fund Solutions was appointed as operator and they have partnered with Russell Investments to deliver effective investment solutions. The eight constituent authorities are:



The WPP has achieved significant progress towards meeting this objective through the launch of three sub-funds, two of which the Gwynedd Pension Fund is part of, Global Growth and Global Opportunities. The WPP will continue to develop sub-funds in collaboration with Link Fund Solutions Ltd and Russell Investments. To date, the WPP has accumulated approximately 47% of its assets and, by the end of March 2021, it is expected that more than 60% will have accrued.

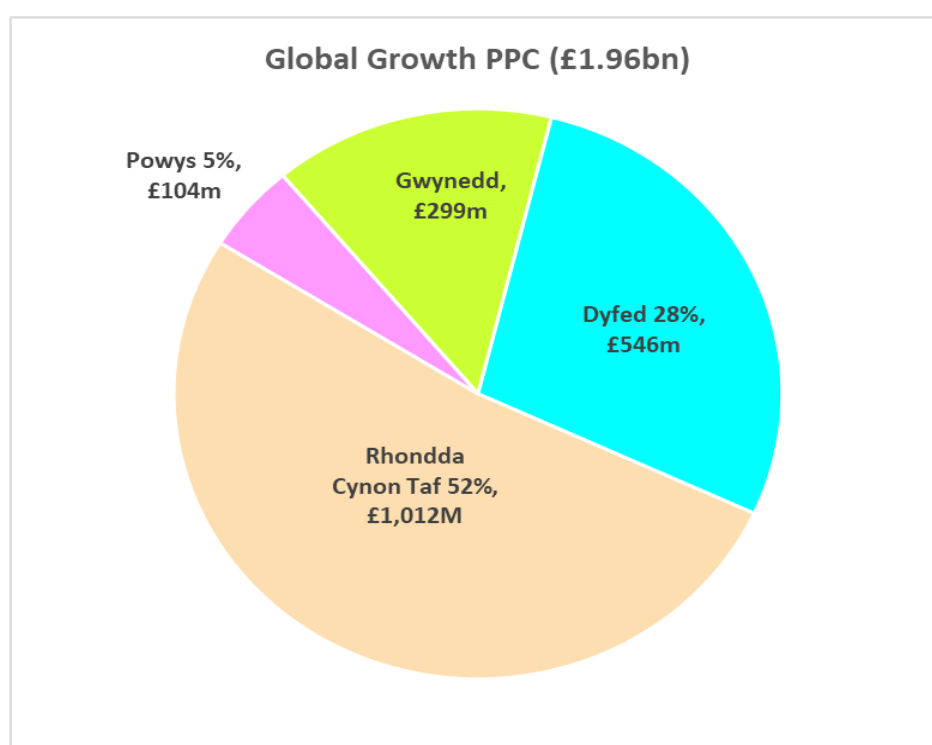
During the year there have been no further transfers to the Wales Pension Partnership but the WPP has had a very busy and productive year, and the partnership has started to focus on the coming 12 months. Particular highlights over the next year and a half will include the launch of the fixed income and emerging markets sub-funds and the continued development of private market offerings which will include real estate, infrastructure and social impact.

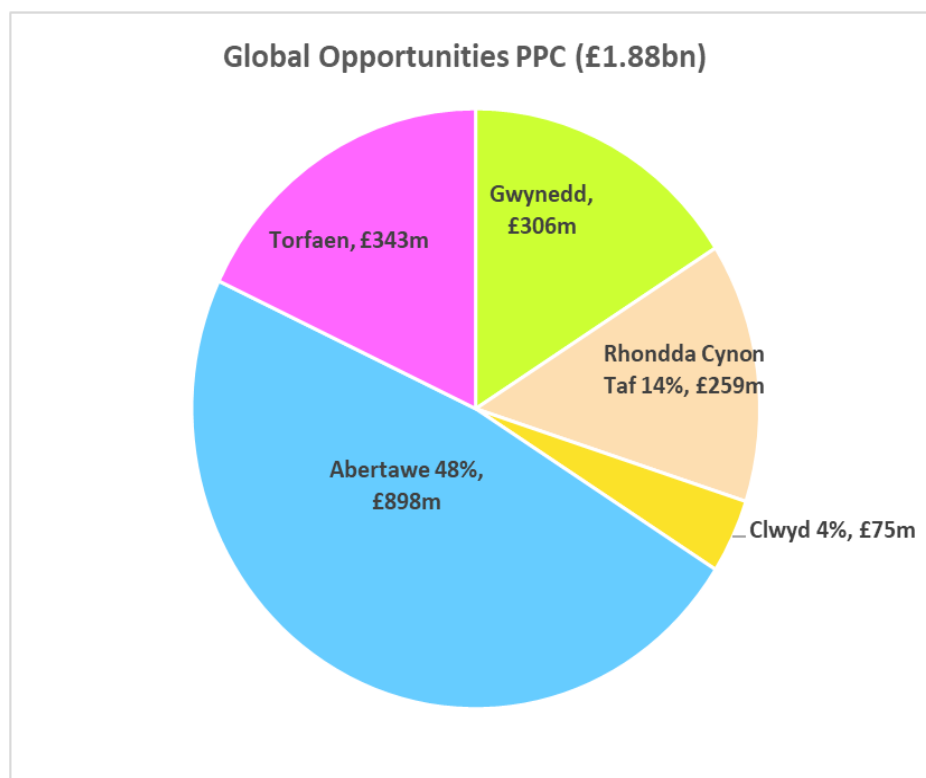
Since establishing in February 2019, the Gwynedd Pension Fund has saved **£1,012,683** with the equity funds.

These are the values of the two funds within the Wales Pension Partnership as at 31 March 2020:

2019/20	Market Value at 1 April 2019	Purchases during the year	Sales during the year	Change in Market Value during the year	Market Value at 31 March 2020
	£'000	£'000	£'000	£'000	£'000
WPP Global Growth Fund	322,200	0	0	(23,581)	298,619
WPP Global Opportunities Fund	320,881	0	0	(15,263)	305,618
Total WPP	643,081			(38,844)	604,237

With the split within the funds as a whole as at 31 March 2020:





This period has been challenging for the performance of the Wales Pension Partnership and the performance detail by individual investment manager is set out below.

The benchmark is MCSI ACWI which is -6.74% for the year and -3.76% since February 2019.

Share at 31 March 2020	Investment Manager	1 Year Return	Return since February 2019
WPP Global Growth Fund			
43.23%	Baillie Gifford	-0.78%	2.47%
28.35%	Pzena	-20.29%	-18.67%
26.83%	Veritas	-0.20%	2.64%
1.59%	Operator Account	n/a	n/a
100.00%	Total Fund	-6.92%	-4.58%
WPP Global Opportunities Fund			
9.43%	Morgan Stanley	7.83%	9.65%
14.18%	Jacobs Levy	-2.22%	-1.89%
16.93%	Numeric	-4.90%	-4.43%
15.35%	NWQ Investment Management	-2.38%	-4.31%
14.14%	Oaktree	-16.72%	-14.59%
16.00%	Sanders Capital	-3.13%	-3.27%
7.20%	SW Mitchell	-6.71%	-5.15%
6.68%	RI- Overlays	n/a	n/a
0.09%	Operator Account	n/a	n/a
100.00%	Total Fund	-6.92%	-4.58%

Meetings with the portfolio manager and investment managers are held on a quarterly basis, where officials, committee members and the pensions board have the opportunity to monitor and challenge the performance of the funds.

The WPP has continued to develop sound governance during the year and has appointed Hyman Robertson in January 2020 to offer oversight and advice on the Fund's strategy regarding governance, operator services and strategic investment. These documents were published in the year:

- Statement of Beliefs
- Governance Matrix
- Responsible Investment Policy
- Communications Plan
- Training Plans

The WPP website was launched in September 2019 and it is an excellent tool to learn and understand more about the fund. You can find the website here: <https://www.walespensionpartnership.org/>

7. Management and Financial Performance

7.1 Managing Risk

The Gwynedd Pension Fund recognises the importance of effective risk management. Risk management is the process by which the Fund identifies and deals with the risks associated with the activities.

For the Gwynedd Pension Fund, the risks come from a number of sources including long-term investment strategy, funding position, investment performance, scheme administration, membership change, financial systems and communications.

The following documents explain these major risks and show how they are identified, avoided, managed and reviewed:

- Investment Strategy Statement
- Funding Strategy Statement
- Gwynedd Pension Fund Accounts- reference to financial instrument risks

Expert advice is provided by Hymans Robertson, our advisers, and the Pensions Committee meets to review the performance of our investment managers on a quarterly basis.

7.2 Investment Strategy Statement

The Pensions Committee approved the Investment Strategy Statement in July 2020 following the 2019 valuation. This strategy defines the types of investments that the fund may use in the long term.

There are no specific limits for types of investments. However, it is good practice to have some broad limits and these are included in the Investment Strategy Statement. A copy of the Investment Strategy Statement is available at Appendix 9.2 or on the fund's website at:

<http://www.gwyneddpensionfund.org.uk/en/Investments/Statement-of-Investment-Principles.aspx>

7.3 Funding Strategy Statement

Local Government Pension Scheme (LGPS) administering authorities are required to prepare and publish a Funding Strategy Statement. The Funding Strategy Statement sets out the fund-specific strategy which will identify how employers' pension liabilities are best met going forward.

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

The Funding Strategy Statement was reviewed during 2019/20 to reflect the Actuarial Valuation at 31 March 2019. The review process included consultation with all the Fund's employers and the Fund

actuary. The current Funding Strategy Statement was adopted on 20 March 2020 by the Pensions Committee. It includes all employer contributions rates from 1 April 2020.

A copy of the Funding Strategy is available at Appendix 9.1 or on the fund's website at <https://www.gwyneddpensionfund.org.uk/en/Investments/Funding-strategy-statement-2020.pdf>

7.4 Financial Performance

Income

	Actual 2018/19 £'000	Actual 2019/20 £'000
Employee Contributions	17,003	17,914
Employers Contributions	50,927	56,502
Transfers In	3,007	4,887
Investment Income	13,769	9,318
Other Income	6	5
Total Income	84,712	88,626

Higher contributions were made in 2019/20 due to a one-off contribution from the administering authority. Investment income decreased as income from the WPP equity funds were rolled within the price.

Expenditure

	Actual 2018/19 £'000	Actual 2019/20 £'000
Benefits Payable	(59,213)	(62,328)
Payments To and Account of Leavers	(3,128)	(4,669)
Management Expenses	(14,659)	(13,121)
Total Expenditure	(77,000)	(80,118)

There is an increase in benefits paid compared to 2018/19 due to an increase in the number of pensioners.

Net assets

	Actual 2018/19 £'000	Actual 2019/20 £'000
Changes in the Market Value of Investments	135,660	(151,518)
Net Increase/ (Decrease) in the Fund value	143,372	(143,010)

The market value of the assets is reduced by 31st March 2020 due to the impact of the COVID-19 pandemic

Further information is included in the Statement of Accounts (Section 9).

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

Definition of IAS19

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

Accounting for IAS19 and FRS17

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

IAS19 and FRS17 Reports as at 31/03/2020

In February 2020, the necessary data was collected to enable the Actuary to calculate the individual IAS19 or FRS17 information for the Fund's employers. Due to the impact of the pandemic on the value of assets in March 2020, and also the McCloud consultation in July 2020, there were a number of options available this year for the reports.

IAS19 and FRS17 Results as at 31/03/2020

The employer had the choice to base the results on expected returns or actual returns, and there were also three different options available of accounting the McCloud effect. Each employer's results reflect their own specific circumstances. Therefore, this update should be considered as an illustrative guide to the main issues affecting most employers, rather than a detailed explanation of each employer's experience.

7.6 Final Accounts 2019/20

The Final Accounts were audited by Deloitte, and the final version of Section 9 was presented to Gwynedd Council's Audit Committee on 15th October. The coronavirus pandemic has affected global financial and property markets. Due to the volatility in market conditions, year-end valuation reports provided to the Gwynedd Pension Fund include a statement that valuation uncertainty is associated with UK property funds managed on behalf of the Fund. The total value of investments in UK property funds in Gwynedd Pension Fund's asset portfolio at 31 March 2020 was £191m.

7.7 Knowledge and Skills Framework

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

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

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

7.8 Investment Unit

During 2019/20 we said goodbye to Caroline Roberts, the Fund's Investment Manager for 8 years. I wish Caroline a long and happy retirement and thank her for her commitment to the Fund. Sara Jones has joined the team and we look forward to working with Sara in the future.

Delyth Jones-Thomas
Investment Manager

8. Actuarial Report

General

The Fund needs to be sufficient to meet its commitments, and therefore the Fund receives a valuation every three years to assess the situation. The most recent actuarial valuation of the Fund was undertaken as at 31st March 2019 (previously 31st March 2016), and the new rates are effective from 1 April 2020.

Method and Assumptions Used

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

	% per annum
Discount Rate	3.9%
Pay Increases (not including increments)*	2.6%
Price Inflation / Pension Increases	2.6%

2019 Valuation Results

The triennial actuarial valuation as at 31 March 2019 was completed during 2019/20. The funding position for the whole Fund improved from 91% at 31 March 2016 to 108% at 31 March 2019, mainly due to strong investment performance over the period.

Valuation Date:	31 March 2016	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	761	855
Deferred Pensioners	252	321
Pensioners	657	750
Total Liabilities	1,670	1,925
Assets	1,525	2,081
Surplus / (Deficit)	(145)	156
Funding Level	91%	108%

The funding position has increased from a deficit of £145m to a surplus of £156m. See the movements in the table below:

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	1,525	1,670	(145)
Cashflows			
Employer contributions paid in	170		170
Employee contributions paid in	48		48
Benefits paid out	(167)	(167)	0
Net transfers into / out of the Fund*	4		4
Other cashflows (e.g. Fund expenses)	(4)		(4)
Expected changes in membership			
Interest on benefits already accrued		207	(207)
Accrual of new benefits		221	(221)
Membership experience vs expectations			
Salary increases greater than expected		13	(13)
Benefit increases less than expected		(0)	0
Early retirement strain (and contributions)	0	14	(14)
Ill health retirement strain		(5)	5
Early leavers less than expected		(2)	2
Pensions ceasing less than expected		(4)	4
Commutation greater than expected		(0)	0
Impact of GMP equalisation		4	(4)
Other membership experience		(29)	29
Changes in market conditions			
Investment returns on the Fund's assets	505		505
Changes in future inflation expectations		58	(58)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(4)	4
Change in longevity assumptions		(66)	66
Change in salary increase assumption		11	(11)
Change in discount rate		7	(7)
This valuation at 31 March 2019	2,081	1,925	156

The liabilities also increased due to a changes in membership. The level of accrual of benefits and interest on benefits already accrued increased in this valuation.

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

The actuary produced a provisional report for each individual employer. A forum was held for all employers in October 2020, where the Actuary presented the results and answered questions. This was a very useful session and 9 employers attended.

The final Gwynedd Pension Fund 2019 Actuarial Valuation Report was produced in March 2020 and is available on the fund's website at

<https://www.cronfabensiwngwynedd.cymru/cy/Buddsoddiadau/Gwynedd-Pension-Fund-2019-Final-Valuation-Report.pdf>

Employer Contribution Rate

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

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

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

Primary Rate (% of pay)	Secondary Rate £		
1 April 2020 – 31 March 2023	2020/21	2021/22	2022/23
20.1%	£358,000	£366,000	£375,000

The next triennial actuarial valuation will be at 31 March 2020. During 2022/23 the actuary will work to agree the result for each employer contributions for April 2023 onwards.

9. Statement of Accounts

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE PENSION FUND'S RESPONSIBILITIES

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



15th October 2020

Audit and Governance Committee Chair

THE HEAD OF FINANCE'S RESPONSIBILITIES

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

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

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

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2020 and the Pension Fund's income and expenditure for the year then ended.



9th September 2020

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

GWYNEDD PENSION FUND ACCOUNTS

2019/20

THE FUND ACCOUNT

31 March 2019 £'000		Notes	31 March 2020 £'000
	Dealings with members, employers and others directly involved in the Fund		
67,930	Contributions	7	74,416
6	Other Income	8	5
3,007	Transfers in from other pension funds	9	4,887
70,943	Total received		79,308
(59,213)	Benefits paid or payable	10	(62,328)
(3,128)	Payments to and on account of leavers	11	(4,669)
(62,341)	Total benefits paid		(66,997)
(14,659)	Management Expenses	12	(13,121)
	Returns on investments		
13,964	Investment income	15	9,318
(195)	Taxes on income		0
135,660	Profit and losses on disposal of investments and changes in the market value of investments	16	(151,518)
149,429	Net returns on investments		(142,200)
143,372	Increase/ (Decrease) in the net assets available for benefits during the year		(143,010)
	Net assets of the Fund		
1,937,975	At 1 April		2,081,347
143,372	Increase/ (Decrease) in net assets		(143,010)
2,081,347			1,938,337

The notes on pages 38 to 72 form part of these Financial Statements

NET ASSETS STATEMENT

31 March 2019 £'000		Notes	31 March 2020 £'000
2,054,595	Investment assets	16	1,928,515
538	Cash deposits	16	783
2,055,133	Total Investment assets		1,929,298
(123)	Investment liabilities	16	0
29,226	Current assets	21	11,929
(2,889)	Current liabilities	22	(2,890)
2,081,347			1,938,337

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the Fund year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2019) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE I – DESCRIPTION OF FUND

The Gwynedd Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

b) Membership

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

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

NOTE I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GWE	NMWTRA
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinnel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Trefriw Community Council	Llanfairfechan Town Council
Admission Bodies	
Adult Learning Wales (formerly Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Holyhead Joint Burial Committee	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Community Admission Bodies	
Cartrefi Conwy	Adra
Byw'n Iach	
Transferee Admission Bodies	
ABM Catering	Caterlink
Kingdom Services Group	A E & A T Lewis

c) Funding

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

NOTE 1 – DESCRIPTION OF FUND (continued)

d) Benefits

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

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

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

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019/20 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 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019/20.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts. The accounts have been prepared on a going concern basis.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

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

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

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iv) **Movement in the net market value of investments**

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets statement

g) Financial assets

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

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

i) **Equities**

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

ii) **Pooled investment vehicles**

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

iii) **Private Equity and Infrastructure**

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

h) Foreign currency transactions

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

i) Cash and cash equivalents

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial liabilities

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

k) Actuarial present value of promised retirement benefits

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

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

l) Additional voluntary contributions

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

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

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2020 was £157.2 million (£145.6 million at 31 March 2019).

Property fund valuations

The Coronavirus (COVID-19) pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Fund include a statement that there is a material valuation uncertainty related to the UK property fund managed on behalf of the Fund. The total value of these funds as at 31 March 2020 is £191.3m. As a result, the property fund valuations at 31 March 2020 may be subject to a higher level of uncertainty.

Pension fund liability

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

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

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

The items in the net assets statement at 31 March 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
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £157.2 million. There is a risk that this investment may be under or overstated in the accounts.
Property funds	The Coronavirus (COVID-19) pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Fund include a statement that there is a material valuation uncertainty related to the UK property fund managed on behalf of the Fund. The total value of these funds as at 31 March 2020 is £191.3m. As a result, the property fund valuations at 31 March 2020 may be subject to a higher level of uncertainty.	The total property fund investments in the financial statements are £191.3 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE REPORTING DATE

There are no significant events after the year end to report.

NOTE 7 – CONTRIBUTIONS

By category

2018/19		2019/20
£'000		£'000
17,003	Employees/Members contributions	17,914
	Employers' contributions:	
50,821	• Normal contributions	56,376
106	• Deficit recovery contributions	126
50,927	Total employers' contributions	56,502
67,930	Total contributions receivable	74,416

By type of employer

2018/19		2019/20
£'000		£'000
22,410	Gwynedd Council	27,055
40,980	Other scheduled bodies	42,075
2,000	Admission bodies	2,076
1,953	Community admission bodies	2,623
247	Transferee admission bodies	221
268	Resolution bodies	312
72	Closed fund*	54
67,930		74,416

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

NOTE 8 – OTHER INCOME

2018/19		2019/20
£'000		£'000
1	Interest on deferred contributions	2
5	Income from divorce calculations	3
6		5

NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19		2019/20
£'000		£'000
3,007	Individual transfers	4,887
3,007		4,887

NOTE 10 - BENEFITS PAID

By category

2018/19		2019/20
£'000		£'000
45,278	Pensions	48,356
11,949	Commutation and lump sum retirement benefits	12,343
1,986	Lump sum death benefits	1,629
59,213		62,328

By type of employer

2018/19		2019/20
£'000		£'000
16,494	Gwynedd Council	17,714
30,510	Other scheduled bodies	31,958
1,467	Admission bodies	1,520
963	Community admission body	1,472
61	Transferee admission body	223
225	Resolution body	119
9,493	Closed fund	9,322
59,213		62,328

NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2018/19		2019/20
£'000		£'000
	Refunds to members leaving service net of tax	
139	repayments	161
2	Payments for members joining state scheme	1
984	Group Transfers	0
2,003	Individual transfers	4,507
3,128		4,669

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

NOTE 12 – MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
1,311	Administrative costs	1,491
13,283	Investment management expenses	11,494
65	Oversight and governance costs	66
0	Wales Pension Partnership	70
14,659		13,121

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

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

Wales Pension Partnership

Included in Management Expenses is the cost of our involvement in the Wales Pension Partnership (WPP) collective Investment Pooling arrangement. The Oversight and Governance costs in Note 13 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 in Note 14 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). The underlying manager fees for the Global Opportunities sub-funds are not included in this table, these fees are disclosed as a narrative to Note 14. Further details on the WPP can be found in the Annual Report.

The following fees are included in Note 12, 13 and 14 in relation to the Wales Pension Partnership:

	2019/20
	£'000
Investment Management Expenses	
Fund Manager fees	1,656
Transaction costs	924
Custody fees	102
	2,682
Oversight and governance costs	
Running Costs	70
	70
Total	2,752

NOTE 13 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2018/19		2019/20
£'000		£'000
	Administrative costs	
504	Direct employee costs	563
320	Other direct costs	377
357	Support services, including IT	367
35	External audit fees	34
95	Actuarial fees	150
1,311		1,491
	Oversight and governance costs	
65	Pensions Committee and Local Pension Board	66
0	Wales Pensions Partnership	70
1,376		1,627

NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
13,166	Fund Manager fees	10,393
0	Transaction costs	924
56	Custody fees	117
13	Performance monitoring service	13
48	Investment consultancy fees	47
13,283		11,494

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment vehicles. Transaction costs are being reported for the first time in 2019/20, a charge of £165,628 was incurred in transaction costs for 2018/19, however, this was disclosed in the accounts but not actually charged to the accounts in 2018/19.

The WPP Global Opportunities Fund are investments which are appointed via a manger of manager approach which have their own underlying fees. The return for this mandate are net of the underlying manager fees which is reflected in Note 16a within the Change in Market value- for transparency, the fees in 2019/20 were £820,000.

There are no performance- related fees paid to investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 15 – INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
6,309	Pooled equities	1,463
1,090	Pooled private equity	529
126	Pooled infrastructure	101
6,241	Pooled property investments	6,929
198	Interest on cash deposits	296
13,964	Total before taxes	9,318

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year.

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

NOTE 16 – INVESTMENTS

31 March 2019 £'000		31 March 2020 £'000
	Investment assets	
1,908,982	Pooled investment vehicles (PIV)	1,771,285
107,218	Private equity (PIV)	112,661
38,395	Infrastructure (PIV)	44,569
2,054,595		1,928,515
538	Cash deposits	783
0	Amount receivable from sales of investments	0
2,055,133	Total investment assets	1,929,298
	Investment liabilities	
(123)	Amounts payable for purchases	(0)
(123)	Total investment liabilities	(0)
2,055,010	Net investment assets	1,929,298

During the year 2018/19 Gwynedd Pension Fund transferred most of the active equities into the two global funds in the Wales Pension Partnership (WPP). Further transfers will be made in the coming years until most of the investments are in the WPP.

Note 16a – Reconciliation of movements in investments and derivatives

2019/20	Market value at 1 April 2019	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Equities	0	0	0	0	0
Pooled investment vehicles (PIV)	1,908,982	31,189	(10,317)	(158,569)	1,771,285
Private equity / infrastructure (PIV)	145,613	26,464	(13,054)	(1,793)	157,230
	<u>2,054,595</u>	<u>57,653</u>	<u>(23,371)</u>	<u>(160,362)</u>	<u>1,928,515</u>
Cash deposits	538				783
Amount receivable from sales of investments	0				0
Amounts payable for purchases of investments	(123)				0
Fees within pooled vehicles				8,844	
Net investment assets	2,055,010			(151,518)	1,929,298

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

Note 16b – Analysis of investments

31 March 2019 £'000		31 March 2020 £'000
1,444,431	Pooled Equities (PIV)	1,299,750
285,250	Pooled Fixed Interest (PIV)	280,279
179,301	Pooled property investments (PIV)	191,256
107,218	Private equity (PIV)	112,661
38,395	Infrastructure (PIV)	44,569
2,054,595		1,928,515

Investments analysed by fund manager

Market Value at 31 March 2019			Market Value at 31 March 2020		
£'000	%		£'000	%	
656,138	31.9	BlackRock	565,379	29.3	
192,395	9.4	Fidelity	181,742	9.4	
285,254	13.9	Insight	280,282	14.5	
61,073	3.0	Lothbury	60,570	3.2	
145,614	7.1	Partners Group	157,230	8.2	
20,862	1.0	Threadneedle	31,401	1.6	
50,182	2.4	UBS	47,832	2.5	
411	0.0	Veritas	625	0.0	
643,081	31.3	Wales Pensions Partnership	604,237	31.3	
2,055,010	100.0		1,929,298	100.0	

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

Market Value at 31 March 2019			Market Value at 31 March 2020		
£'000	%		£'000	%	
285,253	15.4	LF Wales PP Global Opportunities Equity Fund	305,618	15.8	
322,200	15.5	LF Wales PP Global Growth Fund	298,619	15.4	
285,251	13.7	LDI Solutions Plus Bonds	280,279	14.5	
324,729	15.6	Aquila Life UK Equity Index Fund	274,417	14.2	
142,648	7.1	Fidelity Institutional Select Global Equity	137,117	7.1	
139,699	6.7	Aquila Life Global Dev Fundamental Fund	119,881	6.2	

Note 16c – Stock lending

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

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

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

As at 31 March 2019			As at 31 March 2020		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
1,908,982		Pooled investment vehicles (PIV)	1,771,285		
107,218		Private equity (PIV)	112,661		
38,395		Infrastructure (PIV)	44,569		
	23,151	Cash		8,883	
	6,613	Debtors		3,829	
2,054,595	29,764	0	1,928,515	12,712	0
Financial liabilities					
		(3,012) Creditors			(2,890)
0	0	(3,012)	0	0	(2,890)
2,054,595	29,764	(3,012)	1,928,515	12,712	(2,890)

Note 17b – Net gains and losses on financial instruments

31 March 2019		31 March 2020
Fair value		Fair value
£'000		£'000
Financial assets		
126,435	Fair value through profit and loss	(160,362)
31	Loans and receivables	0
126,466	Total financial assets	(160,362)
Financial liabilities		
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	Total financial liabilities	0
126,466	Net financial assets	(160,362)

Note 17c – Fair value of financial instruments and liabilities

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

31 March 2019			31 March 2020	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
		Financial assets		
1,532,175	2,054,595	Fair value through profit and loss	1,576,105	1,928,515
29,764	29,764	Loans and receivables	12,712	12,712
1,561,939	2,084,359	Total financial assets	1,588,817	1,941,227
		Financial liabilities		
(123)	(123)	Fair value through profit and loss	0	0
(2,889)	(2,889)	Financial liabilities at cost	(2,890)	(2,890)
(3,012)	(3,012)	Total financial liabilities	(2,890)	(2,890)
1,558,927	2,081,347	Net financial assets	1,585,927	1,938,337

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

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

All investments are held at fair value. The valuation bases are set out below. All assets have been valued using fair values techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information. The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. All property funds have been shown as Level 3 for 31st March 2020 due to restrictions on redemption.

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

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

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

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Values at 31 March 2020				
Financial assets				
Financial assets at fair value through profit and loss	0	1,580,030	348,485	1,928,515
Loans and receivables	12,712	0	0	12,712
Total financial assets	12,712	1,580,030	348,485	1,941,227
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at cost	(2,890)	0	0	(2,890)
Total financial liabilities	(2,890)	0	0	(2,890)
Net financial assets	9,822	1,580,030	348,485	1,938,337

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

Note 17e – Reconciliation of fair value measurements within Level 3

	Market Value	Transfers	Purchases	Sales	Unrealised	Realised	Market Value
	1 April 2019	into	during	during	gains/	gains/	31 March 2020
		Level 3	the year	the year	(losses)	(losses)	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property Unit Trusts	111,254	68,047	20,644	777	(7,818)	95	191,255
Private Equity	107,218	0	19,408	5,144	(3,101)	5,720	112,661
Infrastructure	38,395	0	7,056	1,746	1,307	443	44,569
Total Level 3	256,867	68,047	47,108	7,667	(9,612)	6,258	348,485

NOTE 18 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**Risk and risk management**

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period.

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

Asset type	Potential market movement (+/-)	
	31 March 2019	31 March 2020
	%	%
UK Equities	16.6	27.5
Global Equities	16.9	28.0
Emerging Markets Equity	25.3	25.4
Private Equity	28.3	28.4
Pooled Fixed Income	3.0	3.9
Infrastructure	20.1	20.1
Property	14.3	14.2
Cash	0.0	0.0
Total Fund	12.3	18.9

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

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

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

Asset type	Value as at 31 March 2020 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Pooled Equities	274,417	27.5	349,881	198,952
Overseas Pooled Equities	1,025,335	28.0	1,312,428	738,241
Pooled Private Equity	112,661	28.4	144,544	80,778
Pooled Fixed Income	280,279	3.9	291,210	269,348
Pooled Infrastructure	44,569	20.1	53,528	35,611
Pooled Property	191,255	14.2	218,414	164,097
Cash	9,821	0.0	9,821	9,821
Total assets available to pay benefits	1,938,337	18.9*	2,304,683	1,571,991

* The whole fund values in the table above are based on 18.9% rather than the total of the individual asset types.

Asset type	Value as at 31 March 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Pooled Equities	1,444,431	16.8	1,687,566	1,201,297
Pooled Private Equity	107,218	28.3	137,561	76,875
Pooled Fixed Income	285,250	3.0	293,808	276,693
Pooled Alternatives (Infrastructure)	38,395	20.1	46,112	30,678
Pooled Property	179,301	14.3	204,941	153,661
Cash	26,752	0.0	26,752	26,752
Total assets available to pay benefits	2,081,347	12.3*	2,343,597	1,819,098

* The whole fund values in the table above are based on 12.3% rather than the total of the individual asset types.

Interest rate risk

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

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

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

Asset type	As at 31 March 2019 £'000	As at 31 March 2020 £'000
Cash and cash equivalents	22,614	8,100
Cash balances	538	783
Pooled Fixed Income	285,251	280,279
Total	308,403	289,162

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

Interest rate risk sensitivity analysis

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

Asset type	Carrying amount as at 31 March 2020 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	-1% £'000
Cash and cash equivalents	8,100	81	(81)
Cash balances	783	8	(8)
Pooled Fixed Income *	280,279	33,633	(33,633)
Total change in assets available	289,162	33,722	(33,722)

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

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

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 1.53% amounting to interest of £266,995 for the year.

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

Currency risk

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

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

The Fund has made commitments to private equity and infrastructure in foreign currency, (€284 million and \$88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

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

Currency exposure - asset type	As at	As at
	31 March 2019	31 March 2020
	£'000	£'000
Overseas and Global Equities	1,119,701	1,025,335
Global Pooled Fixed Income	285,250	280,279
Overseas Alternatives (Pooled Private Equity and Pooled Infrastructure)	145,613	157,230
Pooled Overseas Property	1,000	226
Overseas Currency	0	0
Total overseas assets	1,551,564	1,463,070

Currency risk – sensitivity analysis

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

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2020. The equivalent rate for the year ended 31 March 2019 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2020 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	1,025,335	1,127,868	922,801
Global Pooled Fixed Income	280,279	308,307	252,251
Overseas Alternatives (Pooled Private Equity and infrastructure)	157,230	172,953	141,507
Pooled Overseas Property	226	249	204
Overseas Currency	0	0	0
Total change in assets available	1,463,070	1,609,377	1,316,763

Currency exposure - by asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	1,119,701	1,231,671	1,007,731
Global Pooled Fixed Income	285,250	313,776	256,726
Overseas Alternatives (Pooled Private Equity and infrastructure)	145,613	160,174	131,052
Pooled Overseas Property	1,000	1,100	900
Overseas Currency	0	0	0
Total change in assets available	1,551,564	1,706,721	1,396,409

b) Credit risk

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

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

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

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

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

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

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

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2020 was £8.2m (£22.6m at 31 March 2019).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 28.

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

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

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

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

c) Liquidity risk

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

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

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

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of illiquid assets was £348m, which represented 18.0% of the total Fund assets (31 March 2019: £325m, which represented 15.6% of the total Fund assets).

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

All financial liabilities at 31 March 2020 are due within one year as was the case at 31 March 2019.

Refinancing risk

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

NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (Funding Strategy Statement) reviewed as part of the 2019 valuation.

The key elements of the funding policy are:

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

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 17 years if the

NOTE 19 – FUNDING ARRANGEMENTS (continued)

valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 70% chance that the Fund will return to full funding over the 17 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £2,081 million, were sufficient to meet 108% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £156 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2020.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.9%
Salary increase	2.6%
Benefit increase	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption	Male Years	Female Years
Current pensioners	21.3	23.4
Future pensioners (aged 45 at the 2019 valuation)	22.2	25.1

NOTE 19 – FUNDING ARRANGEMENTS (continued)

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwyneddpensionfund.org.uk

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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

The actuarial present value of promised retirement benefits at 31 March 2019 and 2020 are shown below:

	31 March 2019	31 March 2020
Assumptions	£m	£m
Active members	1,674	1,279
Deferred members	434	445
Pensioners	722	809
Total	2,830	2,533

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

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

Assumptions used

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

	31 March 2019	31 March 2020
Assumption	%	%
Pension increase rate	2.5	1.9
Salary increase rate	2.5	2.2
Discount rate	2.4	2.3

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

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

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

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount £m
	%	
0.5% p.a. increase in the pension increase rate	9	83
0.5% p.a. increase in the salary increase rate	1	12
0.5% p.a. decrease in the discount rate	10	97

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

NOTE 21 – CURRENT ASSETS

31 March 2019		31 March 2020
£'000		£'000
1,227	Contributions due - employees	403
3,682	Contributions due – employers	1,234
1,704	Sundry debtors	2,192
6,613	Total debtors	3,829
22,613	Cash	8,100
29,226	Total	11,929

NOTE 22 – CURRENT LIABILITIES

31 March 2019 £'000		31 March 2020 £'000
1,922	Sundry creditors	1,828
967	Benefits payable	1,062
2,889	Total	2,890

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds are stated below:

	Market value at 31 March 2019 £'000	Market value at 31 March 2020 £'000
Clerical Medical	3,851	3,674
Utmost Life	203	193
Standard Life	61	5
Total	4,115	3,872

AVC contributions were paid directly to the managers as follows:

	2018/2019 £'000	2019/2020 £'000
Clerical Medical	613	601
Standard Life	14	10
Total	627	611

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The Council incurred costs of £1,275,899 (£1,152,315 in 2018/19) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the Fund and contributed £27.06m to the Fund in 2019/20 (£22.41m in 2018/19). At the end of the year the Council owed £0.49m to the Fund which was primarily in respect of interest paid on pension fund balances and contributions for March 2020 and the Fund owed £1.24m to the Council which was primarily in respect of recharges from the Council.

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2019/20, the Fund received interest of £266,995 (£166,303 in 2018/19) from Gwynedd Council.

NOTE 24 - RELATED PARTY TRANSACTIONS (continued)

Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2019/20 (committee members J.B. Hughes and P. Jenkins). In addition, committee members S.Glyn (member until 02/05/2019), S.W. Churchman, D. Cowans, A.W. Jones, P. Read, R.W. Williams and I. Thomas are active members of the Pension Fund.

Three members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2019/20 (Board members A.W. Deakin (member until 06/08/2019), H.E. Jones and S. Warnes). In addition, Board members A.Ll. Evans, O. Richards, H. Trainor and S.E. Parry are active members of the Pension Fund.

Key Management Personnel

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

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

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2019	Commitment at 31 March 2020
	€'000	€'000	€'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	2,096	2,096
P.G. Global Infrastructure 2012	40,000	8,147	8,147
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	2,302	1,531
P.G. Direct Equity 2016	50,000	10,348	2,826
P.G. Global Value 2017	42,000	33,677	25,973
P.G. Global Infrastructure 2018	28,000	0	23,688
Total Euros	284,000	63,964	71,655
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	1,082	1,082
P.G. Secondary 2015	38,000	24,692	18,401
P.G. Direct Infrastructure 2015	43,600	23,798	20,840
Total Dollars	88,600	49,572	40,323

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

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

NOTE 26 – CONTINGENT ASSETS

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

NOTE 27 – CONTINGENT LIABILITIES

There are no contingent liabilities identified in accordance with the following explanations:

The McCloud Case

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. The Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there is no finalised outcome of the McCloud case, the Fund Actuary acted in line with SAB's advice in the 2019 valuation and valued all member benefits in line with the current LGPS Regulations. The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes arising from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance by increasing the required likelihood of success set for contribution rates for all employers. Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

Guaranteed Minimum Pension Equalisation

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

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

Hymans Robertson, the Fund's Actuary, have said that given the interim solution has been extended to 5 April 2021 they have allowed for the Government's preferred long term (i.e. post 2021) solution of converting GMP to scheme pension in the 31 March 2019 valuations.

NOTE 28 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts

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

b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2020. The administration is continuing, but the full amount is expected to be recovered in due course.

NOTE 29 - PENSION FUND PUBLICATIONS

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

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

Copies can be obtained from the Pension Fund website www.gwyneddpcensionfund.org.uk on the investment page or by contacting Delyth Jones-Thomas on 01286 679128.

10. Appendices

10.1 Funding Strategy Statement

I Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It will be effective from 12th March 2020.

1.2 What is the Gwynedd Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Gwynedd Pension Fund, in effect the LGPS for the Gwynedd area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Delyth Jones-Thomas, Investment Manager in the first instance at her e-mail address delythwynjonesthomas@gwynedd.llyw.cymru.

2 Basic Funding Issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows: **Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will

take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to

which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see [3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

[The LGPS Scheme Advisory Board \(SAB\) issued advice to LGPS funds in May 2019](#). As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes arising from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance by increasing the required likelihood of success set for contribution rates for all employers.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Colleges, Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	Local Authorities, Police and Parc Cenedlaethol Eryri	Town and Parish Councils	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)		Ongoing participation basis, but may move to “gilts basis” - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)				
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	17 years	17 years	14 years	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Percentage of pay				
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions through a negative secondary rate	Reduce contributions through a negative secondary rate		Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	75%	75%	75%	75%
Phasing of contribution changes**	Reductions will apply in full from 2020/21. Increases will be phased in over 3 years.				
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)		Notes (g) & (h)

Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <u>Note (i)</u> .	Colleges aside, can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see <u>Note (i)</u> .	Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. Letting employer is liable for future deficits and contributions arising.
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* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

** Changes to contribution rates for the non-stabilised open employers (other than Transferee Admission Bodies) are subject to a phasing mechanism. This works by calculating the difference in total rates at 2016 and 2019 before application of the mechanism, and then restricting the subsequent increase or reduction as follows: a) if the difference is 5.0% or less of pay, the rate will change by the full difference, or b) if the difference is more than 5.0% of pay, then the rate will change by 5.0% plus half of the difference above 5.0%. The contribution rates for employers that are closed to new entrants, and are heading towards cessation, have been set equal to the employers' primary rates

Note (a) (Gilt exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return for long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is

considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see [Section 4](#)), it has been agreed all stabilised employers must pay their primary rate as a minimum over the next three years, with the reduction in total rate subject to a limit that depends on the 2019 funding level (i.e. a limit of 1.0% of pay if between 100% and 104%, 1.5% of pay if between 105% and 119%, and 2.0% of pay if 120% or above). The stabilised details thereafter are as follows:

Type of employer	Councils, Police and Parc Cenedlaethol Eryri
Max cont rate increase in each future year	1.0% of pay
Max cont rate decrease in each future year	1.0% of pay

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The secondary rate will be set as a percentage of pay for all employers.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (h) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (i).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (i) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus, the Administering Authority will determine if an exit credit should be paid in accordance with the Regulations. In making this determination, and when deciding on the size of any exit credit, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the Admission Body and any employer providing a guarantee to the Admission Body and any other factors the Administering Authority deems relevant. The Fund's Exit Credit Policy is provided in Appendix G.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will review

the profile of the ceasing membership and, if material, may apply a loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis as described in Appendix E;
- c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis: Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

3.4 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.5 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies - up to 5 years

Community Admission Bodies and Designating Employers - up to 3 years

Transferee Admission Bodies - payable immediately.

3.6 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. The Administering Authority has arranged for an external insurance policy to cover ill health early retirement strains for smaller employers in the Fund. Each of these employer's contributions to the Fund includes its share of that year's insurance premium. When an active member retires on ill health early retirement, the claim amount received from the insurer will be credited to the respective employer's asset share in the Fund.

For all other employers that are not covered by the external insurance policy, any funding strain in excess of the allowance made in the funding basis would be met through an increase to ongoing contributions.

3.7 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see [3.3](#), [Note \(i\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.8 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement; which is available to members and employers.

The investment strategy is set for the long-term but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [AI](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January 2020 for comment;
- b) Comments were requested within 42 days;
- c) There was an Employers Forum on 24 October 2019 at which the funding strategy was outlined and questions regarding funding strategies could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in March.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <https://www.gwyneddpensionfund.org.uk/en/Investments/Funding-Strategy-Statement.aspx>;
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee representatives;
- A summary issued to all Fund members;
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.-

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.gwyneddpensionfund.org

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.
Effect of possible asset underperformance as a result of climate change	The Fund invests its assets in line with Responsible Investment beliefs and guidelines.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and an ill-health insurance policy is in place for smaller employers.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <u>Note (b)</u> to <u>3.3</u>). For other employers, review of contributions is permitted in general between valuations (see <u>Note (f)</u> to <u>3.3</u>).

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation- conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <u>Section 5</u>).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

Risk	Summary of Control Mechanisms
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see <u>Notes (h) and (i) to 3.3</u>). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f) to 3.3</u>). Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a) to 3.3</u>).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 and Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

- meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
- within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),

- with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see [Appendix E](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;

8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

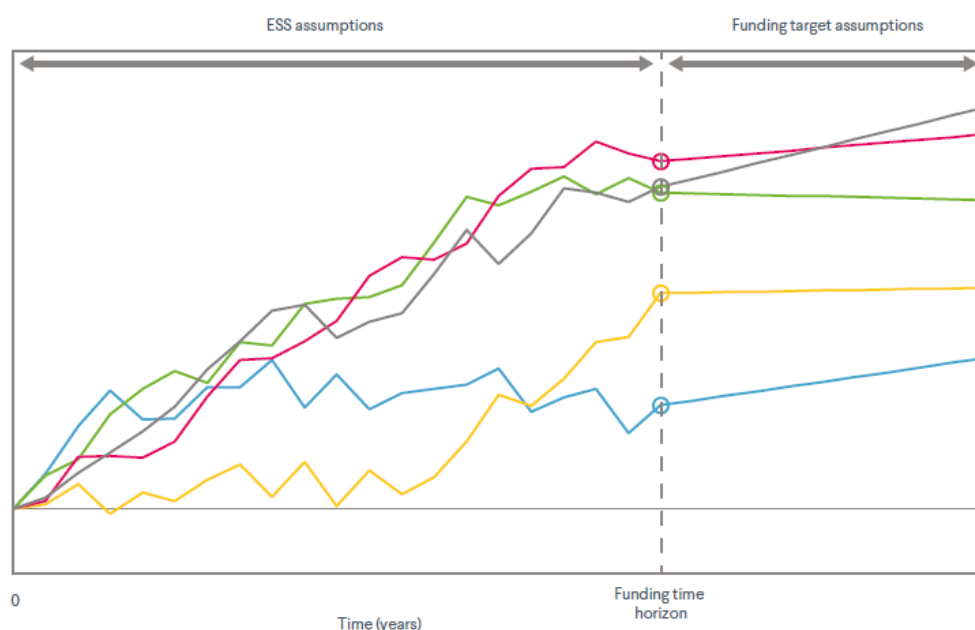
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with the Fund officers the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2022, followed by
2. 0.5% above the Consumer Prices Index (CPI) per annum p.a. thereafter.

This is equivalent to a single salary increase assumption of CPI + 0.3% p.a.

This is a change from the previous valuation, which assumed an assumption of 1% p.a. 2020, and CPI plus 0.5% p.a. thereafter. This was equivalent to a single assumption of CPI.

The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 CPI, rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have used a reduction of 1.0% per annum (Note that the reduction is applied on a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members' benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described

in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon . The main assumptions will relate to the level of future investment returns , salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee guarantor	/ A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.

LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review Primary and Secondary contribution rates , and other statutory information for a Fund, and usually individual employers too.

Appendix G – Exit Credit Policy

The below sets out the general guidelines that the Gwynedd Pension Fund (“the Fund”) will follow when determining the amount of an exit credit payable to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”). Please note that these are guidelines only and the Fund will also consider any other factors that are relevant on a case-by-case basis. These considerations may result in a determination that would be different if these guidelines were rigorously adhered to. In all cases, the Fund will make clear its reasoning for any decision.

Admitted bodies

- a) No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per point b). Prior to this date, the payment of an s not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or ‘rolled over’ on the same terms that applied on joining the Fund.
- b) The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month of the admission body ceasing participation in the Fund.
- c) If there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in b), the Fund will withhold payment of the exit credit until such disputes are resolved.
- d) The Fund will also consider any representations made by the letting authority/awarding authority/ceding employer regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority/awarding authority/ceding employer must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.
- e) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- f) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund’s determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers’ contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- g) The decision of the Fund is final in interpreting how any arrangement described under b), d), e) and f) applies to the value of an exit credit payment.

- h) If an admitted body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

Scheduled bodies and resolution bodies

- a) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- b) Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- c) The decision of the Fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.
- d) If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- e) If a scheduled body or resolution body leaves on a gilts-based cessation (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- a) The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- b) Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.
- c) The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.
- d) The final decision will be made by the Head of Finance, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- e) The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.
- f) The Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

10.2 Investment Strategy Statement

1 Introduction and background

This is the Investment Strategy Statement (“ISS”) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in July 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.

2 The suitability of particular investments and types of investments

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, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The Fund carried out an asset liability modelling exercise in conjunction with the 2019 actuarial valuation. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considered the chances of the Fund being fully funded at the end of the projection period, and also considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

The long term asset class returns assumed within the modelling exercise were as follows:

Asset Class	Median expected return 10 years (%pa)	Median expected return 20 years (%pa)
UK equities	4.6	5.7
Overseas equities	4.7	5.8
Private equity	5.5	6.8
Infrastructure	4.7	6.0
UK Property	3.1	4.3
Absolute Return Bonds	2.8	4.0

3 Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy, reflecting the proposed transfer from global equities into the new WPP Multi Asset Credit fund, is set out below. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Table 1: Fund allocation

Asset class	Target allocation %
UK equities	13.5
Overseas equities	46.5
Private Equity	5.0
Total equities	65.0
Property	10.0
Infrastructure	2.5
Multi Asset Credit	7.5
Absolute Return Bonds	15.0
Total	100.0

Managers

The 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 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 Fund's active investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. They will make changes to their portfolios as the economic outlook alters, as individual company prospects change and in response to any unexpected market shocks in an attempt to deliver a better return than the market overall. 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.

For the assets invested with WPP, the operator, LINK, is responsible for the appointment of investment managers for the WPP sub-funds.

4 The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- 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 the Fund’s liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2019 analysis highlighted that the Fund has a 82% probability of achieving full funding over the period to 2037 under the current investment strategy and level of agreed contributions. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

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 under this heading.

Asset risks

- Concentration - The risk that a 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 immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns. This includes recognising the potential impact of Climate Change and the extent to which companies have addressed the potential risks.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measures and manages asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- 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.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

5 The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the Wales Pensions Partnership (WPP) pool. The proposed structure and basis on which the WPP will operate was set out in the July 2016 submission to Government.

Assets to be invested in the WPP Pool

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

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

At the time of preparing this statement the Fund has already invested the following assets via the WALES Pool:

Asset class	Fund	Target % of Fund assets	Benchmark and performance objective
Global Equities	Global Growth Fund	14.0	MSCI AC World plus 2% p.a.
Global Equities	Global Opportunities Fund	14.0	MSCI AC World plus 2% p.a.
Bonds	Multi Asset Credit Fund	7.5	LIBOR + 4% p.a.
Bonds	Absolute Return Bond Fund	15.0	LIBOR + 2-3% p.a.

Although the investments with Blackrock are currently retained by the Fund, the procurement process for Blackrock as index-tracking manager on behalf of partner funds (and any subsequent retender) was handled by WPP in order to achieve substantial fee savings.

The Fund will consider participating in pooling arrangements for the current and/or future property investments if a suitable solution is made available by WPP.

At the time of preparing this statement the Fund has elected not to invest the following assets via the pool:

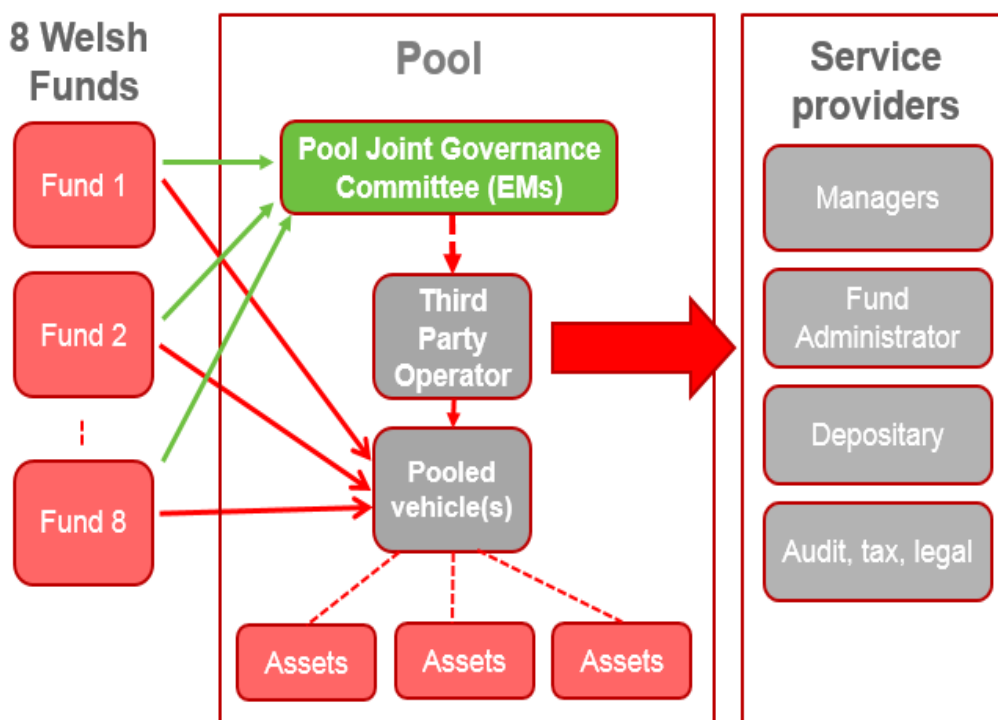
Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the WALES Pool
Private Equity	Partners	5.0	MSCI World Benchmark + 3% per annum	Existing contractual commitments in closed end funds which have a finite life.
Infrastructure	Partners	2.5	MSCI World Benchmark + 2% per annum	Existing contractual commitments in closed end funds which have a finite life.

In future, new commitments to private equity and infrastructure will be made through a WPP vehicle once that has been established.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2020.

Structure and governance of the WPP pool

The Pool has appointed a third party operator, LINK, authorised by the FCA 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 established to oversee the operator. The Committee comprises elected members – one from each of the eight participating funds. This arrangement will provide accountability for the operator back to individual administering authorities. The Joint Governance Committee (JGC) has been set up formally as a Joint Committee between the participating administering authorities. Each fund has one elected member on the Committee. It operates on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible.

The Committee is responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions with the operator as to the specific sub-funds which should be set up within the pool, 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 liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds' Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC. However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds' investments.

External scrutiny and formal due diligence of the operator and depositary will be carried out by the FCA in their role as regulator. In addition, Hyman Robertson have been appointed by the JGC to provide assistance with oversight of the arrangements.

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, and an external valuer as necessary. Under the proposed structure, the depositary will hold legal title to the assets of the pool. The operator will be responsible for managing and operating the pool, including entering into the legal contracts with the investment managers.

The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds. The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be 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 will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depositary to the Pool.

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

6 How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously and regularly reviews its policies in this area and its investment managers' approach to ESG. The Committee has also developed a set of Responsible Investment beliefs which are set out later in this section.

The Committee recognises that Climate Change presents a particular systemic risk to the financial stability of the global economy, and has the potential to impact on the Fund's investments and, as such, represents a long term financial risk to the Fund and its holdings.

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.

At the present time the Committee does not prioritise non-financial factors when selecting, retaining, or realising its investments.

The Committee have agreed the following set of investment beliefs in relation to Responsible Investment:-

- In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though environmental, social, and governance ('ESG') matters can materially affect risk and returns. Therefore, 'ESG' factors should be embedded in the investment processes and in the decision-making processes of managers appointed by the Fund.
- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.
- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action provides the most successful route to influence outputs.
- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the fund is.
- Share-holder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.

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

Voting rights

The 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). The voting decisions made by all its investment managers are monitored on a regular basis.

Stewardship

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the WPP Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website. At the FRC's most recent review, the fund was rated as a Tier 2.

In addition to the Fund's compliance 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.

10.3 Communication Policy Statement

Introduction

The Gwynedd Pension Fund is committed to providing a high quality and consistent service to their customers in the most efficient and cost effective manner, in compliance with the Local Government Pension Scheme regulatory requirements.

Gwynedd Council is responsible for administering the Fund for over 40 Employing Bodies, including its own employees and those of two other Unitary Bodies.

The Communications Policy Statement of the Gwynedd Pension Fund is drawn up to ensure clear communications to all the various stakeholders of the Local Government Pension Scheme. It will be kept under review and amended when there is a material change in the policy.

Stakeholders include:

- Contributing Scheme members
- Deferred members
- Pensioner members
- Prospective scheme members
- Employing Bodies
- Tax payer

The statement sets out the policy for the provision of information and how the Fund intends to publicise and promote the Scheme to each group.

All Gwynedd Pension Fund's publications are bilingual, in line with the Language Policy of Gwynedd Council as Administering Authority of the Gwynedd Pension Fund.

The intention is that all responses to requests are as timely as possible, are factual and in plain language, and presented in a manner appropriate to the receiver.

Where individuals have specific needs in relation to the format of information, steps are taken to ensure that the required format is available, such as Braille, Audio, and Large Print. Information in other languages may be available on request.

Where legislative Scheme changes are known in advance, procedures will be put in place to implement the changes in the most effective manner.

All Fund communications are fully compliant with all regulations regarding:

- Confidentiality
- Disclosure
- Freedom of Information

The Gwynedd Pension Fund actively participates with the other six Welsh Pension Funds to produce common and consistent Scheme documents and literature.

Communication with contributing members

Contributing scheme members are those who are contributing to the Local Government Pension Scheme through one of the employers who participate in the Gwynedd Pension Fund. The methods of communicating with these members are described below.

Annual Benefit Statements

An Annual Benefit Statement is sent to each scheme member's home address which details their benefits accrued up to the end of the previous financial year and forecasts the benefits payable at age 65. The statement also contains the member's service history, pay details and explanatory notes as to how the benefits are calculated. Future statements will include a State Pension forecast and the statements issued from 2010/2011 will include a forecast of the pension benefits the member would receive from the Gwynedd Pension Fund if they were to retire at age 60 (the figures will include any reduction applicable for early payment of benefits). All statements also have a covering letter and include a feedback form for completion by members to note any queries or comments they have in relation to their statement.

Website

The Gwynedd Pension Fund website was launched in March 2009 and contains a section dedicated to current scheme members. The website provides general information about the Local Government Pension Scheme and has a section with frequently asked questions. The website continues to be developed and by March 2010, will include a Pensions Interactive section, which will enable scheme members to view their pension details, update their personal details and generate a range of calculations online. A section dedicated to the Councillors Pension Scheme has been added to the Gwynedd Pension Fund website since December 2009.

Scheme Literature

A new short scheme guide was produced following the introduction of the Local Government Pension Scheme Regulations in 2008. The short scheme guide provides general information on the Local Government Pension Scheme and is issued to all new employees (through their employer) and is also issued to existing members of the scheme on request. Copies of the scheme guide are also available on request in Braille, large print and audio.

A range of fact sheets have also been produced for scheme members which give information on specific topics relating to the Local Government Pension. A full list of the fact sheets available are noted under the publications section on page 11 of this booklet and an additional fact sheet giving information on transferring previous pensions is due to be available by the end of 2010. DVD's providing information on the Local Government Pension Scheme and outlining the changes that were made to the regulations in 2008 are also available to scheme members.

Newsletters

Paper based newsletters are sent to the home address of all contributing scheme members as and when needed to inform of changes in the scheme regulations.

Gwynedd Pension Fund Road Shows

The Gwynedd Pension Fund is available to attend employer events and provide a pensions stand in order for scheme members to discuss any pensions issues with pension section staff. An extensive range of scheme literature and general forms will also be available at these events.

Presentations

The Pensions Administration Unit is always available to offer talks or presentations on the scheme.

A program of pre retirement seminars already exists, arranged by a partnership of North Wales councils and organized by Chadwick Mclean, a firm of financial advisors from Chester. Gwynedd and Flintshire Pension Fund Administration units provide alternate local government pension scheme presentations at these events.

Presentations are also held as and when needed to give information to current contributors on the local Government Pension Scheme and are used as a method of informing scheme members of major changes to scheme regulations. Specialist information sessions can also be held at the request of the employer for members who are affected by the bulk transfer of pensions from the LGPS to other pension providers. Specialised presentations given by the pension unit's Communication Officers and a representative from the Gwynedd Pension Fund's AVC provider have also been held to give information to scheme members on the methods of improving pension benefits.

Consultation Sessions (individual appointments)

The pension unit's Communication Officers hold individual consultation sessions for scheme members at the request of scheme employers. Consultation sessions are usually held at employees worksites and they offer the opportunity for scheme members to receive general and specific information about the Local Government Pension Scheme and to ask any questions they may have relating to their Local Government Pension.

Members of the Gwynedd Pension Fund can also arrange an appointment to have an individual meeting with a member of staff from the pension section at the pension office in Caernarfon.

In some cases (e.g. terminal illness) a representative from the Gwynedd Pension Fund will visit a member at their home at the request of their employer.

Pensions Helpline

A single helpline number has been set up for all pension enquiries and a dedicated e-mail address is available for enquires by e-mail.

Retirement Pack

Members are sent a letter at retirement which outlines their benefits due from the scheme and are supplied with forms to complete and return so that the benefits can be brought into payment. The Pension Section intends to develop the retirement pack to include a leaflet giving general information relevant to those retiring from the scheme. The leaflet will be available from April 2010.

Poster campaign

The pension section intends to produce a poster which highlights the options available for increasing pension benefits through the Local Government Pension Scheme. The posters are scheduled to be

available from June 2010 and they will be distributed to employers so that they can be displayed at employees work sites.

Internal Dispute Resolution Procedure (IDRP) leaflet

A document covering stage I of the IDRP has been produced and is available on request.

Communication with deferred members

Deferred members are those who have left their employment with a scheme employer and who have preserved benefits in the scheme. The methods of communicating with deferred members are noted below.

Deferred Benefit Statement

A Deferred Benefit Statement is sent each year to members who have preserved benefits with the Gwynedd Pension Fund. The statement outlines the up to date value of the member's benefits and includes a feedback form where members can note any queries or comments they have in relation to their statement.

Website

A section dedicated to deferred members is included in the Gwynedd Pension Fund website. The deferred section provides general information about the Local Government Pension Scheme which is relevant to deferred members and has a section with frequently asked questions. The website continues to be developed and by March 2010, will include an interactive section, enabling deferred members to view their pension details, update their personal details and calculate relevant reductions for different retirement dates from age 60.

Deferred councillor members can access the Councillors section of the Gwynedd Pension Fund website.

Newsletters

Paper based newsletters are sent to the home address of all deferred scheme members as and when needed to inform of relevant changes in the scheme regulations.

Individual Appointments

Deferred members of the Gwynedd Pension Fund can arrange an appointment to have an individual meeting with a member of staff from the pension section at the pension office in Caernarfon.

In some cases (e.g. terminal illness) a representative from the Gwynedd Pension Fund will visit a member at their home at the request of the employer, individual or individual's representative.

Pensions Helpline

A single helpline number has been set up for all pension enquiries and a dedicated e-mail address is available for enquires by e-mail.

Internal Dispute Resolution Procedure (IDRP) leaflet

A document covering stage I of the IDRP has been produced and is available on request.

Communication with Pensioners

Pensioners include retired members and the dependants of deceased members. The methods of communicating with pensioners are noted below.

Website

A section dedicated to pensioner members has been introduced on the Gwynedd Pension Fund website since December 2009. The pensioner section provides general information about the Local Government Pension Scheme which is relevant to pensioner members and has a section with frequently asked questions. By March 2010 the pensioner section of the website will include a Pensions online section which will enable pensioners to view their pension details and update their personal details.

Payslips and P60

A payslip is sent to pensioners when there is a change of 50p or more in their net payment as compared with the previous month. All pensioners receive a combined P60 and payslip at the end of each tax year.

Notice of Pensions Increase

Each April, pensioners receive a notice informing them of the Pensions Increase which is to be applied on their pension (if applicable) and they also receive confirmation of the pay dates for the next 12 months.

Individual appointments

Pensioners of the Gwynedd Pension Fund can arrange an appointment to have an individual meeting with a member of staff from the pension section at the pension's office in Caernarfon.

Pensions Helpline

A single helpline number has been set up for all pension enquiries and a dedicated e-mail address is available for enquires by e-mail.

Birthday Congratulations

From 1st January 2010, pensioners celebrating their 100th birthday will receive a birthday card from the Gwynedd Pension Fund. This includes pensioners who were members of the Local Government Pension Scheme and pensioners who receive a widow's/widower's Local Government Pension.

Internal Dispute Resolution Procedure (IDRP) leaflet

A document covering stage 1 of the IDRP has been produced and is available on request.

Communication with prospective members

Prospective members are employees who are eligible to join the Local Government Pension Scheme but who have decided not to join. The methods of communicating with prospective members are noted below.

Scheme guide

A short scheme guide giving general information on the Local Government Pension Scheme is issued by scheme employers to all new employees (who are eligible to join the scheme). Copies of the scheme guide are also available (on request) in Braille, large print and audio.

Website

Prospective scheme members can gain general information about the Local Government Pension Scheme from the Gwynedd Pension Fund website. The website also has a section answering frequently asked questions which are relevant to those considering whether or not to join the scheme.

Consultation sessions (individual appointments)

The pension unit's Communications Officers hold individual consultation sessions for scheme members and prospective scheme members at the request of scheme employers. Consultation sessions are usually held at employee's worksites and they offer the opportunity for scheme members to receive general and specific information on the Local Government Pension Scheme and to ask any questions they may have about joining the scheme.

Prospective members can also arrange an appointment to have an individual meeting with a member of staff from the pension section at the pension office in Caernarfon.

Gwynedd Pension Fund Road shows

The Gwynedd Pension Fund encourages employers to include pensions as part of staff induction events and will provide a pensions stand in order for scheme members and also prospective scheme members to ask any questions they may have in relation to the Local Government Pension Scheme. The extensive range of scheme literature and general forms will also be available at road shows.

Poster Campaign

The pension section intends to produce a poster which highlights the benefits of joining the Local Government Pension Scheme. The posters are scheduled to be available from June 2010 and will be distributed to employers so that they can be displayed at employer's work sites.

Communication with Employers

Scheme Employers are the first point of contact for the members of the Local Government Pension Scheme. In order for Gwynedd Council as Administering Authority to effectively run the Scheme, it is essential that the Employing Bodies are aware of the latest information and guidance available, to enable them to carry out their responsibilities.

Annual General Meetings

The Annual General Meeting is held specifically for Employers and Union Representatives to discuss the Annual Report and Accounts. Representatives from various professional advisory bodies, such as the Fund Actuary and Fund Managers also attend in order to answer questions on Funding, investment performance and Valuations.

Biannual meetings

Relevant representatives from each Employing Body are invited to attend informal meetings at Gwynedd Council offices twice yearly, to discuss any practical issues with regard to the Pension Fund or its administration. It is also an opportunity to discuss any legislation changes that will affect them. The first of these pension forum meetings took place in October 2009.

The aim is to improve upon the quality of data received by both parties – the Employers and the Administering Authority, and enhance the standard of service to meet the needs of all scheme members and stakeholders.

Individual Employer Training meetings

These can be arranged on the Employing Body's request, on an individual basis as opposed to the biannual meetings where all can attend.

Employer Seminars

These can be arranged where there has been a significant change in legislation. For example, in October 2007 a meeting for Employing Bodies was held at Gwynedd offices, headed by Terry Edwards from the Local Government Employers association, who gave a presentation on how the changes in the Pension Scheme as from 1st April 2008 affected the Employers.

Contact Database

Regular updates regarding any changes or proposed changes in the LGPS are issued to all Employing Bodies by e-mail or letter. The Employer Contact database is amended as necessary on information received from the Employers.

Employer Partnership Agreements and Service Level Agreements

The aim is to improve the standard of service to members by providing guidance on statutory obligations and responsibilities, and by setting targets for both Employers and the Administering Authority -

- to provide correct information
- to act on, and respond to that information within a given timescale

Any targets for the Service Level Agreements will be agreed beforehand.

Employers Guide

The new Employers Guide on procedure is in the process of being completed, and will be circulated in hard copy to all Employing Bodies. This is scheduled for distribution during 2010/2011, and will assist Employers in their responsibilities as regards maintaining accurate data. Limited extra copies can be provided. Updates will be notified by e-mail and uploaded onto the website.

Website

The new Gwynedd website was launched in March 2009. A section giving information specifically dedicated to Employing Bodies will be available in 2010/2011 to coincide with the production of the Employers Guide, which will also appear on the website.

Employers are currently issued with hard copies of: -

- Pension Fund Statement of Accounts
- Funding Strategy Statement
- Governance Policy Statement
- Statement of Investment Principles
- Communication Policy Statement
- Triennial Valuation Report

These will also be available on the Investments section of the website from 2010.

Communication with other bodies

Members Representatives

These can include any individual or group, such as Solicitors or Trade Unions, requesting information on behalf of a Scheme member. This is only provided with the member's authority, in compliance with the Data Protection Act 1998. All Scheme literature is available on request.

External Bodies

The Gwynedd Pension Fund participates in the: -

Shrewsbury Pensions Officers group

Senior pensions Officers from the Gwynedd Pension Fund meet representatives from other Local Authority Funds in the West Pennines area on a quarterly basis to share information, discuss questions on legislation and prevailing regulations as well as any technical or procedural issues.

All Wales Group

The Group meets as and when required, with a view to formalising and unifying the approach to communications within the Welsh Local Government Authorities. In the past two years, they have collectively produced

- Uniform Annual Benefit Statements for both active and deferred members
- A Short Scheme Guide for all members
- Pension fact sheets on various topics which can be distributed to members

The Gwynedd Pension Fund also communicates with: -

Scheme Actuary – with regard to Funding levels and the Triennial Valuation, FRS17 and all Funding issues.

HMRC - with regard to contracting out details and tax issues for Scheme members.

Additional Voluntary Contributions (AVC) Providers – Officers of the Pension Fund have regular contact its AVC providers regarding the funds of individual Scheme members.

Pensions Committee – with regard to reporting on administration, regulations and investment issues in order to advise and form policy.

Fund Managers – in relation to investments and Fund performance.

LGPC - The Local Government Pensions Committee (the pensions section of the Local Government Employers) provides technical advice to Pension Fund Administering Authorities and to employers on the Local Government Pension Scheme (LGPS)

Communication within the Pension Unit

Effective communication is an important part of daily operations, and an open door policy is in place.

Updates to Staff

E-mail— E-mail is the preferred method of communication for general messages within the unit. Where necessary, this will be followed up with individual or team training

Internet – This is available to all staff at any time ensuring timely access to LGPS information.

Internal training – General and pensions-specific training on matters arising with regard to regulatory or procedural changes is given as necessary as part of the Unit's commitment to continuous improvement.

External courses

Professional qualifications can only improve the knowledge and confidence of the team in their communication with stakeholders. All new and existing members of staff are therefore encouraged to study for appropriate Local Government pensions qualifications within the Institute of Payroll Professional (IPP), and also participate in relevant training courses held by the LGPC and Heywood.

Section Meetings

All members the Pensions Unit attend regular bi-monthly section meetings, to discuss any developments in legislation as well as any operational or procedural changes. This means that each member of staff is involved in decisions that affect the whole Unit.

The Operational Plan, including Key Performance Indicators is also discussed on a regular basis to ensure that the members of the team are aware of and are meeting their targets.

Continuous monitoring and appraisal

Service standards are monitored regularly, to ensure staff are aware of their responsibilities in relation to the Scheme. Annually, members of staff have individual appraisals on their personal development. If necessary, more in-depth internal training on specific issues can be tailored to suit Unit members. On a daily basis, communication is encouraged between members of staff and the Management of the section on any issues arising. An automated workflow system is in operation to aid the monitoring process, and to guide officers in individual tasks.

10.4 Governance Policy Statement

This statement sets out the delegation of matters in relation to the Gwynedd Pension Fund, along with the terms of reference, structure and operational procedures of these delegations.

Gwynedd Council is the Adminstrating Authority for Gwynedd Pension Fund. The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

Pensions Committee

The Committee is comprised of 9 members, 7 of whom are elected members of Gwynedd Council, 1 member from Anglesey County Council and 1 member from Conwy County Borough Council, all of whom have voting rights. There is no member (staff) representation on the Committee.

The Pensions Committee's responsibilities are to:

1. Decide on the strategy for investing the Pension Fund's assets;
2. Appoint and terminate the appointment of managers and consultants of the Pension Fund, and review their performance with regard to investment;
3. Ensure that safe and efficient arrangements are in hand for purchasing, selling and monitoring the council's investments;
4. Making some decisions in the context of pension administration.

As a duly constituted Committee of Gwynedd Council, the operation of the matters delegated to the Committee are governed by Gwynedd Council's constitution, and in particular, Parts 4 and 5 which govern the rules of procedure and Codes and Protocols which are to be followed by members of the Pensions Committee and officers.

The Pensions Committee is also charged with ensuring that an annual report on Pensions matters is prepared and presented to an annual meeting of employers and employee representatives, at which any of the said parties can question the Committee, their officers, investment adviser or Fund managers on issues relating to Fund performance, and administration and/or pensions matters in general.

In order to ensure an adequate review of investment performance, the Committee's investment adviser and each Fund manager provides the Committee with a quarterly monitoring report. Informal meetings are also held with the investment adviser and Fund managers in order to challenge performance and resolve any issues which arise.

All employers who are not members of the Pension Committee are afforded the opportunity to influence the Pension Committee's determinations through the series of informal meetings held periodically with various categories of employer.

Any issue requiring formal consideration is considered at a properly convened meeting of the Committee, in order to allow citizens to exercise their rights to attend any meeting of a Council Committee.

Chief Finance Officer

Article 12 of the Council's constitution stipulates that the Head of Finance (as the Council's Chief Finance Officer) shall have responsibility for financial strategy, and as such he is responsible to the Pensions Committee for advising on the appropriate financial strategy for the Pension Fund, and for ensuring that appropriate specialist advice is provided.

Article 12 also stipulates that the Head of Finance will report to the Council and the Council's external auditor if he considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is likely to cause a loss or deficiency, or if the Council is about to enter an item of account unlawfully.

Under this Article, the Head of Finance also has responsibility for the proper administration of the Pension Fund's financial affairs

Monitoring Officer

Article 12 also stipulates that the Head of Democracy and Legal (as the Council's Monitoring Officer) will report to the Council if she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

10.5 Governance Compliance Statement

Principle A – Structure

a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
	Gwynedd Council is fully compliant with this principle.
b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
	Gwynedd Council is partly compliant with this principle. Representatives from two participating LGPS employers are members of the main committee. Currently there is no representation from admitted bodies or scheme members in order to retain a relatively small committee which can review manager performance in an effective manner. As the pension promise is defined by legislation for scheme members, the actions of the Committee have not hitherto been considered to impinge upon their interests and thus no representation has been afforded. All employers are afforded the opportunity to influence decisions through a series of informal employer meetings.
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
	No secondary committee or panel exists, although the informal employer meetings ensure effective communication.
d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.
	No secondary committee or panel exists.

Principle B – Representation

a)	That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).
	Partly compliant. We do have LGPS employing authority representation on the main committee, and we also have an expert independent advisor (on an ad-hoc basis). However, no scheme members/committed bodies or independent professional observers are given membership.
b)	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.
	No lay members sit on the Committee (see Part A (b) above).

Principle C – Selection and Role of Lay Members

a)	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.
	Fully compliant. All members are made clear of their responsibility as laid out in the Governance Policy Statement.
b)	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.
	Gwynedd Council is fully compliant with this principle.

Principle D – Voting

a)	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.
	The Pensions Committee is comprised of 9 members, all of whom have voting rights, 7 of whom are elected members of Gwynedd Council, and 1 representative from each of the other two participating LGPS employers.

Principle E – Training/Facility Time/Expenses

a)	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.
	Fully compliant – all members are granted equal access to training support and appropriate expenses paid.
b)	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.
	The policy applies to all members of the Committee.
c)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.
	Gwynedd council is partly compliant with this principle in that a log of all training undertaken is kept and consideration given periodically to members' training needs but no annual formal training plans are established.

Principle F – Meetings (Frequency/quorum)

a)	That an administering authority's main committee or committees meet at least quarterly.
	Fully compliant.
b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronized with the dates when the main committee sits.
	No secondary committee or panel exists, although the informal employer meetings are synchronized with the dates of the main committee.
c)	That an administering authority that does 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.
	Every July, an Annual Meeting of the Pension Fund takes place. Employers and employee representatives are invited to the meeting, and they can question the Committee, the administering authority's officers, the investment advisers or the Fund managers on issues relating to the Fund's performance, administration and/or pensions matters in general.

Principle G - Access

a)	That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.
	Gwynedd Council is fully compliant with this principle.

Principle H – Scope

a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements
	The Pensions Committee considers all issues relating to the Local Government Pension Scheme.

Principle I - Publicity

a)	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.
	The Governance Policy Statement is available in the Pension Fund annual report.