Dyfed Pension Fund

www.dyfedpensionfund.org.uk

Annual Report & Accounts
2013-2014

Securing your future... Safeguarding your past

Administered by:

Cyngor Sir Gâr
Carmarthenshire County Council

Contents

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Chairman's Foreword

I can honestly say that my 15th year as Chairman of the Dyfed Pension Fund has been the most eventful year to date. The Public Service Pensions Act 2013 received Royal Assent on 25 April 2013. One of the main thrusts of the Act is the governance review of public sector pension schemes including the Local Government Pension Scheme (LGPS). It requires each pension fund within the LGPS to establish a pension board by 1 April 2015, which will assist the scheme manager (the administering authority) in securing the effective and efficient governance and administration of the fund.

It also requires a scheme advisory board to be established in the LGPS. The shadow scheme advisory board was subsequently set up with it's role being to advise scheme managers on the desirability of changes to the scheme, encourage best practice, increase transparency and coordinate technical and standards issues. We recently responded to the resultant consultation, welcoming the provisions but noting the challenging timescale of 1 April 2015 to set up the pension board.

The above Act, the introduction of the Career Average Revalued Earnings (CARE) scheme on 1 April 2014 and the structural reform debates around Collective Investment Vehicles (CIVs) and passive v active investments means that the management of the Fund continues to be a demanding undertaking. We however, must not forget that the LGPS is still a high quality and highly valued scheme and we continue to prioritise ***"Securing your future and Safeguarding your past"*** during all the changes that are taking place.

The results of the 2013 valuation were published during the year. A solvency level of 89% is another excellent outcome and puts us once again in the top ten LGPS funds in England and Wales.

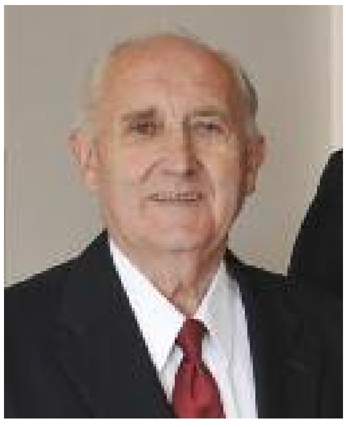
Panel completed the review of the asset allocation of the Fund during 2013. Threadneedle and Baillie Gifford were appointed in December 2013 to manage approximately £340m of Global Equity investments on behalf of the Fund. The funding took place during April 2014 from the UK and European Equity portfolios that were managed by BlackRock. We will monitor their performance on a regular basis as we do with our other managers. Schroders and Partners Group are performing well and were awarded further amounts of £32m and £8m respectively in June 2013 to ensure that their investments were in line with the benchmark allocations of 8% and 2% of the Fund.

The Fund returned 6.2%, 0.3% ahead of it's benchmark during 2013-2014. This outperformance, the first since 2008-2009, arose principally from the Fund's equity investments (which represent around 70% of the overall asset value). However, the Fund underperformed the average local authority return of 6.4% which ranked us in the 54th percentile for all funds.

I am pleased to announce again this year that the Fund has been successful in winning a prestigious award. The Fund was awarded the Pensions Age Defined Benefit Pension Scheme of the Year Award in February 2014.

There has been stability once again this year in our client director investment manager relationships and my fellow panel members. Thank you once again this year for your sterling work for the Fund and its members.

Last, but definitely not least, I would like to thank Mr Roger Jones, Director of Resources at Carmarthenshire County Council for his exceptional work, professionalism and commitment to the Fund over the past 17 years. Roger retired in September 2014 following 36 years in local government. He has been a continual support to me, other panel members and officers to the Fund and leaves with our best wishes. On behalf of all involved with the management of the Fund I wish him well in his retirement.



Councillor Wyn Evans,
Chairman of the Pension Panel

Introduction

As the Chairman kindly mentioned in his foreword, the time has come for me to step down as an officer of the Fund and local government. My association with the Fund goes back to 1978, with the commencement of my local government career. At the time joining the LGPS was a natural step to take as it was regarded as one of the best pension schemes in the country and this remains the case to this day despite the many changes imposed on the scheme in recent years.

My involvement with the management of the Fund began in 1997 and in the intervening 17 years new schemes have been introduced, there has been increased scrutiny of the LGPS, the investments of the Fund have become more diverse and panel members and officers have come and gone. However, two things have remained constant during this period, firstly all parties involved with the management of the Fund continue to work tirelessly to ensure that it remains both affordable and sustainable in the face of significant change and secondly that it is still

"Securing your future and Safeguarding your past".

I am content, that as I leave as an active member and become a pensioner, that the Fund is in a good state of financial health.

The 2013 valuation confirmed that the **solvency level** has been maintained at a similar level for many years, as can be seen from the table below:

2004	89%
2007	92%
2010	91%
2013	89%

Membership figures have continued to rise in the same time periods:

2004	26.830
2007	34,058
2010	35,918
2013	39,645
2014	42,711

These figures are even more remarkable when you consider the staffing efficiency savings that have had to be made over recent years. This is testament to the hard work of the Administration Section in ensuring that all employees are afforded the opportunity to join the scheme and that the data held is up to date and accurate.

Fund **investment returns** have performed well when compared to the average local authority return:

	Fund Return (%)	Average LA Return (%)
2004	23.8	22.7
2007	5.3	7.0
2010	37.3	35.2
2013	14.4	13.8
2014	6.2	6.4

The above results have consequently meant that we have been able to keep employer contribution rate increases to a minimum over the years whilst still ensuring that the Fund retains a healthy cash flow position.

The introduction of a pension board for each fund is the most radical governance change for many years. As the Chairman has pointed out, the timescale is very tight and the preparation my officers will have to undertake in the coming months will be an unique and challenging exercise.

The authority's legal team, democratic services and chief officers will be engaging with all the Fund's stakeholders to ensure that the appropriate representatives sit on the board. Knowledge and skills will be a prime driver for this and I am sure that the membership of the board will develop over time.

As I revealed in last year's Annual Report, the Fund has completed the review of it's equity allocations and this culminated in the appointment of Baillie Gifford and Threadneedle as global equity managers.

It was an unanimous decision by the interview panel to appoint these two managers as they compliment each other perfectly. The Baillie Gifford global equity fund managers have been working together for over 15 years and concentrate on stocks which offer long term growth. Portfolio turnover is suitably low to back this research driven approach. Performance has been strong over the long term. Threadneedle has a strong reputation across multiple asset classes. They concentrate on high yield and screen for stocks yielding over 4% before conducting further analysis into the balance sheet and company growth prospects. The lead fund manager has been managing equities based on high income for most of his 25 year career.

It is pleasing to note that the Treasury have "moved away" from the prospect of fund mergers and the complicated implementation issues that would arise.

Dinefwr Castle, Carmarthenshire

It is obvious that the work the eight pension funds in Wales have done has not gone unnoticed as Collective Investment Vehicles (CIVs), which was one of the recommendations in our final report, are the proposed way forward for the future to capture efficiency savings across the LGPS. Going forward, CIVs will be considered by the Welsh funds and I'm sure the progress the London boroughs have made will be useful and beneficial to the deliberations. I think we are a good 12 months away from establishing any sort of CIV, however many there may be, for the LGPS outside of London.

Finally, it is with a heavy heart that I thank everybody who has made my time in local government and with the Fund a mainly pleasurable one! There have been many challenges along the way but that is to be expected in the current era.

In the main, the work the panel members do on behalf for the Fund gets overlooked as it is not their primary duty as a member of the local authority but I can assure you that the time and commitment they put in to the Fund is outstanding and I thank them for the admirable support they have also provided to the officers.

I know that I leave the management of the Fund in good hands with the established team of experts from within and outside Carmarthenshire County Council.

Mr Roger Jones
BSc Econ (Hons), CPFA
Director of Resources

Fund Investments

Investment Policy

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

The Investment Policy and the approach to the management of risk for the Fund as a whole and in respect of the investment managers is outlined in the SIP.

A summary of how the administration of investments is controlled, who deals with each element of the portfolio, how voting rights have been exercised can be also found in the SIP.

Responsible Investment Policy

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

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

Membership of Pension Fund Institutions

The Fund subscribes to and is a member of National Association of Pension Funds (NAPF) and Local Authority Pension Fund Forum (LAPFF).

Voting

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

Asset Allocation

As mentioned elsewhere within this report, benchmarks for asset allocations have been amended during 2013-2014. The asset allocation as at 31 March 2014 is shown overleaf:

Mandate	Approach	Manager	Benchmark (%)	Actual %
UK Equities				
UK Equities	Passive	BlackRock	25.0	24.9
UK Equities	Active	BlackRock	14.0	14.2
Overseas Equities				
US Equities	Active	BlackRock	9.0	11.4
Canadian Equities	Passive	BlackRock	1.0	0.5
European Equities	Active	BlackRock	5.0	5.9
Japanese Equities	Active	BlackRock	3.5	3.4
Pacific Rim Equities	Passive	BlackRock	3.2	3.2
Emerging Markets	Passive	BlackRock	8.3	6.9
Fixed Interest				
Index Linked Bonds	Passive	BlackRock	10.0	9.7
Corporate Bonds	Active	BlackRock	10.0	9.7
Property				
Pan European Property	Active	Schroders	8.0	8.5
Pan European Property	Active	Partners Group	2.0	1.4
Other				
Cash	Active	BlackRock	1.0	0.3
Total			**100.0**	**100.0**

The Fund's asset allocation strategy can also be found in the SIP.

The table below shows the change in fund value from the beginning of the year to the end of the year and is broken down by asset class.The value of the Fund rose by 4.16% outstripping the rise in the consumer prices index (1.6%).

	Value as at 31/03/13 £'000	Value as at 31/03/14 £'000
Equities	627,928	651,730
Index Linked	164,837	161,398
Fixed Interest	163,663	161,653
Pooled Funds	520,017	518,792
Property	12,340	12,671
Pooled Property Investments	100,353	152,720
Cash & Other	7,742	4,675
Accrued Income	3,959	3,801
Total	**1,600,839**	**1,667,440**

Investment Performance

10 Year Returns

Periods to 31/03/14	Fund (%)	Benchmark (%)	Difference (%)
1 year	6.2	6.4	-0.2
3 year	8.0	7.5	+0.5
5 year	13.4	12.7	+0.7
10 year	7.9	7.8	+0.1

Performance is measured on both a quarterly and an annual basis. For the year to 31 March 2014 the Fund had a return of +6.2% (compared with a return of +6.4% for the performance of the average local authority fund – the benchmark) and was ranked at the 54th percentile. The rolling three year return for the Fund is +8.0% compared with the benchmark return of +7.5% and ranked at the 38th percentile. The benchmark is measured and compiled independently by WM Performance Services.

Individual Managers Performance

The tables overleaf show the performance of each manager for the year ending 31 March 2014.

Top ten equity holdings by market value 31 March 2014

HSBC The world's local bank £35m

bp £31m

gsk GlaxoSmithKline £27m

A share holdings £25m

British American Tobacco £19m

vodafone £18m

AstraZeneca £17m

B share holdings £16m

RioTinto £15m

BARCLAYS £13m

BlackRock

The active UK, US and Japanese equity strategies underperformed their indices during the period, while the active European equity and UK corporate bond strategies outperformed.

	Fund Return (%)	Index (%)	LA Universe (WM) (%)	Ranking (out of 100)
UK Equities	10.7	8.8	9.7	39
North American Equities	11.2	11.3	11.9	47
Japanese Equities	-2.9	-1.6	0.5	85
European Equities	22.5	17.6	15.1	9
Pacific Rim Equities	-6.5	-5.8	-7.1	38
Emerging Market Equities	-9.9	-10.8	-5.1	63
UK Corporate Bonds	1.4	1.6	2.0	59
UK Index Linked Gilts	-4.4	-4.4	-4.0	52
Overall Relative Performance		**+0.8**	**-0.2**	

Partners Group (Pan European Property)

The performance of investments in private property is measured by Internal Rate of Return (IRR), a figure that will be volatile until the fund reaches maturity.

As a time weighted return based on cash flows it is not a meaningful performance measurement until all capital contributed and earnings has been returned to the investor. Until then the IRR will peak and dip based on the timing of cash inflows and outflows.

The table illustrates the cash flows as at 31 March 2014.

As at 31 March 2014, the valuation of the property portfolio is above the original cost of investment.

Further information can be found in the Partners Group report.

Portfolio Investments	
Committed	£40.0m
Commitment level	95.21%
Commitment level - directs	20.27%
Commitment level - secondaries	26.22%
Commitment level - primaries	48.72%
Invested	£26.0m
Investment level	64.95%
Partners Group Red Dragon, L.P.	
Commitments	£42.0m
Contributions	£27.1m
Contributions (in % of commitments)	64.43%
Unfunded commitments	£14.9m
Distributions	£2.5m
Net asset value	£27.6m

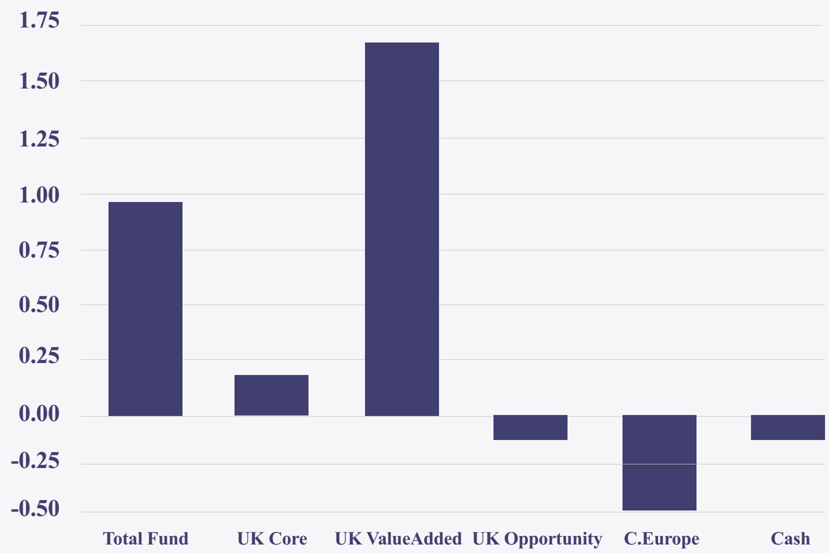
Schroders

(Pan European Property)

Performance has been above benchmark with outperformance from both the UK and continental European investments. UK returns have been driven by an overweight position to the London office sector and income-focussed investments.

Continental European investments have delivered strong returns boosted through currency movements.

The graph shows the total return attribution relative to benchmark for the year ended 31 March 2014:



Schroders achieved a net return of 12.8% compared to the AREF / IPD UK Quarterly Property Fund Index Weighted Average return of 11.9% Further information can be found in the Schroders report.

The property portfolio was in the 32nd percentile in the LA Universe (24th out of 74 LGPS funds that invest in property)

The Dyfed Pension Fund Panel, Officers, Advisers, Managers and Consultants

The Fund's Governance Policy sets out the roles and responsibilities of the Panel.

During 2013-2014 the Panel members were:

Councillor Wyn Evans
Chairman of the Panel

Councillor Siân Thomas (M.A., M.Ed)
Panel Member

Councillor Terry Davies (MBE)
Panel Member

Councillor Philip Hughes
Substitute Panel Member

Panel meetings 2013 - 14	05/06 2013	25/09 2013	26/09 2013	03/12 2013	04/12 2013	21/11 2013	19/03 2014
BlackRock	✔		✔	✔			✔
Schroders		✔			✔		
Partners Group					✔		
Annual Consultative Meeting				✔			
Other Panel Meetings						✔	

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

Mr Roger Jones, BSc (Hons) Econ, CPFA
Director of Resources

Mr Chris Moore, FCCA
Head of Financial Services

Mr Anthony Parnell, FCCA
Treasury and Pension Investments Manager

Mr Kevin Gerard, MIPPM
Pensions Manager

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

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

The Independent Investment Adviser to the Fund is:

Mr Eric Lambert - Mr Lambert advises Panel on all aspects of investment management at quarterly meetings and ad hoc meetings as necessary.

Other managers and consultants who contribute to the Fund are:

BlackRock, Schroders, Partners Group - Investment Managers
WM Performance Services - Performance Measurement Company
Northern Trust - Custodian

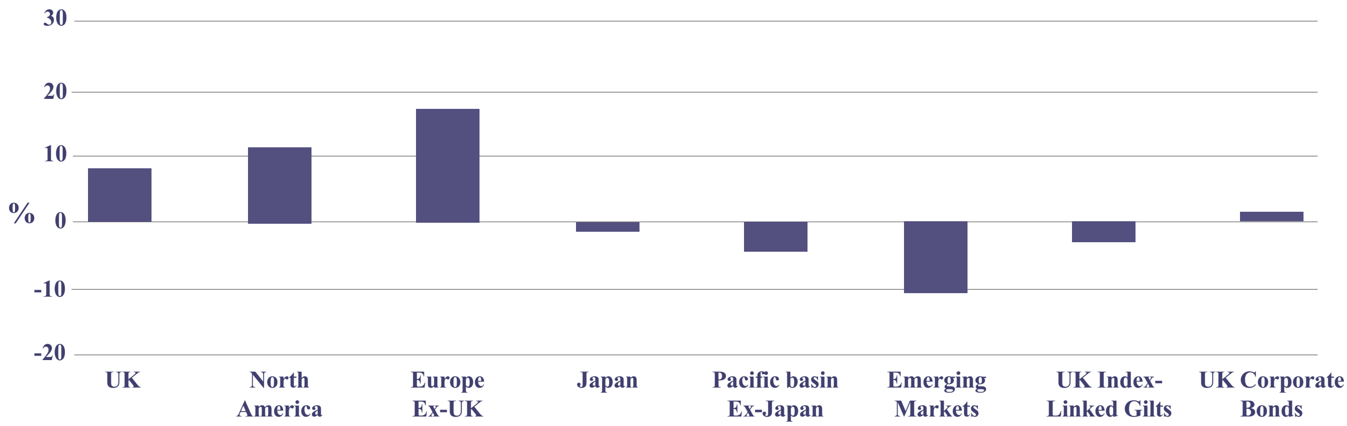
Eversheds - Legal Advisers
Mercer - Actuary
Wales Audit Office - External Auditor

The Pension Panel

Since the financial crisis of 2008-2009, developed equity markets have been slowing recovering and it was encouraging to see this trend continue in this review period. European markets (ex-UK) performed particularly well, up 17.3%, as fears of a recurrence of the Eurozone sovereign debt crises abated, while the developed Pacific Rim region was an exception suffering from declining expectations of domestic economic growth in China (a major trading partner) and, in Japan's case, a declining yen detracted from returns to sterling investors.

Emerging market equities suffered (down 10.8%) following the announcement by the US Federal Reserve in May 2013 that purchases of US bonds would be reduced in the future, so-called "tapering". This prompted a sell-off in the US and other bond markets, quickly followed by much more severe falls in emerging markets and their currencies as investors sought to switch to safer asset classes. UK index-linked gilts fell in value in line with government bond markets generally. Finally, UK corporate bonds were slightly higher over the period.

Market returns 1 April 2013 to 31 March 2014



Source: BlackRock. All returns in sterling

In this environment it was encouraging to see the Dyfed Pension Fund's Main Portfolio return 5.7% for the period compared to a composite index return of 4.9%, thereby outperforming the index by 0.8%. Further detail of the market and economic background, changes to the portfolio and the performance of BlackRock's active strategies follow.

Market & economic background

Comments made by Ben Bernanke, the Chairman of the US Federal Reservce, injected havoc into markets in the second half of May 2013 and through June as investors began pricing in the end of ultra-loose monetary policy characterised by large scale bond purchases from the US Fed. Many assets delivered negative returns over the second quarter of 2013 with emerging markets equities underperforming developed market equities. Sentiment also turned negative as concerns over liquidity in China's banking sector mounted over the month of June. The market reaction confirmed how important central bank bond purchases have been in propping up asset prices over recent years.

Perhaps alarmed by the speed of spiking bond yields, the head of the New York Federal Reserve, aimed to soothe markets by saying asset purchases would be more aggressive than the timeline Bernanke had outlined if US economic growth and the labour market prove weaker than expected. In Europe and the UK, central bankers hinted that an end to quantitative easing was a long time off.

Market volatility was also a prominent feature during the third quarter of 2013 as markets assessed the impact of a potential US strike on Syria, the outcome of the German elections and the timing of the tapering of quantitative easing by the Federal Reserve. On the positive side, there was a mood of quietly increasing optimism over improving economic indicators in the US, UK, eurozone, Japan and China. European equity markets performed particularly well over the period, as investors sensed that the continent was finally emerging from its political and financial difficulties. US and UK equities also performed well relative to the broader global equity market.

However, uncertainty over Federal Reserve policy took its toll on Asia Pacific and other global emerging markets as investors' risk appetite ebbed. For much of the period, concerns over the sustainability of Chinese economic growth also had a negative impact on markets in the region, although a subsequent improvement in the country's economic indicators seemed to reassure investors and boosted commodity prices. The performance of bond markets was mixed, oscillating on conflicting central-bank signals. Currency markets witnessed some profit-taking in the US dollar, while sterling strengthened against the dollar and the yen.

The US government shut down for 16 days in early October as politicians once again took the country to the edge of default before reaching a compromise at the 11th hour to raise the debt ceiling. The Federal Reserve finally announced on 19 December the start of tapering by scaling back monthly asset purchases from $85bn to $75bn. Increased forward guidance on short term interest rates with regard to inflation and the unemployment threshold was no doubt helpful in calming investors after the initial announcement.

Developed equity markets reacted positively with the S&P 500 reaching a record high in the final days of 2013 while fixed income sold off as US 10-Year Treasuries hovered around the 3% yield level. The broader market reaction to tapering was far less pronounced than during the summer months.

In Europe, the ECB cut the refinancing rate by 25bps to 0.25% early in November as high unemployment and very low inflation continued to plague the eurozone despite significant improvements in broader macroeconomic data. Both manufacturing and services continued to expand. The eurozone economy came out of recession in the third quarter, but the positive aggregate growth figure masks significant intra-region variation. For example, France saw a contraction in manufacturing and the service sector barely expanded and is now emerging as the new "sick man" of Europe. In the UK, positive economic momentum continued to build –3Q GDP was confirmed at +0.8% quarter-on-quarter and PMI readings remained at the high levels reached in the summer months. The market reacted with gilt yields finishing at highs for the year.

After a very strong rally through 2013, investors' risk appetite diminished into 2014; bonds outperformed in the first quarter amid heightened risks in emerging markets and softer-than-expected economic data in the US. Emerging markets struggled against the headwinds of diminishing global liquidity, currency weakness, debt problems and uneven growth. Most notably, China's economy showed signs of further deceleration. Japanese equities were the biggest underperformer, falling by almost 10% during the period. A stronger yen coupled with doubts around the effectiveness of "Abenomics" in bringing about inflation and growth caused a sharp reversal in sentiment.

In the US most indicators continued to signal a strengthening economy; however, stagnant wage growth raised concerns about the sustainability of the positive momentum. Although these headwinds persisted, equity markets began to rise again in February due in part to positive developments in the US as Congress extended the nation's debt ceiling through mid-March 2015, thereby reducing some degree of fiscal uncertainty for next year. Signs of strengthening in Europe's recovery also boosted sentiment for global equities.

In March, sentiment became dominated by tensions between Russia and Ukraine over Crimea. Concerns that Western sanctions imposed on Russia could lead to more volatility in financial markets drove investors away from risk assets. However, these worries quickly abated and equities rebounded after Russia annexed Crimea as the sanctions turned out to be relatively modest and did not provoke any serious response from Russia. Also making headlines in March was a statement from Fed Chairwoman Yellen indicating that the Fed may raise short-term interest rates earlier than the markets had previously forecast. This shift in forward guidance took many by surprise, but generally did not deter equity investors.

Changes to the portfolio

Since March 2010 the Fund's assets managed by BlackRock has comprised two separate portfolios - the "Main Portfolio" with the bulk of the assets and a "Warehoused Portfolio" which continued to be disinvested over the period to fund property purchases with other managers.

BlackRock's mandate for the Main Portfolio at 31 March 2014 is set out in the following table:

Asset Class	Benchmark allocation (%)	Range (%)
UK Equities	**44.0**	
Active		16.0
Passive		28.0
Overseas equities	**34.0**	
Europe ex-UK*		5.5
North America*		11.5
Japan*		4.0
Pacific Rim ex-Japan**		3.8
Emerging Markets**		9.2
Bonds	**22.0**	
UK Corporate Bonds*		11.0
UK Index-Linked Gilts**		11.0
TOTAL	**100.00**	

* indicates that the assets are managed actively; in the case of North American equities, US equities are managed actively while Canadian equities are passively managed;

** indicates that the assets are passively managed.

In July 2013, the fund's holding in the Global Ascent (Sterling) Fund was sold and the 1% benchmark allocation was split equally between UK and North American equities. The proceeds of the sale were transferred to the Warehouse Portfolio.

BlackRock's performance

In the year to 31 March 2014, the Dyfed Pension Fund's Main Portfolio returned 5.7% compared to the index return of 4.9%, thereby outperforming the index by 0.8%.

The active UK and Europe ex-UK equity strategies significantly outperformed their indices by 5.3% and 4.5% respectively. Together these strategies accounted for 21% of the Main Portfolio's benchmark, and so they were the dominant contributors to this outperformance.

BlackRock's active equity strategy uses a variety of different insights to determine which stocks to overweight in our funds. These insights are:

- Value - the relative attractiveness of stocks based on reported and forecast fundamentals
- Quality - the financial strength of the company assessed through its reported financial statements and corporate activity
- Sentiment - the behaviour of investment analysts, market participants and other financial market signals
- Fast signals - impact of liquidity and flows over shorter time periods
- Macro themes - capturing industry fundamentals and outlook and lead-lag relationships between stocks.

The Value, Sentiment and Macro insights performed well for the active UK and European equity strategies. Quality performed well for the UK strategy but was flat for the European strategy.

During the review period, the active US equity strategy outperformed by 0.6% and the UK Corporate bond strategy was broadly in line with its index, while Japan underperformed by 1.1%.

Regarding passively managed index-tracking assets, all funds and portfolios tracked their respective index benchmarks within expected tolerances.

Contact over the year

Over the review period, BlackRock reported formally to the Panel four times - twice at BlackRock's offices in London and twice in Carmarthenshire.

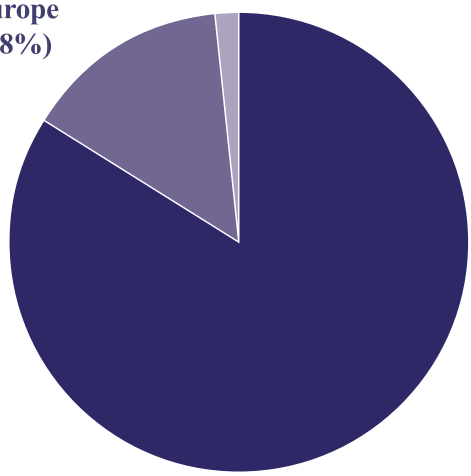
Mr Alex Carpenter
Managing Director,
BlackRock

Background - Schroders was formally appointed to manage a pan-European property multi-manager mandate on behalf of the Fund on 8 March 2010. Our objective is to invest in a number of indirect property vehicles throughout the UK and continental Europe. At inception £88 million was committed for investment. A further £32 million was committed for investment in July 2013.

Progress to date

As at 31 March 2014, £119.7 million of commitments had been drawn. This includes the original £88 million of commitments made at the outset of the mandate and £31.7 million of the additional allocation to the portfolio made in July 2013. The remaining £0.3 million is allocated to property funds and is likely to be drawn down in 2014.

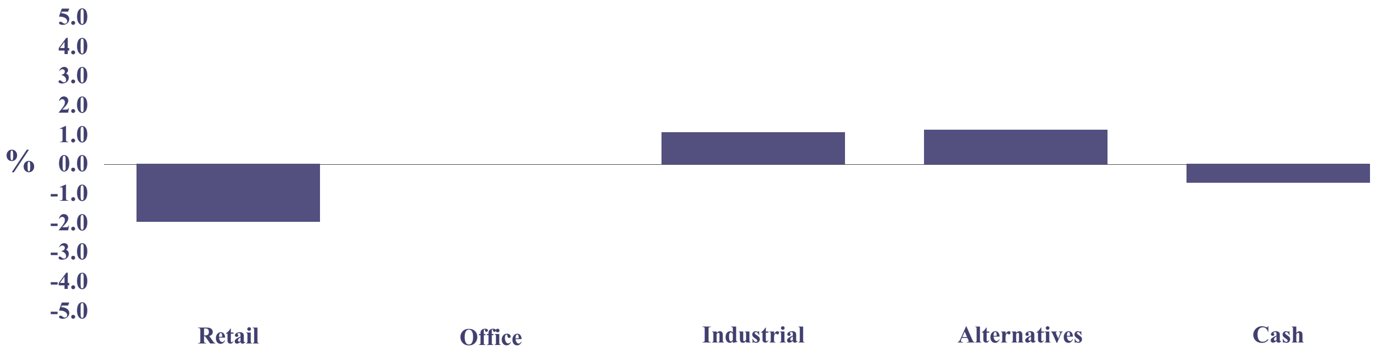
At quarter end March 2014 88.6% of underlying investments were in UK property, 9.8% were in continental European property and the balance of 1.6% was held in cash. The new equity allocation of £32 million was allocated to UK investments and this, along with strong performance from the UK assets, has contributed to the portfolio's allocation to the UK increasing over the year. When fully drawn, i.e. when all underlying funds have drawn down the cash allocated to them, we expect circa 90% of the portfolio to consist of UK assets with the remainder in continental Europe.



Source: Schroders

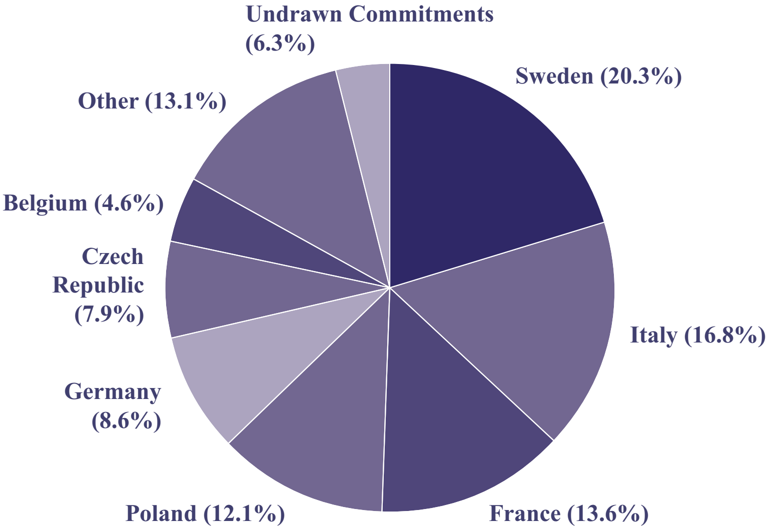
The UK portfolio is structured to broadly mirror our House View of preferred sector positions, and its weightings relative to benchmark are shown below. In general the portfolio remains underweight to retail, in particular traditional high street shops, and overweight to relatively higher income generating assets such as industrials and alternative sectors. As the UK property market continues to perform strongly we maintain an underweight position to cash to ensure minimal drag on performance.

Weightings relative to benchmark



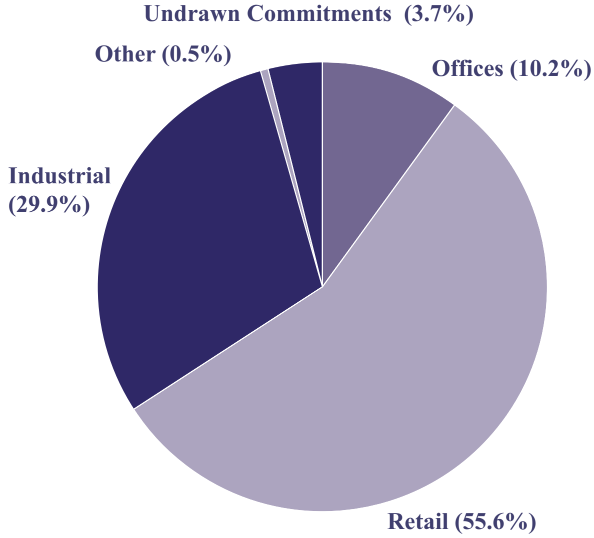
The continental European portfolio, 9.8% of total portfolio value, provides diversified exposure by region with a bias towards northern and western European countries. By sector, over half of the portfolio is invested in retail assets which are predominantly large, dominant shopping centres. The portfolio's exposure to industrials has grown over the year as a Nordic fund focussed on the industrial sector has drawn down further equity. This fund has further equity to be drawn, denoted by the 3.7% of undrawn commitments in the charts overleaf and therefore we expect the industrial sector to constitute a larger part of the portfolio in 2014.

European Portfolio Country Allocation (in €)



Source: Schroders

European Portfolio Sector Allocation (in €)



Source: Schroders

Performance

The portfolio outperformed its benchmark over the past twelve months. This was predominantly driven by strong returns from the portfolio's UK investments, particularly those with exposures to central London office and industrial sectors. Investments in the alternatives sector, which includes student accommodation, leisure and healthcare investments have also performed strongly and we have increased the portfolio's overweight position to these sectors over the year.

Continental European investments have delivered strong absolute returns over twelve months. This has been mainly attributable to an increase in the value of a listed investment which owns grocery anchored shopping centres in Italy. The portfolio's exposure to Nordic investments is also a strong driver of returns, particularly within the industrial sector where there is robust investor appetite for assets with long dated leases.

Over the three year period the portfolio is also outperforming the benchmark, with performance driven by similar themes to those over the twelve month period. During this period the portfolio has grown significantly as equity has been invested and we have sought to keep transaction costs low by sourcing units in property funds on the secondary market, where possible at a discount to prevailing valuation.

UK Property Outlook

We are now seeing a far greater depth to the investment market. One discernable trend in the early stages of the recovery was a narrow focus on core income producing assets with long leases. Over the last six months this trend has reversed, with a notable strengthening in demand for higher-yielding assets outside these core markets. This is starting to be reflected in valuations, with CBRE, the property consultancy, reporting that the prime/secondary yield gap narrowed from 5.9% to 5.6% between September 2013 and March 2014.

Assuming the UK economy continues to grow, we expect returns of 8-10% per annum over the next three years. The risks in the short-term are now firmly skewed to the upside and, given the momentum in the investment market, there is a possibility that we may see valuations rise in 2014 and 2015 more than originally forecast.

Whilst this would boost performance in the short-term, returns could be more moderate from 2016. In the meantime, central London is expected to continue to record the strongest rental growth in 2014, although we believe higher yielding assets in the regions are well positioned for strong returns over the next three to five years.

Continental Property European Outlook

The weight of capital means that prime office and retail yields in the centre of Paris, the big German cities and Stockholm have been pushed to almost record lows. Although these levels may be justifiable in Munich or Stockholm, which have good rental growth prospects, we think that prime yields in the centre of Paris and many German cities look expensive. Better value in the office sector can be found on the edges of the main business districts in the big cities and in the centre of certain regional cities such as Lille and Hannover. In the retail sector, we favour smaller grocery-anchored schemes and big box parks, where yields are higher – in the range of 6-7%. While many international investors are becoming increasingly optimistic about Spain, we do not think that yields there adequately reflect the risks associated with high vacancy and a household sector which is still heavily in debt.

The main upside risk in the short-term is that the inflow of capital from Asia and the US results in a fall in yields, boosting capital values in 2014. It is also possible that rental growth resumes slightly sooner than we are anticipating. The main downside risk is that the sovereign debt crisis could re-ignite if governments fail to meet targets to cut their budget deficits.

Schroders' approach to corporate governance

The majority of the portfolio is invested in unlisted property funds. These are either open-ended or closed-ended depending on the liquidity provisions within the fund's documentation. Schroders engage with the Managers of the funds to ensure the fund's terms remain relevant in the market environment, particularly when there are changes in regulation and updating or modernising fund terms to ensure they are in line with best practice. Our overriding principle is to protect investors' interests over the long term.

Many early vintage closed-ended property funds are coming towards the end of their lives. At this point, the Manager of the funds and the investors will meet to discuss options regarding the fund's future. This could include an extension of the fund's life or a wind up of the fund where the assets are sold and equity returned to investors. Over the past twelve month period, Schroders has engaged in discussions with two closed-ended funds in the pension scheme's portfolio. In one instance, a UK industrial fund, Schroders voted on behalf of clients to extend the life of the fund. In the other, Schroders supported an extension but opted not to continue as an investor due to the cyclical nature of the fund. In the case of the latter we ensured that our clients could achieve a fair exit within a specified time frame. A further three funds owned by the scheme are going through a similar process which we expect to be completed within the coming twelve months.

In all engagement with Managers our purpose is, where necessary, to seek change that will safeguard and or enhance value.

Pembroke Castle, Pembrokshire

Future strategy

With increasingly positive investor sentiment towards UK commercial property leading to rising capital values, cash levels will be kept to a minimum in order to avoid diluting returns. We remain active on the secondary market to ensure capital is efficiently deployed.

Although London is expected to produce strong returns in the short term, we believe the most interesting opportunities may lie away from the capital. As the recovery becomes more broad-based, we expect to see investor attention switching to higher yielding opportunities in regional office and industrial markets. In anticipation of this we increased the portfolio's exposure to regional office and industrial sectors through the purchase of a new fund launched in 2013.

The retail sector has been challenging on the back of changing technology and lifestyle trends. We remain cautious about the prospects for weaker high streets and secondary shopping centres, which will struggle to compete with on-line channels and larger schemes. There are, however, pockets in the retail sector which continue to offer good value. Given the changing habits of consumers, convenience retail assets are proving attractive, with nearly every major supermarket chain focusing on smaller local stores as the cornerstone of their business strategies.

Summary

An additional allocation of £32 million was made to the portfolio effective 1 July 2013. In anticipation of a rapidly rising UK property market, Schroders completed the majority of investments before the end of 2013. Of this new equity only £0.3 million remains to be invested and it is likely this will be drawn down in 2014. The newly deployed funds have benefitted from the strong pick-up in values, vindicating the Fund's decision to allocate further to property in 2013.

Performance of the portfolio over the last twelve months and three years has been strong and is outperforming the benchmark. The main driver of this has been UK investments which have experienced strong returns in the second half of 2013. The continental European property portfolio continues to generate strong absolute returns.

Mr Graeme Rutter
Head of Property Multi-Manager
Schroders

Aberystwyth Castle, Ceredigion

Partners Group

Passion for Private Markets

For the first time since 2007, global commercial property transaction volume is on track to exceed $ USD 1 trillion for the full year 2013. Increased liquidity, continued price appreciation and economic growth have been driving the engine of global transaction volume, accompanied by a notable increase in investor risk appetite. While global investment trends may imply that real estate investors have begun to view the world through semi-rose colored glasses, we remain keenly aware of the risks associated with passively buying into markets where prices now exceed previous high water marks and fundamentals remain shaky.

Anemic signs of an economic recovery are materializing in the Eurozone, including the periphery. Eurozone-wide corporate capital expenditure has moved into expansionary territory, GDP growth has turned positive and early economic indicators point towards further growth momentum although at low levels. We remain cautious. In Italy and Spain, near record high unemployment, continued bank deleveraging, high corporate debt levels and rising non-performing loans taint the outlook.

It is still too early to buy the market in these countries but attractive valuations of robust companies in the right sectors with a geographically diversified revenue base may allow for contrarian opportunities. At the opposite end of the spectrum and despite **the sluggish environment prevalent in Europe as a whole, GDP growth in certain areas is accelerating.** Loose monetary and fiscal policies, coupled with strong private demand and rising investments against the backdrop of improving exports are driving the outlook for Sweden and Norway.

Strong private consumption, coupled with projections of rising exports and corporate investments also support the outlook for export-powerhouse Germany. Growth in the UK has surprised positively and is set to remain strong in 2014.

However, reviving economic activity and calm government bond markets mask the fact that the **Eurozone is not out of the woods yet** in terms of reducing internal imbalances, implementing structural reforms and safeguarding financial system stability.

While current account and fiscal deficits have been reduced and firewalls established to ward off disorderly volatility while providing a financial backstop to ailing countries – more convincingly so on the monetary policy side – governments are hamstrung in their ability to deal with significant economic, political and social upheaval. Also, the upcoming ECB stress test bears the potential of destabilizing the peripheral European banking sectors.

The region remains vulnerable to adverse developments. Partners Group's real estate investment activity will continue to be predicated on our global relative value assessment, taking economic developments into consideration. Our assessments for the first half of 2014 will be aimed at mitigating the threat of declining prices and **creating value through either building or redeveloping properties to suit end users in local markets.** In addition, **we are avoiding idly purchasing into appreciating markets in hopes that prices will continue to climb.**

In markets where optimistic sentiment reigns and aggressive property acquisitions are taking place at lofty pricing, we believe there are compelling exit opportunities for us to capitalize upon. At the same time – and as both buyers and sellers of commercial real estate – we believe select attractive investment opportunities continue to be available in all corners of the globe for the first half of 2014, however, substantial discrepancies exist between individual assets.

Europe's "best in class" secondary retail opportunities

In Europe's real estate markets, a notable shift in investor sentiment began to emerge as 2013 came to a close. The appetite of European investors shifted from an exclusive focus on conservative investments in core markets, to initiating strategic investments further afield both in terms of location and among property types. The major real estate markets of the UK, Germany and France saw relatively little change in investment activity during 2013, while the Netherlands, Poland and the Czech Republic all experienced spikes in transaction volume during the third quarter as investors sought increased yield in markets anticipated to benefit from economic recovery. Concurrently, office, industrial and hotel properties saw transaction volumes decline while retail investment activity grew by more than 30% on a year-over-year basis.

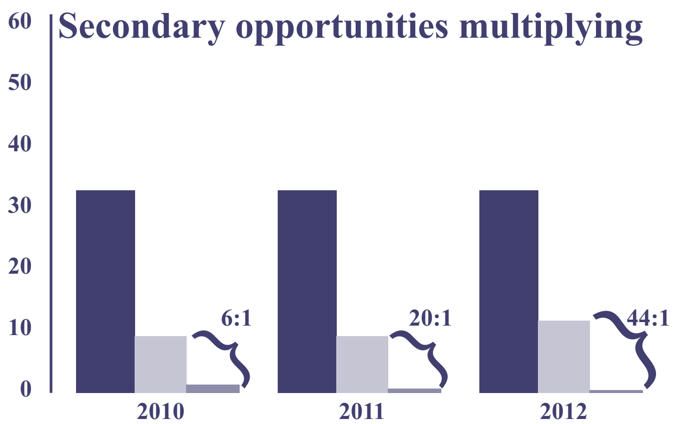
During the second half of 2013, our relative value analysis identified the attractiveness of secondary but dominant shopping center investment opportunities in Europe, focusing in particular on those which cater to value conscious consumers. For the first half of 2014, we continue to believe acquiring these properties in robust and defensive economies, economies that have recovered swiftly or those left relatively unscathed during the financial downturn offer the most attractive fundamentals. As an example, Northern Europe is comprised of a number of relatively stable economies characterized by accelerating GDP growth, where moderate capital appreciation, continued expansion of European retailers and a lack of supply of mid to large shopping centers present a compelling opportunity set.

On behalf of the Dyfed Pension Fund we were able to capitalize on Nordic real estate fundamentals toward the end of 2013, acquiring a portfolio of four shopping centers in Norway for a total of € EUR 72 million, in partnership with a Norwegian retail operator. Three of the centers are located in Oslo and surrounding towns, with one located close to the main oil cities of Bergen and Stavanger. The investment offers significant value creation opportunities, including a 3,611 sqm fully permitted extension to the largest property in the portfolio. In addition, the portfolio offers the potential for additional value creation through select conversion opportunities, the acquisition of an adjacent shopping center and a land parcel swap that would allow for additional expansion or reconfiguration. The business plan consists of increasing net operating income through targeted asset management initiatives and rental uplifts upon lease expiries with a sale anticipated after the five-year holding period.

Stovner Senter, Norway (one of our Nordic Investments)

Illiquid real estate investors continue to offer discounted secondary assets

In secondary markets, we continue to purchase opportunities from investors where we believe we can facilitate value creation. Our strategy focuses on taking advantage of the supply/demand imbalance as the private real estate secondaries market is still far from mature. In particular, our focus has been where sponsors and investors may not be in agreement on imminent terminations and where liquidation may harm proceeds from selling assets that have not been fully stabilized. Secondary sales offer an alternative to liquidating a program that has come to the end of its life or embarking on a complicated extension process.



Primary real estate capital raising (future real estate secondary deal flow)
Real estate secondary deal flow   Real estate secondary capital raising
Source: Preqin, January 2013; Partners Group real estate secondary deal flow

A recent example driven by investor liquidity needs was an opportunity to acquire a portfolio of mature 2004-vintage assets, originally targeting office, retail and mixed-use properties in Northern Europe. We proposed a double-digit discount to NAV, assuming that a substantial portion of the proceeds of this transaction are expected to be generated from value uplift, both due to the strong income stream and due to Partners Group's initial discount to NAV. Our base case investment hypothesis is that the properties will distribute close to half of our purchase price alone over the holding period of the investment, providing significant downside protection.

From a direct investment perspective, we continue to favor opportunities where we can either build or redevelop properties to suit end users in local markets, whereby value creation remains the key return driver. Where possible, we will manufacture core properties below current valuations or pursue equity investments in quality projects trading below replacement cost. In both cases we will pursue these investments in markets that are supported by strong economic and demographic fundamentals.

In real estate secondary markets, our focus is on more mature, high visibility assets where there are opportunities that arise due to longer than originally expected holding periods or to the fact that managers may face a certain amount of pressure to divest their portfolios in order to distribute cash to investors. Our focus is on programs where termination may threaten the proceeds from sales prior to meeting business plan goals. Larger and complex transactions also offer certain competitive advantages, in addition to working with motivated sellers who may transact on a proprietary or semi-proprietary basis.

In our primary fund investments, our aim is to identify specialists that possess niche property type expertise or are able to add value through specific regional knowledge. Additionally, we stand to benefit from specific program strengths in asset management and value-accretive initiatives. We will pursue investment opportunities in both developed and emerging countries that possess these characteristics.

Geographically, our investment focus will remain on developed markets that have demonstrated economic stability or experienced superior recoveries since the global financial crisis. In Europe, we have targeted investments in the UK, Germany and the Nordics, while selectively considering distressed opportunities in Southern European countries that are poised to benefit from economic rebounds.

Robert Lamb
Senior Vice President, Partners Group

Performance and Risk

Local Authority Funds

Funds failed to match the stellar performance of 2012-2013, but nonetheless returned a positive 6.4% in aggregate in the latest year. The positive outcome was once again driven by 'growth' assets.

In UK equities, still funds' single largest area of investment, the FTSE All-Share index returned almost 9% with only Basic Materials (weighed down by Miners) failing to generate a positive return. Active managers enjoyed another successful year in this area, with the average fund outperforming the index for the fourth consecutive year – a feat not recorded before in our thirty plus years of measurement.

Overseas markets in aggregate performed positively but regional returns varied enormously. North America and Europe delivered double digit returns whilst in contrast, the lesser Pacific and emerging markets were in negative territory. The weakness of the Yen resulted in a return from Japanese equities of less than 1%. The number of funds accessing equities on a truly global 'bottom up' basis, continued to increase over the course of the year and as was the case within domestic equities, funds enjoyed considerable success relative to market indices.

Bonds posted only their third year of negative returns in the last twenty, paring back some of the extremely strong returns of the recent past. Bonds have now underperformed equities over one, three, five, ten and twenty years. In the UK, with investors favouring risk assets, corporate bonds with a return of 2% outperformed government issues (the broad gilt index gave up 3%).

Property was the strongest performer amongst the major asset classes; the 11% return the best since before the onset of the global financial crisis.

Alternative assets delivered a modest 4%. Private equity generated 5% and hedge funds 4%.

In terms of asset allocation, there was little change at the macro (growth/matching asset) level during the year. The bond allocation retreated marginally but this was a function of relative performance as opposed to active re-balancing. The allocation to alternative investments hit 10% for the first time. Absolute return (multi-asset or diversified growth) products have now become a more prominent feature within funds, joining the well-established hedge fund and private equity programmes whereas 'tactical asset allocation' and 'active currency' have fallen completely out of favour.

The average fund has returned 7.5% p.a. over the last three years and 12.7% p.a. over five, very satisfactory outcomes.

Longer term returns have continued to improve for the sector as a whole which has enjoyed returns in the region of 8 – 9% p.a. over the last 10 and 20 years, well in excess of both price and wage inflation.

Carew Castle, Pembrokeshire

Dyfed Pension Fund
Returns

In the latest year, the Fund returned 6.2%, 0.3% ahead of it's benchmark. This outperformance, the first since 2008-2009, arose principally from the Fund's equity investments (which represent around 70% of the overall asset value).

The Fund invests across a number of different regions and outperformed in all except North America and emerging markets. Elsewhere there was modest underperformance in bonds offset by outperformance from property.

Whilst it is absolutely correct that short-term performance is monitored by the Panel, pension fund investment is a marathon rather than a sprint, particularly for the LGPS which evaluates its liabilities in terms of decades as opposed to years and quarters.

We measure the Fund's performance and that of its managers over a number of time periods. The three year view is an important one in that it spans the period between actuarial valuations as well as the period over which most asset managers' performance is evaluated (and remuneration calculated). Five to ten years will tend to span ever lengthening economic cycles and is a better time period over which to evaluate the efficacy of less liquid assets such as property. Twenty and thirty years give the true measure of the strategy the Fund has embarked upon (the influence of the managers appointed by a fund will typically have a very small influence on this outcome).

The table below captures these measures;

Time-period	Dyfed Pension Fund (% p.a.)	Fund Benchmark (% p.a.)	Out/underperformance (% p.a.)
3 Years	8.0	8.2	-0.2
5 Years	13.4	13.8	-0.3
10 Years	7.9	8.1	-0.2
20 Years	7.9	7.7	0.2
30 Years	9.9	9.8	0.1
Longest Term	11.4	11.3	0.1

Over all longer term periods, the Fund's assets have delivered very strong absolute returns. The Fund has lagged benchmark over the shorter periods, but outperformed long term.

Importantly, in all periods noted in the table, returns have been significantly better than inflation (more than 6% p.a. ahead over the very longest term). As I've noted in previous submissions to the annual report, the issues facing the LGPS today, and over time, have had little to do with the performance of the assets!

The structure of the Dyfed Pension Fund has evolved over time (and is continuing to do so). The significant position held in Index-Linked gilts for many years, which had worked extremely well for the Fund, has been scaled back, the equity exposure increased and an allocation to property built up. This strategy is different from the average fund, but it's these differences that have helped the Fund outperform its peers over all the above time periods and by 0.4% p.a. over the very longest term.

Risk

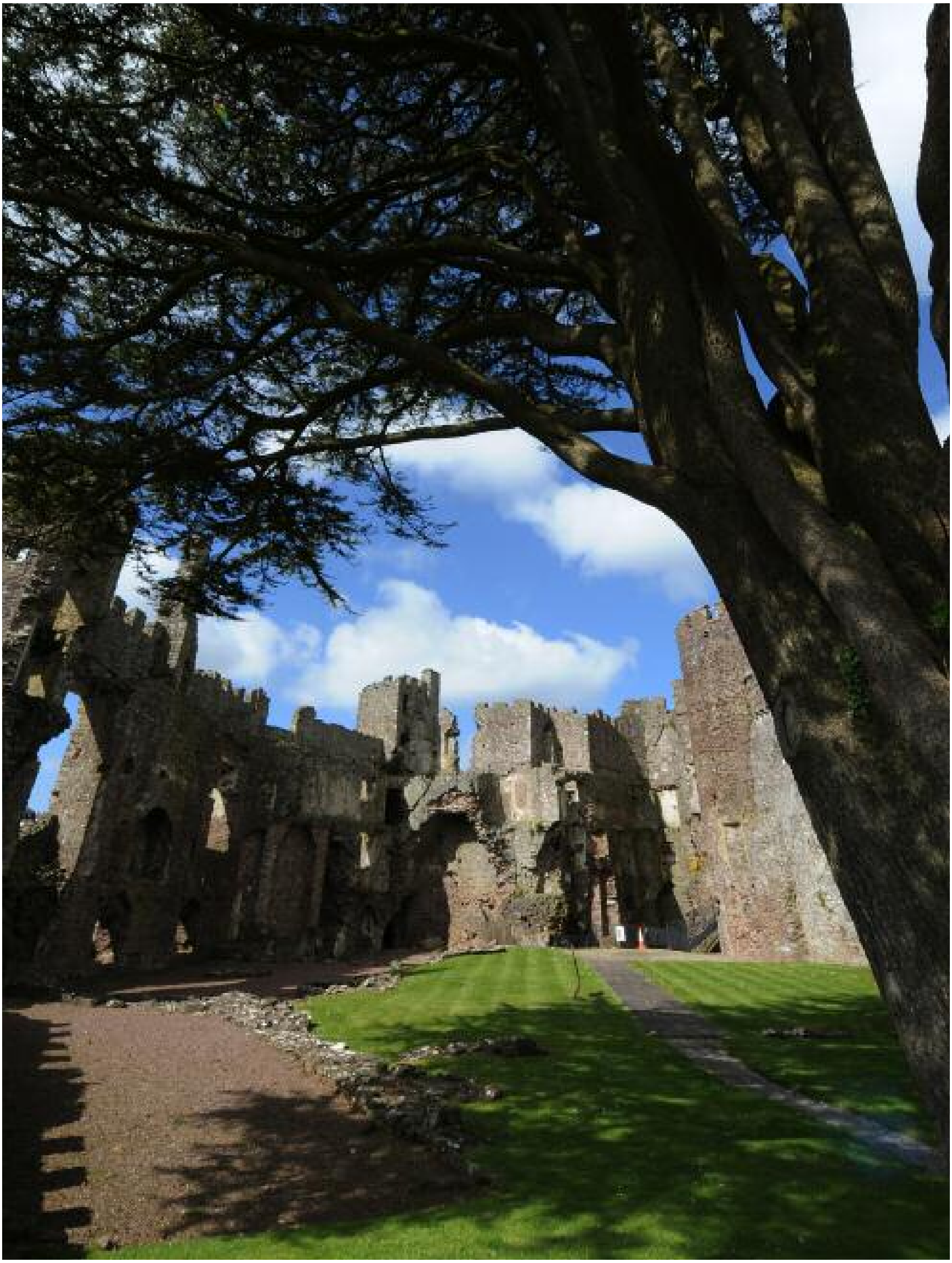
Return volatility continued to fall back in the latest period with the impact of the global financial crisis waning. The Fund's volatility is higher than for the sector as a whole but only moderately. This is as expected given the Fund's higher equity exposure and lower exposure to alternative investments. Viewed over the last three years, the higher volatility was rewarded with higher than average return.

A small proportion of this volatility will have been generated by decisions taken by the asset managers in an effort to outperform their benchmarks. This is known as 'relative' or 'active' risk. This risk has been rewarded over the long term but not over the immediate near or medium terms.

In the latest period, relative risk of 0.4% p.a. was low by historical standards and remained significantly below the range of risks exhibited by most other authorities. One factor in the reduction in active risk in recent periods will have been the decision to switch a sizeable proportion of the Fund's UK equities into an index tracking programme.

In concluding, the Fund has performed extremely well, safeguarding the assets not just in the latest year, but over the long term. Whilst markets will experience shocks, they are rare. The LGPS remains in good health and the Fund is in a strong position to ensure that the future for its members is secure.

Mr David Cullinan
Head of Performance Consultancy,
WM Performance Services



Laugharne Castle , Carmarthenshire

Independent Investment Adviser

Rather than write my normal summary of the Fund's fiscal year, I offer some thoughts on recent LGPS restructure consultations. While some of the consultations strictly fall out of the period under review (to 31 March 2014) they are potentially so significant I think it worthwhile to articulate my thoughts at this time. By the time of next year's review we may know exactly what form the restructure has taken, although I would not bet on this as these consultations and subsequent pronouncements seem to engender routine procrastination and consequent delay. All very 'Yes Minister'.

It is now over three years since Lord Hutton's report into the financing of public sector pension schemes: most of which are unfunded with the LGPS (Local Government Pension Scheme) - of which this fund is part - a significant exception in being funded. Hutton's report called for an investigation into the 'benefits of co-operative working between LGPS funds' with a view to making savings.

The DCLG (Department of Communities and Local Government) have subsequently run with this goal re-expressed as:

(Primary)	Improved investment returns and reduced pension deficits.
(Secondary)	Investment fee and administration cost savings.
	Increased flexibility of investment strategies while also facilitating infrastructure investment.
	Better in-house resources.

The DCLG began in June 2013 with a 'call for evidence'. During this phase the above fairly comprehensive goals were disappointingly shortened to the more narrow focus of 'save costs'. In the context of pension schemes this means cost savings on asset management fees which account for the vast majority (c90%) of the total costs involved in running a typical scheme. The DCLG subsequently issued consultation in May 2014 on several proposals designed to challenge LGPS funds to make savings in the following specific ways:

- By setting up CIVs (Common Investment Vehicles – a form of pooling funds to benefit from increased scale).
- Greater use of passive management for listed securities such as equities and bonds, as the investment fees are normally considerably lower than for active management.

  In ***aggregate***, the LGPS only matches benchmark indices so there is no added value in aggregate from paying the higher active management fees.
- Removal over time of the extra layer of fees incurred from 'fund of funds and/or manager of managers' - and hence more efficient investment - in a range of alternative investments such as property, Private Equity, hedge funds, infrastructure and so on.

I would like to express my opinion on these proposals and, in particular, what relevance they have for our fund. Let me first establish that, while cost reduction is a reasonable goal, it is but one of the many moving parts in pension fund investment. The investment returns that, along with employer deficit contributions, repair fund deficits (the excess value placed by the actuary on the liabilities over the assets at a particular valuation date) are in fact ***'net returns'***. These are the gross returns less the fees expended in achieving them, hence 'net returns'.

The focus should more correctly be on the net of fees returns and not the costs in isolation. It is perfectly valid to pay more in fees for some forms of asset exposure, for example non-traditional assets such as some of the 'alternatives' (such as Private Equity, hedge funds, absolute return strategies and diversified growth funds) and/or pay more for very specialist forms of asset management (such as global unconstrained and/or income biased equities, corporate bonds and so on). The fund must, of course, decide that these extra costs are warranted and that the benefits to the fund more than outweigh the additional costs. Too many funds have failed to examine this benefit-cost trade-off rigorously enough. Nonetheless the DCLG have focussed almost entirely on 'saving costs' from asset management fees.

In general – and there is plenty of supporting evidence – bigger funds incur lower asset management fees. This simply recognises that asset management fees tend to be on a sliding scale and initial tranches of asset attract a higher fee than subsequent tranches and, ultimately, if the mandate asset is sufficiently large the fund will only be charged at the asset manager's marginal rate. Bigger funds are also in a stronger position to negotiate harder on fees with any asset manager, or indeed any other service provider.

Large funds, because they have lower costs, can demonstrate higher net returns. However they are not in any meaningful sense 'better' investors – they generally broadly achieve the same gross (of fees) returns but pay less to achieve these. Internally (self-) managed funds, which tend to be very large indeed, tend to benefit from lower fees both because of their size and because internal management is nearly always cheaper than the equivalent external asset management. However while a valid form of investment, establishing and maintaining an in-house investment team is not without its own significant challenges, particularly in a Local Authority environment.

As there are cost benefits from larger scale then the restructure focus on achieving larger scale makes sense. The DCLG are proposing CIVs to achieve this, having thankfully backed away from the nightmare scenario - not least in legislative and regulatory terms - of merging actual funds assets and liabilities. Despite the somewhat fancy acronym, CIVs are simply vehicles where several funds can pool their assets and have them managed on a co-mingled basis as one fund hence achieving the cost savings of greater scale.

In passive management where the gross returns are pre-determined (the benchmark index to a very narrow tolerance) this is particularly appropriate, although since passive management is in any case relatively low cost the savings from pooling are not that significant. However CIVs for active management are a very different proposition as, while there would almost certainly be fee savings, the gross returns achieved depend critically on the manager(s) chosen. It is not obvious to me that net returns would be enhanced.

Our fund already has a significant percentage (c50% as I write) of its assets managed passively, and at low cost. Our fund has relatively little to gain by further pooling in passive CIVs. The argument in favour of passive versus active management is harder to repudiate as, like many funds, active asset management has significantly benefitted the fund from time to time, but has also been detrimental from time to time. Over the very long term, say in excess of 10 years, I believe our fund has benefitted from active management, and we certainly have paid relatively low fees. The fund's new asset exposures - such as European property - and new asset manager selections - such as for unconstrained global equities - are too recent to make any sensible evaluation but they look promising thus far. It would therefore be disappointing to have the DCLG dictate passive management for all listed securities although this would have considerably less impact on our fund than on most funds. The consolation, if this was the outcome, would be that without the additional complexity and resourcing of active management the fund's investment returns would be even more clearly dictated by the asset strategy and our fund has a very good record in this respect. It is always many times more important what assets are invested in than who manages any particular asset. Strategy is far more important than implementation. The fund's very significant investment (c25% when the average fund had c1%) into index-linked gilts in the mid 1980s when they offered incredible value was an inspired investment decision which reaped many benefits to the fund over decades.

While the fund has a 'manager of managers' for the majority of our European property exposure, we justify this by recognising that our property portfolio size (c£150Mn) is not large enough to be directly invested and therefore requires the diversification obtained by investing along with other funds in pooled funds. The fund does not currently have the resources to manage these funds and their managers. Yes we pay a small additional fee to the manager of managers but we are convinced that the additional governance and net returns justify this additional cost. Property in any case is a relatively expensive asset to manage, certainly compared to securities (equities and bonds). I do not believe the fund would be better served by a potentially cheaper fee CIV with the underlying managers and exposures dictated by the CIV 'management' which would not directly represent the interests of our fund. Additionally we have, thus far, had little interest in the wider range of alternatives which are many times more expensive to manage than property and so there would be no benefit to the fund of CIVs doing this for us, even if cheaper. A 30% discount on a product is only worthwhile if you need the product and should not in itself be a reason for buying the product.

While there is never any room for complacency, our Fund is a consistent award winner because it concentrates on making relatively few significant decisions and we do them with consistency, conviction and a view to the long term which corresponds with the lifespan of the Fund. The Fund has thus safeguarded the past very well indeed and continues to strive to secure the future in the most efficient way possible.

Fund Administration

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

Central Government issued regulations from the autumn onwards and Government Actuary's Department guidance was received on 31 March 2014 in respect of a new pension scheme (LGPS 2014) which will apply from 1 April 2014. The scheme will change from being a final salary scheme to a Career Average Revalued Earnings (CARE) scheme. If you were an active member of the 2008 Scheme as at 31 March 2014, you will have automatically transferred to the LGPS 2014 on 1 April 2014.

The main provisions of the LGPS 2014 scheme are

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

Cardigan Castle, Ceredigion

Pensions Increase

Pensions are reviewed annually under the Pensions Increase Act as prescribed by Social Security legislation in line with the upgrading of various state benefits.

This year, pensions were increased by 2.7% from 7 April 2014 and represents the increase in the consumer price index for the 12 month period to 30 September 2013. Pensions increase is normally applied to pensioners who are age 55 or over, or have retired at any age on ill-health grounds or are in receipt of a spouse's or child's pension. A pensioner who retired in the last 12 months will have a proportionate increase applied.

Local Government Pensioner pay dates for 2014-2015 are as follows:

30 April 2014
30 May 2014
27 June 2014
31 July 2014
29 August 2014
26 September 2014
31 October 2014
28 November 2014
24 December 2014
30 January 2015
27 February 2015
27 March 2015

National Fraud Initiative

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

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

Legislative update

Cohabiting Partners benefits

Changes to Scheme rules from 1 April 2014 provide that a survivor's pension will automatically be payable to a cohabiting partner without the need for the scheme member to have completed a form nominating them to receive a survivor's pension. In order to qualify the following regulatory conditions must apply to and your partner:

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

Employee Contribution Rates

The LGPS2014 has amended the method of assessing your contribution rate from 'full time equivalent' pensionable pay to your '***actual*** pensionable pay'. Pensions contributions will now also be payable on overtime. Responsibility for determining a member's earnings and contribution rate, including notification requirements, falls on the Employer. Where a member holds more than one post with an Employer, a separate assessment will be undertaken for each post held.

The earnings bands and contribution rates applicable from April 2014 are as follows:

Earnings Band (£)	Contribution Rate (%)
Up to 13,500	5.50
13,501 - 21,000	5.80
21,001 - 34,000	6.50
34,001 - 43,000	6.80
43,001 - 60,000	8.50
60,001 - 85,000	9.90
85,001 - 100,000	10.5
100,001 - 150,000	11.4
150,001 or more	12.5

Statutory Underpin protections

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

The underpin applies to you if you were:

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

The Pensions Administration Section will automatically carry out the underpin calculation when you leave the Scheme.

The Rule of 85

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

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

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

Tax Changes

Further changes have been made to the maximum amount of tax exempt pension savings that can be built up in any given year (Annual Allowance or AA) , and during the time before your pension benefits come into payment (Lifetime Allowance or LTA).

From April 2014, the LTA for tax-privileged pension saving decreased from £1.5 million to £1.25 million.

This is the total value of all pension benefits you are able to build without triggering an excess benefits tax charge. Upon retirement you are required to declare all non LGPS pension benefits in payment, or due to come into payment, so that your LTA can be assessed. Members who believe they will be affected will need to seek financial advice on the most appropriate course of action.

The AA limit was reduced to £40,000 from April 2014. To calculate the value of any annual increase in the LGPS you need to work out the difference in the total value of any accrued pension benefits between two 'pension input periods', usually April to March.

This is done by multiplying the value of the increase in pension by 16 and adding the increased value of any lump sum and AVC fund. The outcome of this calculation must then be added to any increases in pension entitlement that may arise from any other pension arrangement an individual may have to ascertain whether the annual limit has been breached. Your 2014 Annual Benefit Statement will contain further information regarding the impact of the annual allowance on your pension accrual in the LGPS.

Please note that pensions administration staff cannot give financial or personal taxation advice.

Councillor Pensions

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

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

Communications Policy Statement

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

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

The policy document (in the Appendix to this report) sets out the mechanisms which are used to meet those communication needs and is subject to periodic review.

The Dyfed Pension Fund aims to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one method of communication as considered appropriate and meet all regulatory requirements regarding provision of Scheme and related information.

This has been further enhanced with the introduction of 'My Pension Online' for active, deferred and pensioner members of the scheme. This is an internet based application that enables members to securely access and update their pension information online via the Fund's website. By developing its e-communication, the Fund aims to improve its service delivery as well as reducing printing & postage costs and its carbon footprint.

Administration Strategy

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

Customer Charter & Service Standards

To compliment the administration strategy the fund has also produced a Customer Charter which outlines our commitment to each stakeholder and a Service Standards directive which outlines the processing times of our administrative procedures. All documents are available on the Fund website.

Membership statistics

A schedule of employers (as at 31 March 2014) who either participate or have a relationship with the Dyfed Pension Fund is attached to the Statement of Accounts later in this report.

The table below illustrates the increase in scheme membership over the last 3 years;

	31/03/12	31/03/13	31/03/14
Active	17,569	17,596	19,375
Deferred	11,365	12,177	13,066
Pensioner	9,407	9,872	10,270
Total	38,341	39,645	42,711

The Pensions Administration Team

Member Movement Statistics

The data below illustrates the number of individual member status movements performed by the administration team over the last 3 years.

This provides a reflection of the work undertaken in relation to New Members, Leavers and Retirements.

Year	Status Entry	Status Exit	Total
2011-2012	3,887	2,647	6,534
2012-2013	4,588	2,298	6,886
2013-2014	6,214	2,696	8,910

The table below shows the Fund has performed and met its commitment to service standards and outlines the Fund's performance against its benchmark.

01/04/13 - 31/03/14	Total Completed	Benchmark (%)	Performance (%)
New Starters	2,352	95	99.02
Transfers into the Fund	220	95	95.54
Retirement Quotes	717	95	95.59
Payment of Retirement Benefits	872	95	96.07

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

Your Pension's Administration Section

In addition to implementing legislative changes and responding to numerous consultation documents by set timescales, which included website updates and ensuring model fund data was received by the Government Actuary's Department, we:

- Ensured all preparatory work was undertaken and project targets were met to ensure a seamless transition from LGPS 2008 to LGPS 2014.
- Undertook further employer and scheme member presentations on 'My Pension On-line'. This internet based application enables you to securely access and update your own pension record(s). The initiative is designed to provide statutory information and improve service delivery whilst also reducing printing & postage costs and the funds carbon footprint.
- Continued with their internal staff training programme where additional staff members attained Degree status in Pensions Administration and management. Alongside its training for participating Fund Employers, this investment is viewed as key for the effective delivery of pension administration services in an ever changing regulation environment and increasing stakeholder expectations.
- Continued with the production and issue of Annual Benefit Statements (ABS) for Deferred (individuals who have left the Scheme with a future entitlement to pension benefits) and Active (contributing) Scheme members. With the Dyfed Pension Fund again taking the lead, the ABS production was undertaken on an all Wales Pension Funds basis.
- Continued with the 'Life Certificate' exercise aimed at pension payments paid by cheque.

- Continued with the production of a more detailed and personalised update for each pensioner outlining the increase in pensions arising from annual pension increase awards.
- Participated in the Audit Commission's - National Fraud Initiative exercise as outlined above.
- Continued the engagement with colleague LGPS Fund authorities in Wales to examine available partnership opportunities and share best practice in Scheme administration. The Dyfed Pension Fund taking the lead on a number of exercises including specific Newsletters outlining changes to Scheme rules, development of the new style Annual Benefit Statements and production of a number of specific 'factsheets' on key legislative aspects.
- Through the FRS17 / IAS19 exercise ensured that each employer who had to comply with these pension accounting requirements received their results and disclosure needs by their required account closure timescales.

Looking Forward

The Pensions Administration Section anticipates yet another busy year, as in addition to the core functions, we intend to:

- Increase the number of registered 'My Pension On-line' users by conducting further promotional events with each employing authority to actively encourage scheme member take up by increasing the number of desktop visits.
- Respond to in consultations on scheme governance arrangements and implement changed structures as a result of amending legislation.
- In conjunction with participating employers conduct a rolling programme of presentations to advise Scheme members of the key changes and benefits of the LGPS 2014 Scheme.
- Continue to liaise with all scheme employers to ensure appropriate processes and procedures are in place in order to comply with auto enrolment requirements.
- Ensure all employers formulate, publish and keep under review a policy statement in respect of their discretions under the LGPS 2014

The introduction of the new scheme has brought more inherent complexities and retrospective protections that staff will have to ensure are applied appropriately in each individual case. I would like to record my sincere thanks to all staff involved on Scheme administration not only for the work done over the last scheme year by ensuring valuation data was forward to the scheme actuary within set timescales along with the implementation of the LGPS 2014 but also for their enthusiasm to embrace change and meet ever changing regulatory and stakeholder requirements.

My Pension On-line

What will My Pension On-line allow me to do?

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

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

How do I register for My Pension On-line?

It couldn't be easier, all you need to do is contact the Dyfed Pension Fund by either telephoning 01267 224043 or by e-mailing:
pensions@carmarthenshire.gov.uk
to request an activation key. Your activation key will then be sent to your home address and you will be required to log in to the 'My Pension Online' area via the Fund website:

www.dyfedpensionfund.org.uk.

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

The Actuary's View

It's taken four years but we've finally got there. The new-style LGPS started on 1 April 2014, and those of you with longer memories may recall that it was June 2010 when the government first announced its review of public service pension schemes under the commission chaired by Lord Hutton.

In practice, four years may seem a long time to many just to draw up the terms of and implement a new scheme, but given the wider background it has been a tremendous achievement, especially as the other main public service schemes are taking an extra year to put their new schemes in place. Within the last four years, Lord Hutton has produced his initial and final reports, the broad parameters of the new schemes have then been agreed, all the detailed line by line provisions have been put in place including the writing of a new set of Regulations for the Scheme, a new Public Service Pensions Act has been put on the statute books, and all this has had to allow time for the systems and processes for the new LGPS to be up and running for 1 April 2014. The rest of the public service schemes have another year to get to grips with all the changes. So inevitably there will be some teething troubles for the LGPS, but the dedication and perseverance of the officers who work on the Fund has seen us through such issues in the past, and I am confident that this will happen too with this round of changes.

Part of the logic behind the changes is savings in costs, so against that background the changes are not going to be welcomed by many. However, it needs to be recognised that the new scheme needs to be sustainable in the long term. Its new structure, based on career average earnings rather than final salary, and the linking of Normal Pension Age to State Pension Age will help in making it a scheme which is perceived to be fairer and to some extent protected against cost increases: this will help to make it more robust and therefore secure against future changes. The scheme also now includes some further provisions for sharing some of the potential increases in costs between members and employers: again these should help protect the scheme from having to make further changes. And given that the government has given a strong indication that there will be no further changes for 25 years (albeit that most commentators are somewhat sceptical about whether this can be delivered), the above provisions will all help to secure that position.

All members, particularly those with longer service or near to retirement, can draw some comfort from the protections of benefits which have been put in place. There is a general position of "what you have already earned, you keep", and the position taken is stronger than many private sector schemes have adopted. And even if you don't benefit from the protections this time round, there is some comfort that successive governments have never sought to adjust the benefits which members have earned.

What of the Dyfed Pension Fund? Well it, like the other 88 LGPS Funds in England and Wales, will have to adopt the national model. But it is better placed than many to withstand the challenges that lie ahead.

John Livesey

Fellow of the Institute and Faculty of Actuaries.

Mercer Limited

Statement of Accounts

The Dyfed Pension Fund accounts are set out on the following pages and provide information about the financial position, performance and financial adaptability of the Fund for the year 2013-2014. They show the results of the stewardship of management, that is, the accountability of management for the resources entrusted to it, and of the disposition of its assets at the period end.

The Dyfed Pension Fund accounts are set out on the following pages and provide information about the financial position, performance and financial adaptability of the Fund for the year 2013-2014. They show the results of the stewardship of management, that is, the accountability of management for the resources entrusted to it, and of the disposition of its assets at the period end.

The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-2014, which is based upon International Financial Reporting Standards (IFRS), as amended for the public sector. Reference is also made to the Financial Reports of Pension Schemes – A Statement of Recommended Practice (Revised May 2007) published by the Pensions Research Accountants Group (PRAG) where it is felt that these disclosures provide more sufficient detail.

For readers with a more detailed or specialist interest of the operation of the Dyfed Pension Fund during 2013-2014, reference should be made to the Annual Report and Accounts 2013-2014.

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

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

The Pension Investments Team

Fund Account for the Year Ended 31 March 2014

2012-13 £'000		Note	2013-14 £'000
	Dealings with members, employers and others directly involved in the Fund		
	Contributions		
	Employer		
42,664	Normal		42,368
6,950	Augmentation		7,896
	Member		
16,780	Normal		17,257
136	Additional voluntary		22
2,049	Transfers in from other pension funds	6	3,820
68,579			71,363
	Benefits payable		
(49,882)	Pensions payable		(52,720)
(12,368)	Commutation and lump sum retirement benefits		(15,871)
(1,281)	Lump sum death benefits		(1,470)
(3,942)	Payments to and on account of leavers	7	(5,709)
(1,138)	Administrative expenses	8	(1,242)
(68,611)			(77,012)
(32)	**Net Additions (Withdrawals) from dealings with Members**		**(5,649)**
	Returns on Investments		
31,234	Investment Income	9	32,507
(2,182)	Taxation	10	(30)
	Changes in the market value of investments		
132,768	Unrealised	11.2	17,043
40,477	Realised	11.3	47,649
(1,686)	Investment Management Expenses	13	(1,870)
200,611	**Net Return on Investments**		**95,299**
200,579	**Net Increase (Decrease) in the net assets available for benefits during the year**		**89,650**
1,380,679	Opening Net Assets of Scheme		1,581,258
1,581,258	**Closing Net Assets of Scheme**		**1,670,908**

Fund Account for the Year Ended 31 March 2014

31/03/13 £'000		Note	31/03/14 £'000
1,595,264	Investment Assets		1,663,306
7,812	Cash deposits		4,623
(2,237)	Investment liabilities		(489)
1,600,839		11.1	1,667,440
5,530	Current assets	16	10,050
(25,111)	Current liabilities	17	(6,582)
(19,581)	Net Current Assets/ (Liabilities)		3,468
1,581,258	**Total Net Assets**		**1,670,908**

Reconciliation of the movement in Fund Net Assets

2012-13 £'000		2013-14 £'000
1,380,679	Opening Net Assets	1,581,258
27,334	Net New Money Invested	24,958
173,245	Profit and losses on disposal of investments and changes in the market value of investments	64,692
1,581,258	**Closing Net Assets of Fund**	**1,670,908**

Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2014

1 Description of the Fund

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

The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report and Accounts 2013-2014 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

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

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

1.2 Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Dyfed Pension Fund include:

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

There are 62 employer organisations within the Dyfed Pension Fund as at 31 March 2014 and these are detailed in Note 21.

The membership details of these organisations are summarised here:

31/03/13		31/03/14
17,596	Number of active contributors in the Fund	19,375
9,872	Number of pensioners	10,270
12,177	Number of deferred pensioners	13,066
39,645	**Total membership**	**42,711**
48	Number of employers with active members	50

These figures reflect the recorded position as at 31 March 2014 but are always subject to some movement post year end for notifications from employing bodies received after this date.

1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuation as at 31 March 2010. Currently, employer contribution rates range from 5.6% to 46.8% of pensionable pay as detailed in Note 21.

1.4 Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised here:

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

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

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

1.5 LGPS 2014

Following a review of Public Sector pensions the Government undertook a statutory consultation on the proposals for a new LGPS from 1 April 2014. The LGPS Regulations 2013 were laid before Parliament on 19 September 2013 with the Transitional Regulations being laid on 10 March 2014. Both sets of Regulations will come into force on 1 April 2014.

Guidance on the new scheme will be made available to scheme members via newsletters, the Fund's website, on-line member facility and roadshows over the coming months.

The table below shows the main provisions of the LGPS 2014 for membership FROM 1 April 2014.

1.5 LGPS 2014

Following a review of Public Sector pensions the Government undertook a statutory consultation on the proposals for a new LGPS from 1 April 2014. The LGPS Regulations 2013 were laid before Parliament on 19 September 2013 with the Transitional Regulations being laid on 10 March 2014. Both sets of Regulations will come into force on 1 April 2014.

Guidance on the new scheme will be made available to scheme members via newsletters, the Fund's website, on-line member facility and roadshows over the coming months. The table below shows the main provisions of the LGPS 2014 for membership FROM 1 April 2014.

Basis of Pension	Career Average Revalued Earnings (CARE)
Accrual rate	1/49th
Revaluation rate	Consumer Price Index (CPI)
Normal Pension Age	Equal to the members State Pension Age (Minimum Age 65)
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit
Definition of Pensionable Pay	Based on actual pensionable pay and to include non contractual overtime and additional hours for part time staff
Vesting Period	Will increase from 3 months to 2 years

2 Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2013-2014 financial year and its position at year end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-2014 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed in the Statement by the Consulting Actuary.

3 Summary of significant accounting policies

Fund Account – revenue recognition

3.1 Contributions

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

3.2 Transfers to and from other schemes

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

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

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

3.3 Investment income

3.3.1 Interest income

Interest income is recognised in the fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination

3.3.2 Dividend income

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

3.3.3 Distributions from pooled funds

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

3.4 Benefits payable

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

3.5 Taxation

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

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

3.6 Administrative expenses

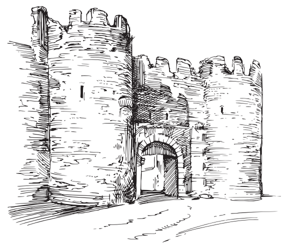
All administrative expenses are accounted for on an accruals basis. All staff, management, accommodation and other overheads are apportioned to the Fund in accordance with council policy.

3.7 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.

An element of one of the Investment Managers' fees is performance related. The performance related penalty was £0.61m in 2013-2014 (2012-2013: £0.45m).



Net assets statement

3.8 Financial assets

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

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

3.8.1 Market-quoted investments

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

3.8.2 Fixed interest securities

Fixed interest securities are recorded at net market value.

3.8.3 Unquoted investments

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

3.8.4 Limited partnerships

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

3.8.5 Pooled investment vehicles

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

3.9 Foreign currency transactions

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

3.10 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.

The Fund has had its own bank accounts, which deal with the transactions of the Fund, since 1 April 2011, in accordance with section 6 of the Local Government Pension Scheme (Management and Investment of Pension Funds) Regulations 2009.

Cash balances held by the Fund are invested on a short term basis on the London Money Market by Carmarthenshire County Council until it is required to meet its liabilities or to transfer surplus cash to the investment managers for reinvestment.

3.11 Financial liabilities

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

3.12 Actuarial present value of promised retirement benefits

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a reference in the accompanying actuarial report.

3.13 Additional voluntary contributions (AVC)

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

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

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

4 Critical judgements in applying accounting policies

4.1 Fund liability

The Fund's liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 23. This estimate is subject to significant variances based on changes to the underlying assumptions.

4.2 Unquoted Property investments – Partners Group Red Dragon Limited Partnership

In assessing the fair value of non-traded financial instruments, the Limited Partnership uses a variety of market and income methods such as time of last financing, earnings and multiple analysis, discounted cash flow method and third party valuation and makes assumptions that are based on market conditions and expected market participant assumptions existing at the end of each reporting period.

Other information used in determining the fair value of non-traded financial instruments include latest financial reports, subsequent cash flows and internally performed monitoring of triggering events (such as exits and IPOs) as well as pricing movements in comparable investments together with techniques such as option pricing models and estimated discounted value of future cash flows.

These practices are in line with widely used international industry guidelines. The value of the Partners Group Red Dragon Limited Partnership as at 31 March 2014 was £27.6m (31 March 2013: £20.6m).

5 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.25% decrease in the discount rate assumption would result in an increase in the pension liability of £87m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £47m, and a one-year increase in assumed life expectancy would increase the liability by approximately £41m.
Property – Limited Partnership investments	The Limited Partnership property investments are valued in line with widely used industry guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Limited Partnership property investments are £27.6m. There is a risk that this investment may be under or overstated in the accounts.

6 Transfers in from other pension funds

2012-13 £'000		2013-14 £'000
0	Group transfers in from other schemes and scheme mergers	0
2,049	Individual transfers in from other schemes	3,820
2,049		**3,820**

7 Payments to and on account of Leavers

2012-13 £'000		2013-14 £'000
(3)	Refunds to members leaving service	(19)
4	Payments for members joining state scheme	(5)
(1,193)	Group transfers to other schemes	(3,490)
(2,750)	Individual transfers to other schemes	(2,195)
(3,942)		**(5,709)**

8 Administrative Expenses

2012-13 £'000		2013-14 £'000
(1,055)	Administration and processing	(1,091)
(47)	Actuarial fees	(112)
(25)	Audit fees*	(29)
(11)	Legal and other professional fees	(10)
(1,138)		**(1,242)**

* The pension fund has been notified of a £5,109 rebate in respect of previous years' audit fees. This rebate will be reflected in the 2014-15 financial statements.

9 Investment Income

2012-13 £'000		2013-14 £'000
1,627	Fixed interest securities	1,548
24,453	Equity dividends	24,773
3,371	Pooled property investments	4,023
1,164	Pooled investments - Unit trust and other manager funds	1,374
606	Property	744
11	Interest on cash deposits	13
2	Other	32
31,234		**32,507**

10 Taxation

2012-13 £'000		2013-14 £'000
(2,163)	Witholding tax - equities	(30)
(19)	Withholding tax - pooled	0
(2,182)		**(30)**

11 Investments

11.1 Net investment assets

Fair value 31/03/13 £'000		Fair value 31/03/14 £'000
	Investment assets	
	Fixed interest securities	
	UK Corporate Bonds	
163,663	- BlackRock	161,653
	Indexed Linked Securities	
164,837	- BlackRock	161,398
	Equities	
	UK Quoted Equities	
627,928	- BlackRock	651,730
	Pooled Investments	
	UK Managed Funds	
11,926	- BlackRock (GASL)	0
	Overseas equities	
508,091	- BlackRock	518,792
	Pooled property investments	
87,560	- Schroders	132,565
12,794	- Partners Group	20,155
	Property	
4,498	- Schroders	5,217
7,842	- Partners Group	7,454
	Cash deposits	
5,991	- BlackRock	2,327
1,821	- Schroders	2,296
	Investment income due	
3,959	- BlackRock	3,402
	Tax reclaims due	
0	- BlackRock	298
0	- BlackRock Transition	0
0	- Schroders	101
	Amounts receivable for sales	
2,166	- BlackRock	541
1,603,076	**Total investment assets**	**1,667,929**
	Investment liabilities	
	Amounts payable for purchases	
(2,237)	- BlackRock	(489)
(2,237)	**Total investment liabilities**	**(489)**
1,600,839	**Net investment assets**	**1,667,440**

11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £287m whilst sales totalled £234m. The sales realised a net gain of £48m. Acquisition costs are included in the purchase price of the investment.

	Fair value 31/03/2013 £'000	Purchases at Cost £'000	Sales at Cost £'000	Cash movement £'000	Unrealised gains/(losses) £'000	Fair value 31/03/2014 £'000
Fixed interest securities	328,500	34,543	(25,810)	0	(14,182)	323,051
Equities	627,928	204,887	(188,708)	0	7,623	651,730
Pooled investments	520,017	0	(15,064)	0	13,839	518,792
Pooled property investments	100,353	47,022	(4,191)	0	9,536	152,720
Property	12,340	104	0	0	227	12,671
Liquidity Fund	0	0	0	0	0	0
	1,589,138	**286,556**	**(233,773)**	**0**	**17,043**	**1,658,964**
Other investment balances						
Cash deposits	7,812	0	0	(3,189)	0	4,623
Amount receivable for sales investments	2,166	0	0	(1,625)	0	541
Investment income due	3,959	0	0	(557)	0	3,402
Tax reclaims due	0	0	0	399	0	399
Amounts payable for purchases investments	(2,236)	0	0	1,747	0	(489)
	1,600,839	**286,556**	**(233,773)**	**(3,225)**	**17,043**	**1,667,440**

	Fair value 31/03/2012 £'000	Purchases at Cost £'000	Sales at Cost £'000	Cash movement £'000	Unrealised gains/(losses) £'000	Fair value 31/03/2013 £'000
Fixed interest securities	294,317	38,534	(30,307)	0	25,956	328,500
Equities	545,497	265,353	(245,831)	0	62,909	627,928
Pooled investments	450,172	75,000	(49,407)	0	44,252	520,017
Pooled property investments	85,121	18,418	(2,585)	0	(601)	100,353
Property	10,890	2,250	(1,192)	0	392	12,340
Liquidity Fund	0	0	0	0	0	0
	1,385,997	**399,555**	**(329,322)**	**0**	**132,908**	**1,589,138**
Other investment balances						
Cash deposits	12,020	0	0	(4,208)	0	7,812
Amount receivable for sales investments	4,114	0	0	(1,948)	0	2,166
Investment income due	3,671	0	0	428	(140)	3,959
Tax reclaims due	0	0	0	0	0	0
Amounts payable for purchases investments	(5,196)	0	0	2,960	0	(2,236)
	1,400,606	**399,555**	**(329,322)**	**(2,768)**	**132,768**	**1,600,839**

Transaction costs are included in the cost of purchase and sale proceeds. Identifiable transaction costs incurred during the year amounted to £0.98m (2012-2013: £1.44m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled vehicles. The amount of indirect costs is not separately provided to the scheme.

11.3 Realised gains and losses

2012-13 £'000		2013-14 £'000
7,579	Fixed interest Securities	5,292
5,953	Equities	36,054
26,744	Pooled Investments	5,974
212	Pooled Property Investments	329
(11)	Property	0
40,477		**47,649**

11.4 Geographical analysis of investments

Fair value 31/03/13 £'000	Geographical analysis	Fair value 31/03/14 £'000
1,067,201	UK	1,120,194
114,295	Europe (excl UK)	126,797
177,552	North America	197,719
57,761	Japan	56,201
56,071	Pacific Rim	52,543
127,959	Emerging Markets	113,986
1,600,839		**1,667,440**

11.5 Fund manager analysis

Fair value 31/03/13 £'000	Fund manager analysis	Fair value 31/03/14 £'000
1,486,775	BlackRock	1,499,651
93,428	Schroders	140,179
20,636	Partners Group	27,610
1,600,839		**1,667,440**

12 Concentration of Investments

The following investments represent more than 5% of the Fund's total net assets as at 31 March 2014:

	Value as at 31/03/2014 £'000	Proportion of Investment Portfolio %
BlackRock Ascent Life US Equity Fund	189,612	11.35
BlackRock Ascent UK All Stock Corp Bond Fund	161,653	9.67
BlackRock Ascent Life European Equity Fund	98,343	5.89

13 Investment Management Expenses

2012-13 £'000		2013-14 £'000
(1,566)	Management fees	(1,763)
(89)	Custody fees	(74)
(13)	Performance measurement service	(15)
(18)	Independent Adviser	(18)
(1,686)		**(1,870)**

14 Financial Instruments

14.1 Classification of financial instruments

Accounting policies describe how different asset classes are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading.

2013-14	Designated at fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000
Financial assets				
Fixed interest securities	323,051	0	0	323,051
Equities	651,730	0	0	651,730
Pooled investments	518,792	0	0	518,792
Pooled property investments	152,720	0	0	152,720
Property	12,671	0	0	12,671
Cash	0	7,462	0	7,462
Other investment balances	4,342	0	0	4,342
Debtors	0	7,211	0	7,211
	1,663,306	**14,673**	**0**	**1,677,979**
Financial liabilities				
Other investment balances	(489)	0	0	(489)
Creditors	0	0	(6,582)	(6,582)
	(489)	**0**	**(6,582)**	**(7,071)**
Total				
	1,662,817	**14,673**	**(6,582)**	**1,670,908**

2012-13 **Financial assets**	Designated at fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000
Fixed interest securities	328,500	0	0	328,500
Equities	627,928	0	0	627,928
Pooled investments	520,017	0	0	520,017
Pooled property investments	100,353	0	0	100,353
Property	12,340	0	0	12,340
Cash	0	9,529	0	9,529
Other investment balances	6,126	0	0	6,126
Debtors	0	3,813	0	3,813
	1,595,264	**13,342**	**0**	**1,608,606**
Financial liabilities				
Other investment balances	(2,237)	0	0	(2,237)
Creditors	0	0	(25,111)	(25,111)
	(2,237)	**0**	**(25,111)**	**(27,348)**
Total				
	1,593,027	**13,342**	**(25,111)**	**1,581,258**

14.2 Net gains and losses on financial instruments

2012-13 £'000		2013-14 £'000
	Financial assets	
173,245	Fair value through profit and loss	64,692
0	Loans and receivables	0
0	Financial assets measured at amortised cost	0
173,245	**Total financial assets**	**64,692**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
0	**Total financial liabilities**	**0**
173,245	**Total**	**64,692**

14.3 Fair value of financial instruments and liabilities

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

Carrying value 31/03/13 £'000	Fair value 31/03/13 £'000		Carrying value 31/03/14 £'000	Fair value 31/03/14 £'000
		Financial assets		
1,223,952	1,595,264	Fair value through profit and loss	1,274,951	1,663,306
13,342	13,342	Loans and receivables	14,673	14,673
1,237,294	**1,608,606**	**Total financial assets**	**1,289,624**	**1,677,979**
		Financial liabilities		
(2,237)	(2,237)	Fair value through profit and loss	(489)	(489)
(25,111)	(25,111)	Financial liabilities measured at amortised cost	(6,582)	(6,582)
(27,348)	**(27,348)**	**Total financial liabilities**	**(7,071)**	**(7,071)**
1,209,946	**1,581,258**	**Total**	**1,282,553**	**1,670,908**

14.4 Valuation of financial instruments carried at fair value

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

Level 1 Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and certain unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

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

Level 3 Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include limited partnerships, where fair value is ascertained from periodic valuations provided by those controlling the partnership. Assurance over the valuation is gained from the independent audit of the partnership.

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

Fair values at 31 March 2014	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	819,531	816,165	27,610	1,663,306
Loans and receivables	14,673	0	0	14,673
Total financial assets	**834,204**	**816,165**	**27,610**	**1,677,979**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(489)	0	0	(489)
Financial liabilities at amortised cost	(6,582)	0	0	(6,582)
Total financial liabilities	**(7,071)**	**0**	**0**	**(7,071)**
Net financial assets	**827,133**	**816,165**	**27,610**	**1,670,908**

Fair values at 31 March 2013	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	800,250	774,378	20,636	1,595,264
Loans and receivables	13,342	0	0	13,342
Total financial assets	**813,592**	**774,378**	**20,636**	**1,608,606**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(2,237)	0	0	(2,237)
Financial liabilities at amortised cost	(25,111)	0	0	(25,111)
Total financial liabilities	**(27,348)**	**0**	**0**	**(27,348)**
Net financial assets	**786,244**	**774,378**	**20,636**	**1,581,258**

15 Nature and extent of risks arising from financial instruments

15.1 Risk and risk management

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

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

Responsibility for the Fund's risk management strategy rests with the Panel. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. Policies are reviewed regularly to reflect changes in activity and market conditions.

15.2 Market risk

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

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

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

The Fund manages these risks in three ways:

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

15.3 Other price risk

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

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

15.4 Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on funds' asset allocations. The potential volatilities shown, are consistent with a one standard deviation movement in the change in value of the assets over the latest three years:

Asset Type	Potential market movements (+/-)
Cash	0.02%
UK Equities	12.36%
Overseas Equities	12.15%
UK Corporate Bonds	5.57%
Index Linked Securities	8.91%
Property	2.01%

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

Asset Type	Value as at 31 March 2014 £'000	Change (%)	Value on Increase £'000	Value on Decrease £'000
Cash	4,623	0.02%	4,624	4,622
UK Equities	651,730	12.36%	732,284	571,176
Overseas Equities	518,792	12.15%	581,825	455,759
UK Corporate Bonds	161,653	5.57%	170,657	152,649
Index Linked Gilts	161,398	8.91%	175,779	147,017
Property	165,391	2.01%	168,715	162,067
Sales receivable	541	0.00%	541	541
Purchases payable	(489)	0.00%	(489)	(489)
Income receivables	3,801	0.00%	3,801	3,801
Total Assets	**1,667,440**		**1,837,737**	**1,497,143**

Asset Type	Value as at 31 March 2013 £'000	Change (%)	Value on Increase £'000	Value on Decrease £'000
Cash	7,812	0.02%	7,814	7,810
UK Equities	627,928	13.36%	711,820	544,037
Overseas Equities	508,091	13.32%	575,768	440,413
UK Corporate Bonds	163,663	4.68%	171,322	156,004
Index Linked Gilts	164,837	8.41%	178,699	150,975
Property	112,694	2.11%	115,072	110,316
Alternatives	11,926	8.08%	12,890	10,963
Sales receivable	2,166	0.00%	2,166	2,166
Purchases payable	(2,237)	0.00%	(2,237)	(2,237)
Income receivables	3,959	0.00%	3,959	3,959
Total Assets	**1,600,839**		**1,777,273**	**1,424,406**

15.5 Interest rate risk

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

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

The actuary, as part of their triennial valuation and dictated by the Funding Strategy Statement, will only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Progress is analysed at three yearly valuations for all employers. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

31/03/13 £'000	Asset type	31/03/14 £'000
7,812	Cash and cash equivalents	4,623
1,717	Cash held at CCC	2,839
328,500	Fixed interest securities	323,051
338,029	**Total**	**330,513**

15.6 Interest rate risk sensitivity analysis

Interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

Asset type	Value as at 31/03/14	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	4,623	46	(46)
Cash held at CCC	2,839	28	(28)
Fixed interest securities	323,051	3,231	(3,231)
Total change in available assets	**330,513**	**3,305**	**(3,305)**

Asset type	Value as at 31/03/13	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	7,812	78	(78)
Cash held at CCC	1,717	17	(17)
Fixed interest securities	328,500	3,285	(3,285)
Total change in available assets	**338,029**	**3,380**	**(3,380)**

15.7 Discount Rate

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

15.8 Currency risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at 31 March 2013:

Fair value 31/03/13	Asset type	Fair value 31/03/14
508,091	Overseas Equities	518,792
25,298	Property	28,325
251	Cash	128
533,640	**Total**	**547,245**

15.9 Currency risk sensitivity analysis

The aggregate currency exposure within the Fund as at 31 March 2014 was 5.18% (2012-13: 5.3%).

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

A 5.18% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Fair Value 31/03/14	Change in year in the net assets available to pay benefits	
		+5.18%	-5.18%
	£'000	£'000	£'000
Overseas Equities	518,792	545,665	491,919
Property	28,325	29,792	26,858
Cash	128	135	121
Total change in available assets	**547,245**	**575,592**	**518,898**

Asset type	Fair value 31/03/13	Change in year in the net assets available to pay benefits	
		+5.3%	-5.3%
	£'000	£'000	£'000
Overseas Equities	508,091	535,019	481,161
Property	25,298	26,639	23,957
Cash	251	264	238
Total change in available assets	**533,640**	**561,922**	**505,356**

15.10 Credit risk

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

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

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

New employers to the Fund have to agree to the provision of a bond to prevent the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. Carmarthenshire County Council currently guarantees to meet any future liabilities falling on the Fund as a result of cessation. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

No collateral is held as security on financial assets. Carmarthenshire County Council does not generally allow credit to employers.

All investments held by investment managers are held in the name of the Dyfed Pension Fund at the custodian – Northern Trust, so if the investment manager fails the Fund's investments are not classed amongst the manager's assets.

Any cash held is in the Carmarthenshire County Council accounts and is invested in line with Carmarthenshire County Council's approved credit rated counterparty list.

15.11 Liquidity risk

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

Carmarthenshire County Council has a comprehensive cash flow management system that seeks to ensure that cash is available when needed.

The amount held in the Fund's bank accounts meet the normal liquidity needs of the Fund and any surplus cash is invested. The Fund's actuaries establish what contributions should be paid in order that all future liabilities can be met.

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

16 Current assets

31/03/13 £'000		31/03/14 £'000
	Contributions due from employer	
2,165	- Employer	3,800
864	- Employee	1,454
1,717	Cash Balances	2,839
784	Debtors	1,957
5,530		**10,050**

16.1 Analysis of Current assets

31/03/13 £'000		31/03/14 £'000
3	Central government bodies	4
4,074	Other local authorities	8,394
1	NHS bodies	1
589	Public corporations and trading funds	1
863	Other entities and individuals	1,650
5,530		**10,050**

The Debtors figure shown above includes no debts which are past their due date for payment.

17 Current liabilities

31/03/13 £'000		Contributions due from employer	31/03/14 £'000
(266)		Unpaid benefits	(5,663)
(24,845)	*	Creditors	(919)
(25,111)			**(6,582)**

* this figure includes an accrual of £22m relating to the transfer of Dyfed Powys Probation assets, which was settled during 2013-14.

17.1 Analysis of Current liabilities

31/03/13 £'000		31/03/14 £'000
(478)	HMRC	(515)
0	Central government bodies	0
(22,000)	Other local authorities	0
0	NHS bodies	0
(414)	Public corporations and trading funds	(386)
(2,219)	Other entities and individuals	(5,681)
(25,111)		**(6,582)**

18 Additional Voluntary Contributions (AVC)

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

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

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

AVC Provider	Value as at 31/03/13 £ '000	Contributions £ '000	Expenditure £ '000	Change in Market Value £ '000	Value as at 31/03/14 £ '000
Prudential	1,550	843	(343)	81	2,131
Equitable Life	730	17	(73)	30	704
Standard Life	3,189	503	(624)	219	3,287
Total	**5,469**	**1,363**	**(1,040)**	**330**	**6,122**

19 Funding arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contributions rates for the forthcoming triennial period. The valuation that these financial statements are based on took place as at 31 March 2010. The next valuation has taken place as at 31 March 2013.

For more details, and to view the Funding Strategy Statement (FSS), please refer to the Fund's website – **www.dyfedpensionfund.org.uk** and the Annual Report and Accounts 2013-2014.

20 Related Party Transactions

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

The Authority incurred costs of £0.839 million (2012-2013: £0.856 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund.

The Authority is also the single largest employer of members in the Fund and contributed £30.575 million to the Fund in 2013-2014 (2012-2013: £30.156 million).

The Fund holds part of its cash balance with the Authority in order to meet its day to day expenditure. This cash is invested on the Money Markets by the Authority's Treasury Management section. During the year to 31 March 2014, the Fund had an average investment balance of £5.87 million (2012-2013: £5.66 million) earning interest of £32,458 (2012-2013: £30,566).

20.1 Governance

There are three members and one substitute member of the Pension Panel. During 2013-2014 these were Councillor Wyn Evans, Councillor Siân Thomas, Councillor Terry Davies and the substitute was Councillor Philip Hughes. They are all active members of the Fund.

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

The Panel members, and the Senior Officers that advise the Panel, are required to declare their interest at each meeting.

The Panel members and Director of Resources accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

For more details, and to view the Governance Policy, please refer to the Fund's website – **www.dyfedpensionfund.org.uk** and the Annual Report and Accounts 2013-2014.

21 Employing bodies contribution rates, contributions receivable and benefits payable

2012-13 Contribution rate %	2012-13 Contributions £'000	2012-13 Benefits payable £'000		2013-14 Contribution rate %	2013-14 Contributions £'000	2013-14 Benefits payable £'000
			Scheduled bodies			
16.6	30,156	26,471	Carmarthenshire County Council	16.6	30,575	30,005
14.7	13,461	12,339	Pembrokeshire County Council	14.7	14,160	13,435
15.2	10,045	7,304	Ceredigion County Council	15.2	10,512	8,531
13.1	3,605	1,698	Office for the Police & Crime Commissioner for Dyfed-Powys	13.1	4,546	2,412
16.0	1,302	895	Mid & West Wales Fire Authority	16.0	1,557	1,368
14.7	212	229	Coleg Ceredigion	14.7	229	156
13.7	1,084	631	Coleg Sir Gar	13.7	1,190	708
13.6	552	523	Pembrokeshire Coast National Park	13.6	545	598
13.2	762	159	Pembrokeshire College	13.2	819	187
	61,179	**50,249**			**64,133**	**57,391**
			Designated (Resolution) bodies			
24.7	13	5	Aberystwyth Town Council	24.7	13	5
9.9	1	0	Aberaeron Town Council	9.9	1	0
18.1	57	96	Carmarthen Town Council	18.1	58	66
22.6	4	1	Gorslas Community Council	22.6	4	1
24.4	9	17	Haverfordwest Town Council	24.4	43	102
30.5	10	10	Kidwelly Town Council	30.5	11	10
21.9	2	5	Llanbadarn Fawr Community Council	21.9	2	1
17.5	1	0	Llanarthney Community Council	17.5	1	1
14.9	139	179	Llanelli Rural Council	14.9	154	116
15.3	42	68	Llanelli Town Council	15.3	44	74
12.7	5	0	Llangennech Community Council	12.7	6	0
17.1	17	6	Llannon Community Council	17.1	15	6
19.9	17	5	Pembrey & Burry Port Town Council	19.9	21	17
9.3	4	14	Tenby Town Council	9.3	5	14
0.0	0	0	Pembroke Town Council	12.0	3	0
0.0	0	0	Pembroke Dock Town council	8.5	8	0
	321	**406**			**389**	**413**

Continued overleaf...

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2012-13 Contribution rate %	2012-13 Contributions £'000	2012-13 Benefits payable £'000		2013-14 Contribution rate %	2013-14 Contributions £'000	2013-14 Benefits payable £'000
			Admission bodies			
			Community Admission Body (CAB)			
0.0	2	0	Cardigan Swimming Pool Trust	0.0	2	0
15.7	53	16	Ceredigion Assoc. of Voluntary Services	15.7	58	16
14.2	2,923	1,405	Careers Wales	14.2	974	752
11.9	56	62	Carms Assoc. of Voluntary Services	11.9	74	26
11.8	6	0	Carms Federation of Young Farmers	11.8	7	0
14.5	37	6	Iaith Cyf (Cwmni Iaith)	14.5	37	7
44.2	5	14	Leonard Cheshire Disability	44.2	5	20
22.1	37	23	Llanelli Joint Burial Authority	22.1	34	22
6.2	49	0	Menter Bro Dinefwr	6.2	54	0
11.9	45	81	Menter Cwm Gwendraeth	11.9	42	121
5.6	13	0	Menter Gorllewin Sir Gar	5.6	15	0
16.5	8	0	Menter Iaith Castell Nedd - Port Talbot	16.5	8	0
18.6	10	7	Narberth & District Comm & Sports Assoc.	18.6	10	3
13.0	94	71	Pembs Assoc. of Voluntary Services	13.0	107	17
11.6	77	52	Planed	11.6	81	26
13.2	133	21	PRISM	13.2	120	18
11.3	281	29	Tai Ceredigion	11.3	280	43
17.5	666	510	UOW Trinity St Davids	17.5	625	540
46.8	66	198	University College of Wales	46.8	38	222
14.4	249	227	Welsh Books Council	14.4	228	328
16.6	19	37	West Wales Action for Mental Health	16.6	25	39
16.9	37	34	Valuation Tribunal for Wales	16.9	51	35
	4,866	**2,793**			**2,875**	**2,235**
			Transferee Admission Body (TAB)			
12.5	67	55	Garnant Golf Club Limited	12.5	49	33
17.8	7	0	Grwp Gwalia Cyf	17.8	5	0
14.2	3	0	Cwmamman Town Council	14.2	3	0
	77	**55**			**57**	**33**
			Bodies with no pensionable employees			
0.0	5	6	DVLA	0.0	5	6
0.0	52	512	Dyfed Powys Magistrates Courts	0.0	51	755
0.0	0	27	Carmarthen Family Centre	0.0	1	5
0.0	2	4	Milford Haven Town Council	0.0	1	3
0.0	0	2	MENCAP	0.0	0	2
0.0	0	9,394	Dyfed County Council	0.0	0	9,139
0.0	0	12	Dyfed Assoc. Of Voluntary Services	0.0	0	4
0.0	14	15	National Health Service	0.0	13	14
0.0	13	41	Welsh Water Authority	0.0	13	42
0.0	0	9	Cwm Environmental	0.0	0	9
0.0	0	5	Cartrefi Cymru	0.0	0	5
0.0	1	1	Rent Officer Service	0.0	5	5
	87	**10,028**			**89**	**9,989**
	66,530	**63,531**	**Total**		**67,543**	**70,061**

21.1 Bodies with No Pensionable Employees

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

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

22 Contingent Assets

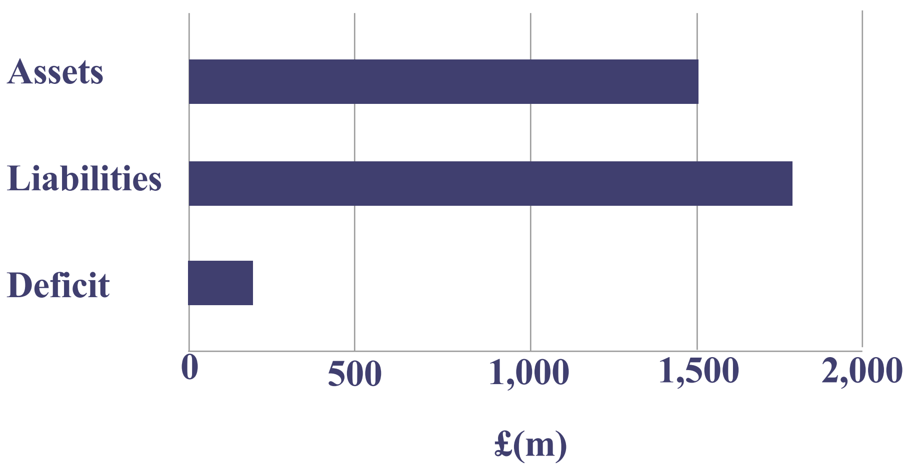
Two admission body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

23 Actuarial Statement

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

An actuarial valuation of the Dyfed Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,581 million represented 89% of the Fund's past service liabilities of £1,780 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £199 million.



The valuation also showed that a common rate of contribution of 12.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 94% with a resulting deficit of £103 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £7 million per annum increasing at 4.1% per annum (equivalent to approximately 2.7% of projected Pensionable Pay at the valuation date) for 17 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

	For past service liabilities (Funding Target)	**For future service liabilities (Common Contribution Rate)**
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases (long term)	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	For past service liabilities (Funding Target)	**For future service liabilities (Common Contribution Rate)**
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases (long term)	4.15% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £2,052 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£162 million. Adding interest over the year increases the liabilities by c£86 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£13 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£45 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £1,944 million.

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

June 2014

24 Events after the balance sheet date

There have been no events since 31 March 2014, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

Independent Auditors Statement

Independent Auditor's Statement to the Members of the Administering Authority of Dyfed Pension Fund

I have examined the pension fund accounts and related notes contained in the 2014 Annual Report of Dyfed Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Carmarthenshire County Council for the year ended 31 March 2014 which were authorised for issue on 26 September 2014. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Independent Auditor

The Administering Authority, Carmarthenshire County Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on the consistency of the pension fund accounts and related notes contained in the Annual Report with the pension fund accounts and related notes included in the Statement of Accounts of the Administering Authority. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts.

I conducted my work based on the requirements of Bulletin 2008/3 issued by the Auditing Practices Board. My report on the pension fund accounts and related notes included in the Statement of Accounts produced by Carmarthenshire County Council describes the basis of my opinion on those accounts.

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Dyfed Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Carmarthenshire County Council for the year ended 31 March 2014 which were authorised for issue on 26 September 2014 on which I issued an unqualified opinion.

As stated in my report in the statutory financial accounts, I cannot conclude the audit until enquiries arising from matters raised by members of the public have been formally completed. Prior to concluding the audit, I shall need to consider events that have occurred since issuing my opinion which require the financial statements to be amended..

Anthony Barrett

Appointed Auditor

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

6 October 2014

Glossary

Active Management

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

Actuary

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

Asset Class

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

Benchmark Return

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

Corporate Governance

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

Equities

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

Fixed Interest Securities

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

Fund Manager

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

Investment

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

Independent Investment Adviser

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

Market Indicators

(i) The movement in Stock market are monitored continuously by means of an Index made up of the current prices of a representative sample of stock.

(ii) Change in the rates at which currencies can be exchanged.

Market Value

The price at which an investment can be sold at a given date.

Out performance/Under performance

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

Passive Management (also called Indexation/Index Tracking)

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

Performance

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

Performance Measurement

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

Portfolio

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

Preserved Benefits

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

Return

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

Risk

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

Transfer Value

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

Unrealised Increase/(Decrease) In Market Value

The increase/(decrease) in market value, since the purchase date, of those investments held at the year end.

Contacting the Fund

Pension Investments

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Surname H-O 01267 224155
Surname P-Z 01267 224185

APPENDIX

Communications Policy Statement

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

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

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

This policy document sets out the methods used to meet those communication needs and is subject to periodic review.

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

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

Scheme Members

Fund Website

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

The site allows Scheme members to calculate and project their benefits, as well as providing external links to related websites.

My Pension Online

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

Annual Report and Accounts

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

Annual Newsletter(s)

The Fund issues an annual newsletter to all active members, covering current pension topics within the LGPS and the pensions industry in general.

The newsletter is also issued to all pensioners, providing notification on pension matters and other matters of interest. Specific single topic newsletters are also published and distributed to members on an ad hoc basis.

Annual Benefit Statements

An Annual Benefit Statement is sent directly to the home address of all active contributors. The statement sets out the current value of benefits (as at 31 March), a projection at age 60 / 65, the current value of death benefits and a State Pension forecast. Statements are also sent directly to the home address of all deferred members, providing the up rated value of benefits and supplementary notes of guidance.

Bilingual Scheme Literature

An extensive range of Scheme literature is produced by the Dyfed Pension Fund and is supplied to employing bodies and Scheme members directly. This Scheme literature forms part of the data held on the Fund's website. Examples of such literature include a range of factsheets, guides, flyers and posters.

Statutory Notification

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

Roadshows

Frequently held to raise member awareness and understanding towards general Scheme provisions. In partnership with the Fund's in-house AVC provider(s), mid-life planning and pre retirement sessions are also held periodically.

General Presentations & Courses

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

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

Mid Life Planning Courses
The Fund's dedicated in-house AVC provider(s) is continually on hand to perform sessions aimed at improving pension benefits, and raising awareness towards retirement planning matters.

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

Correspondence
The Fund utilises both surface mail and e-mail to receive and send correspondence. Response will be made in the individuals preferred language of choice.

Payment Advice / P60
Pensioners are issued with payment advice slips every April, and thereafter when a variance of £5 or more occurs. Payment advice slips are frequently tailored with generic messages as a means of notification. P60 notifications are also issued annually in May. This provides a breakdown of the annual amounts paid.

Pension Increase Statements
An annual statement is issued to all pensioners pending any increase in the appropriate cost of living index.

Existence Validation - (Life Certificate Exercise)
The Fund undertakes an annual exercise to establish the continued existence of pensioners in receipt of monthly pension payments via cheque.

Miscellaneous
Pensioners achieving their 100th birthday are contacted by the Pension Fund to celebrate this landmark birthday and wherever possible, visited by an appropriate representative of the Pension Fund.

Prospective Scheme Members

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

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

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

Pension Roadshows
As well as being a valuable aid for pensioners and current scheme members, road shows are used to target specific non-members, with support being enlisted from the in-house AVC provider(s). This ensures that members receive the information required to make an informed choice towards their pension provision.

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

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

Scheme Employers

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

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

Employers' Guide
An Employers' Guide is issued and has been made available on the Fund website to assist employers in discharging their pensions administration responsibilities. This is supplemented by the support of a dedicated Communication & Training Officer, who is available by telephone or personal visit to assist whenever necessary.

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

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

Website
The Fund website has a dedicated employer area that provides all employers with the guidance needed to effectively discharge their administrative responsibilities. A Latest News index keeps employers up to date with all Scheme developments.

Various publications are also available to download.
Access to Pensions Administration System
Each employer has the opportunity to access the pension records of their current members, providing the facility to provide pension benefit estimates directly to members.

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

Fund Staff

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

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

Training & Support
The Fund seeks to continually improve the capacity of staff to communicate effectively and to understand the importance of high-quality communication. Both general and pensions specific training is provided by the dedicated Communications & Training Officer as part of the Fund's commitment to continual improvement.

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

Other Bodies

The Fund works continuously to engage with other Pension Funds in Wales to evaluate specific partnership arrangements. The Fund is currently the lead authority within the All Wales Pension Funds Communication Working Group.

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

National Information Forum
These meetings provide an opportunity to discuss issues of common interest and share best practice. Communities & Local Government (CLG) and the Local Government Pensions Committee (LGPC) are represented at each meeting.

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

South & Mid Wales Pensions Officers' Group
Pension Officers from administering authorities in the region meet regularly to share information and ensure uniform interpretation of the LGPS and other prevailing regulations.

Data Protection
To protect any personal information held on computer, the Dyfed Pension Fund, as administered by Carmarthenshire County Council, is registered under the Data Protection Act 1998. This allows members to check that the details held on record are accurate.

National Fraud Initiative
This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

General
Whilst this Policy Statement outlines the communication approaches adopted by the Dyfed Pension Fund, there are roles and responsibilities which fall on Scheme members, prospective Scheme members and participating Scheme employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

Policy Review
This statement will be revised if there is any material change in the Dyfed Pension Fund's communications policy, but will be reviewed no less frequently than on an annual basis.

Governance Policy Statement

Introduction

The Dyfed Pension Fund is administered by Carmarthenshire County Council (the administering authority). All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy, under Regulation 73A of the LGPS 1997 Regulations. This regulation is superseded by Regulation 31 of the LGPS (Administration) Regulations 2008. This policy has been prepared by the administering authority in consultation with appropriate interested persons.

Purpose of the Governance Policy

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

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

Governance of the Dyfed Pension Fund

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

- review the performance of the fund, decide on the strategic direction of all matters relating to the investment of the fund and monitor all aspects of the investment function
- to determine on Administering Pension Fund Authority matters.

Powers delegated to the Director of Resources for Pensions Administration include:

- In accordance with The Local Government Pension Scheme Regulations 1997 or subsequent amending legislation:
    - To collect employee and employer contributions from participating employers
    - To make payments in respect of scheme benefits
    - To collect and make pension transfer payments as elected by scheme members
    - To determine non policy related discretions as an Employing/Administering Pension Authority
    - To undertake Stage 1 determinations on disputes arising from the Local Government Pensions Scheme or related legislation
    - To update and maintain the Fund's website **www.dyfedpensionfund.org.uk**
    - Maintenance and update of membership records
    - The calculation and authorisation of benefit payments
    - Provision of membership data for actuarial valuation purposes
    - Preparation and maintenance of the Communication Policy Statement and the Pensions Administration Strategy Statement.

The Panel

Terms of Reference:

- To exercise the County Council's responsibility for the management of the Dyfed Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets
- To meet at least quarterly, or otherwise as necessary
- To submit an Annual Report by 30 September each year on the state of the Fund and on the investment activities during the year

- To have overall responsibility for investment policy and monitor overall performance
- To review governance arrangements and the effective use of its advisers to ensure good decision-making
- To receive regular reports on Scheme administration to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers that the Fund is being run on an effective basis
- To appoint Investment Managers to discharge functions relating to the management of the Fund's investments
- To appoint the Fund's custodian, performance measurement adviser, actuary, independent adviser and AVC provider
- To approve a Funding Strategy Statement and Statement of Investment Principles.

Membership

The Panel comprises of:

- three members (one acting as Chair) plus a nominated substitute to act in the absence of a member. Each member of the Panel has voting rights and each Panel member and the substitute are nominated by Carmarthenshire County Council, the Administering Authority, from its elected membership. At least three members must attend each panel meeting
- three officers from Carmarthenshire County Council. The Director of Resources, Head of Financial Services and Treasury and Pension Investments Manager. At least two officers must attend each panel meeting
- the Independent Investment Adviser.

The Director of Resources, as Treasurer of the Dyfed Pension Fund, will also maintain all necessary accounts and records in relation to the Fund.

The Head of Financial Services, Treasury and Pension Investments Manager and officers in the Treasury and Pension Investments team support the Director of Resources in the responsibility for the monitoring and review of the investments of the Fund including:

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

Panel Meetings

The Panel meets four times a year. Meetings are held in London at the offices of the Fund Managers and in Carmarthenshire.

An agenda, minutes from the previous meeting and written reports are sent to each Panel member before each meeting. During the Panel meeting the Panel members receive reports presented by Officers of Carmarthenshire County Council, its Independent Investment Adviser, the Performance Measurement Consultant, the Fund Managers and any other person the Panel invites to speak at the meeting. Panel decisions are formally minuted.

After each Panel a meeting is held with the finance officers of the three County Councils, where Fund performance and other items dealt with at Panel are discussed. Issues raised at this meeting that Panel need to be made aware of are reported back to the following Panel meeting for discussion.

The Annual Consultative Meeting (ACM)

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

An Annual Consultative Meeting (ACM) is held in Carmarthenshire. The ACM is open to all participating employers, retired member representatives and Trade Union representatives. Interested bodies are notified of the ACM in advance. The Chair of the Fund, the Director of Resources, the Fund Advisers and Investment Managers attend the ACM to answer any questions.

Governance Compliance Statement

The purpose of the guidance is:

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

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

A. Structure

B. Representation

C. Selection

D. Voting

E. Training, facility time and expenses

F. Meetings (frequency / quorum)

G. Access

H. Scope

I. Publicity

Best Practice Principle A: Structure

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

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

Compliance Statement: Not Fully Compliant - Justification:

The Dyfed Pension Fund Panel exists and meets four times a year. The Panel has three members and a substitute, officers (all from Carmarthenshire County Council) and an independent investment adviser. Other scheme employers, admitted bodies and scheme members do not attend Panel but they are all invited to the annual ACM where all Panel members and advisers report and are available to answer questions. Carmarthenshire County Council officers meet with officers of the other 2 major employers (Pembrokeshire County Council and Ceredigion County Council) after each Panel meeting where Panel minutes are made available. There is no secondary committee for the Dyfed Pension Fund.

Best Practice Principle B: Representation

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

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

  These include:

  - employing authorities (including non-scheme employers, e.g. admitted bodies as well as scheduled bodies)
  - scheme members (including deferred and pensioner scheme members),
  - independent professional observers, and
  - expert advisors (on an ad-hoc basis)
- That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Compliance Statement: Not Fully Compliant Justification:

The Panel has representatives from Carmarthenshire County Council and the independent investment adviser. Other scheme employers, admitted bodies and scheme members do not attend Panel but they are all invited to the annual ACM where all Panel members and advisers report and are available to answer questions.

Carmarthenshire County Council officers meet with officers of the other 2 major employers (Pembrokeshire County Council and Ceredigion County Council) after each Panel meeting where Panel minutes are made available. There is no secondary committee for the Dyfed Pension Fund.

Best Practice Principle C: Selection

It is important to emphasise that it is not part of the fund authority's remit to administer the selection process for lay members sitting on main or secondary committees or to ensure their attendance at meetings, unless they wish to do so. Their role is to determine what sectors or groups are to be invited to sit on LGPS committees or panels and to make places available.

Effective representation is a two way process involving the fund authorities providing the opportunity and the representative bodies initiating and taking forward the selection process under the general oversight of fund authority.

That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

Compliance Statement: Fully Compliant - Justification:

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

Best Practice Principle D: Voting

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

Compliance Statement: Fully Compliant - Justification:

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

Best Practice Principle E: Training, facility time and expenses

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

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

Compliance Statement: Fully Compliant - Justification:

The Panel have regular training sessions run by the Fund Managers, the Actuary, and officers. New Panel members attend intense training sessions on commencement of their panel duties, including the LGE pension training session.

Best Practice Principle F: Meetings (frequency / quorum)

- That an administering authority's main committee or committees meet at least quarterly
- That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits
- That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Compliance Statement: Fully Compliant - Justification:

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

Best Practice Principle G: Access

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

Compliance Statement: Fully Compliant - Justification:

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

Best Practice Principle H: Scope

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

Compliance Statement: Fully Compliant - Justification:

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

Best Practice Principle I: Publicity

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

Compliance Statement: Fully Compliant - Justification:

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

Summary

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

Funding Strategy Statement

This Statement has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (the Fund), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) provide the statutory framework from which the Administering Authority is required to prepare an FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose and
  - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles. Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, membership and contributions) Regulations 2007 (as amended), “the Regulations”).

The required levels of employee contributions are also specified in the Regulations. Updated regulations (The Local Government Pension Scheme Regulations 2013) covering a new Local Government Pension Scheme (LGPS) were laid before Parliament in September 2013. The new Scheme will replace the existing Scheme with effect from 1st April 2014 and will provide for members to accrue pension on a career average revalued earnings basis rather than final salary. The actuary has taken this into account in determining employer contribution rates in the 2013 actuarial valuation. There is also the introduction of a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution. The actuary has made allowance for take-up of the 50:50 option (up to a maximum of 10% of current and future members) for certain employers on agreement with the Administering Authority. Employer contributions are determined in accordance with the Regulations (principally Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate.

Contributions to the Fund should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

The key statements relate as follows:

- Valuation Results – How much to pay and when to meet current and future payments;
- Funding Strategy Statement – How solvency and risks will be managed having regard to liabilities;
- Statement of Investment Principles - How the Fund will be invested and managed.

Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of

the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement 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 requirement to maintain as nearly constant employer contribution rates as possible and
- to take a prudent longer term view of funding those liabilities.

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

Aims and purpose of the Pension Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, and admitted bodies, having regard to the liabilities
- manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding
- ensure that sufficient resources are available to meet all liabilities as they fall due and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive and invest monies in respect of contributions, transfer values and investment income
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, membership and contributions) Regulations 2007 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

Responsibilities of the key parties

The Administering Authority (Carmarthenshire County Council):

- collects employer and employee contributions
- invests surplus monies in accordance with the regulations and agreed strategy
- ensures that cash is available to meet liabilities as and when they fall due
- manages the valuation process in consultation with the Fund's actuary
- prepares and maintains an FSS and a SIP
- monitors all aspects of the Fund's performance and funding and
- exercises discretions within the regulatory framework

The Individual Employers:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding
- discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

The Fund's actuary:

- prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS
- sets employer contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining contribution rates that are as constant as possible
- prepares advice and calculations in connection with bulk transfers and individual benefit-related matters
- advises on funding strategy, clarifies the preparation of the FSS and the interrelationship between the FSS and the SIP.

The Fund's investment manager(s):

- invest funds given in accordance with the SIP and the Investment Management Agreement (IMA)
- meet, or exceed, investment performance targets and risk constraints.

Solvency issues and target funding levels

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The key assumptions making up the funding strategy and as adopted for the 2013 actuarial valuation are:

Past Service	**current yields basis**
Asset valuation	Market Value
Investment Return pre-retirement	4.80% p.a.
Investment Return post-retirement	4.80% p.a.
CPI Price inflation	2.60% p.a.
Salary increases	4.10% p.a.
Pension increases	2.60% p.a.

Future Service	**long term basis**
Investment Return	5.60% p.a.
CPI Price inflation	2.60% p.a.
Salary increases	4.10% p.a.
Pension increases	2.60% p.a.

Underlying these assumptions are the following two tenets:

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

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding some allowance for market movements which occurred after the valuation date. In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

The current actuarial valuation of the Fund is effective as at 31 March 2013. The actuarial valuation revealed that the assets of the Fund represented 89% of projected accrued liabilities at the valuation date on the actuarial basis outlined above.

Individual participating Employers have historically had discrete contribution rates certified at past fund valuation exercises. This practice will continue with no "grouping" of Employers which ensures that factors and decisions taken by each Employer during the valuation period will only influence that body's contribution rate. Additionally, investment performance is allocated pro rata to each employer's asset share. It is viewed that there is no need to give special consideration to the allocation of investment performance to each individual employer, as might be the case under a "Best Value" transfer of function for example. The recovery period covering the funding of (non ill-health) early retirements has been reduced over recent valuations. For the majority of employers, such costs will now be recovered on a pay-as-you go basis with any actuarial strain components created as a result of such early retirements being repaid to the Fund over a period not exceeding 3 years.

The Administering Authority has agreed with certain employers an early retirement contingency within their contribution rates. The contingency element is capitalised over a 3 year period for the purpose of monitoring early retirement costs.

The Administering Authority, following consultation with the participating employers, has adopted the following objective to achieve the funding target:

- deficits are to be recovered over a period of 17 years, although shorter periods may apply in some cases. In determining the deficit recovery period the Administering Authority has had regard to:
  - the responses made to the consultation with employers on the FSS principles

- the need to balance a desire to attain the target as soon as possible against the short term cash requirements which a shorter period would impose

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Link to investment policy set out in the Statement of Investment Principles (SIP)

The results of the 2013 valuation show the liabilities to be 89% covered by the current assets, with the funding deficit of £195m being covered by future deficit contributions.

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

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgoings. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out performance of the investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2013 valuation would have been significantly higher, by approximately 45% and the declared funding level would be correspondingly reduced to approximately 61%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The benchmark column shows the benchmark investment strategy set by the Pension Panel. When operating this strategy the investment manager is allowed to vary the asset mix in order to maximise returns. However these variations must remain within the ranges shown in the above table.

	Benchmark (%)	Range (%)
UK Equities	39.0	37.5 – 40.5
Overseas Equities	30.0	28.5 - 31.5
Pan European Property	10.0	
Bonds	20.0	18.5 - 21.5
Cash (including GTAA)	1.0	0.0 - 10.0
Total	100.0	

Overseas Equities	Benchmark (%)	Range (%)
North America	10.00	5.00 - 15.00
Europe (excl. UK)	5.00	0.00 - 10.00
Japan	3.50	0.00 - 8.50
Developed Pacific (excl. Japan)	3.25	0.00 - 8.25
Emerging Markets	8.25	3.25 - 13.25
Total	30.00	

Bonds	Benchmark (%)	Range (%)
Index Linked Gilts	10.00	5.00 - 15.00
UK Corporate Bonds	10.00	5.00 - 15.00
Total	20.00	
Additional Restrictions are as follows: Overseas Bonds 0 - 7% Total Overseas Exposure 43.0 – 53.0%		

The funding strategy adopted for the 2013 valuation is based on an assumed asset outperformance of 1.6% p.a. in respect of liabilities pre-retirement and post retirement liabilities. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

Identification of risks and counter-measures

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

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.6% per annum assumed on the basis of the current liability profile.

CIPFA guidance identifies the following key risks:

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Managers fail to achieve performance targets over the longer term
- Asset allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies.

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements Regulatory
- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules.

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in Panel membership.

Key Risks Specific to the Fund

The Fund is actively managed against its benchmark, a combination of strategic asset allocation and peer group average returns for each asset.

The Fund's response:

- Pension Panel meetings with the investment managers are held on a formal basis. Also, a Consultative Meeting is held with employers and other interested parties each year. Communication with employers therefore provides the effective sharing and collecting of relevant information.
- The Fund has adopted a cautious strategy throughout which is reflected in the assumptions used.
- Any changes to regulations are immediately assessed.
- Where there are changes in the economic scenarios and other assumptions used in preparing the investment strategy, an immediate evaluation of the impact of those changes on the strategy is carried out.
- Elected Members serving on the Pension Panel receive regular training. This training is given by the various Advisers and Professionals acting on behalf of the Pension Panel at the formal meetings. Training is also delivered through the attendance of courses and seminars organised by external training providers.
- Decisions relating to the Dyfed Pension Fund are made by the Pension Panel after receiving advice from the Advisers appointed by the Panel and from Officers employed by the Administering Authority.

Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employers who either participate in or have a relationship with the Dyfed Pension Fund.

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

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

- there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- there have been significant changes to the Fund membership, or LGPS benefits
- there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the FSS
- there have been any significant special contributions paid into the Fund.

Statement of Investment Principles

Introduction

The Dyfed Pension Fund adopts as best practice the production, publication and regular review of a Statement of Investment Principles (SIP). The Fund will continue this practice in response to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

With effect from 1 July 2000, Carmarthenshire County Council as the local authority responsible for the administration of the Dyfed Pension Fund (Superannuation Act 1972, 1995 Regulations) has been required to publish a SIP, which must include:

- The types of investments held
- The balance between different types of investments
- Risk
- The expected return on investments
- The realisation of investments
- The extent to which Socially Responsible Investment (SRI) is taken into account in investments
- The exercise of the rights (including voting rights) attaching to investments

Carmarthenshire County Council in drawing up this statement has consulted its independent investment adviser and has liaised with its investment managers, particularly on the aims and objectives of the Fund and the manner in which the Fund wishes to achieve these objectives.

The overall investment policy falls into two parts:

- The **strategic management** of the assets which is fundamentally the responsibility of the Pension Panel. The Pension Panel consists of 3 Elected Members of Carmarthenshire County Council (and 1 substitute member) nominated with delegated powers from Carmarthenshire County Council, who are advised by an independent investment adviser, and the Director of Resources of Carmarthenshire County Council. This strategic management is driven by the investment objectives laid out in section 2.
- The **day to day management of the assets** which is delegated to professional investment managers and is described in section 4.

Strategic Objectives of the Dyfed Pension Fund

The Pension Panel have adopted the following objectives in consideration of their strategic management of the Fund:

- To ensure that the assets of the Fund match or exceed its liabilities, i.e. the Fund remains solvent
- To establish a strategic asset allocation benchmark which is expected to deliver the required investment return, at an accepted level of risk, in the long term
- To minimise the employers contribution rate, whilst avoiding volatility.

In investing, the Fund is exposed to a number of risks. The following are considered to be the most significant:

Funding Risks

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

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

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

The Panel 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.

Asset Risks

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

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

Other provider risk

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

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

Strategic Management

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

The Pension Panel, following an asset liability study, has set a benchmark mix of asset types and ranges within which the investment managers may operate with discretion. This is shown in section 4.1. The Panel believes that this mix of assets will fulfil the assumptions within the valuation undertaken in March 2013, as well as taking account of the liability profile of the Fund. This mix will also help to control the risks outlined in section 2.2.

The day to day management of the Assets

The Investment Management Agreements (IMAs) between Carmarthenshire County Council and the investment managers lay out the terms and conditions of the day to day management of the Dyfed Pension Fund. The current asset allocation determined following the appointment of global equity managers in 2013 is as follows:

	Benchmark (%)	Range (%)
UK Equities	39.0	37.5 – 40.5
Overseas Equities	30.0	28.5 - 31.5
Pan European Property	10.0	
Bonds	20.0	18.5 - 21.5
Cash (including GTAA)	1.0	0.0 - 10.0
Total	100.0	

Overseas Equities	Benchmark (%)	Range (%)
North America	10.00	5.00 - 15.00
Europe (excl. UK)	5.00	0.00 - 10.00
Japan	3.50	0.00 - 8.50
Developed Pacific (excl. Japan)	3.25	0.00 - 8.25
Emerging Markets	8.25	3.25 - 13.25
Total	30.00	

Bonds	Benchmark (%)	Range (%)
Index Linked Gilts	10.00	5.00 - 15.00
UK Corporate Bonds	10.00	5.00 - 15.00
Total	20.00	
Additional Restrictions are as follows: Overseas Bonds 0 - 7% Total Overseas Exposure 43.0 – 53.0%		

The investment managers are allowed to vary the percentage allocations within the ranges indicated above. In exceptional circumstances, and within legal constraints, these percentages may be varied with the prior agreement of the Pension Panel. Although the investment managers are able to extend to 10% cash within the range allowed, they will advise the Panel when they go over 5% cash. There is a small amount of cash held locally at Carmarthenshire County Council in order to pay all non trading expenses of the Fund.

The restrictions faced by the investment managers are contained within the Investment Management Agreements (IMAs). The following investments are allowable for the Dyfed Pension Fund:

- Units in active and passive funds, including Global Ascent Ltd.
- Shares, convertibles and warrants quoted on any UK exchange.
- Shares included in the FT/S&P or MSCI World Indices.
- Pan European Property either directly or through pooled funds
- Sovereign issue debt.
- Corporate debt – bonds to have a minimum credit rating of either Aa3 or AA- by Moody's Investor Services or Standard and Poors
- Derivatives on any of the above shares or markets with prior permission, with the constraint that they should not gear the portfolio.
- Life Funds - up to a limit of 35% of the Fund.
- Currencies of any market in the FT/S&P or MSCI World Index.

All investments, excluding property holdings, are readily realisable.

The investment manager has confirmed that within UK Corporate Bonds, the use of derivatives will be for the purposes of efficient portfolio management only, and will not be used for speculative purposes or to leverage the portfolio.

The restrictions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) are included in the IMA and are of course of relevance to the SIP also.

The requirement is for the investment managers to outperform a benchmark. The target given to BlackRock is to seek to outperform the benchmark by 0.7% annualised on a rolling 3 year basis whilst not underperforming the benchmark by more than 3% pa in any one year. The benchmark is constructed by taking the percentage asset allocation given to the manager around which they can work, and assuming the WM Company's Local Authority Universe average performance for each asset class. The investment manager can therefore trade between asset classes at his discretion, within the above restrictions.

The target given to Schroders is to seek to outperform the IPD Pooled Property Fund Index by 0.75% pa over a rolling 5 year period.

The target given to Partners Group is to seek a 12% pa gross absolute return (with a secondary benchmark of 200 basis points pa above the IPD Pan European Property Index) over any 3 year rolling period.

The target given to Baillie Gifford and Threadneedle is to seek to outperform the MSCI All Country World Index by 2-3% pa over a rolling 5 year period.

The Pension Panel, assisted by the independent adviser and Director of Resources, meet quarterly with the investment managers to review performance, to decide on any appropriate investment changes and to monitor all aspects of the investment function.

The current managers, advisers and consultants to the Dyfed Pension Fund are:

Investment Managers

BlackRock, Schroders and Partners Group

Independent Investment Adviser

Mr Eric Lambert

Performance measurement company

WM Performance Services

Actuary

Mercer

Custodian

Northern Trust

Social, Environmental and Ethical Considerations

The Pension Panel recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out their policies. The managers have been delegated by the Panel to act accordingly.

Exercise of Voting Rights

The Panel has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly the managers have produced written guidelines of their process and practice. The managers are encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies. See Appendix A.

Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Panel, which include both pooled and segregated mandates.

Within segregated mandates, the Panel has absolute discretion over whether stock lending is permitted. The Panel has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Panel has decided not to permit stock lending within any of its segregated investment mandates.

The managers of pooled funds may undertake a certain amount of stock lending on behalf of unit holders in the fund. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Panel has no direct control over stock lending in pooled funds, nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

The Panel reviews its policy on stock lending on a regular basis.

Myners 6 Principles and Compliance Checklist See Appendix B

Compliance with this Statement

The Pension Panel will monitor compliance with this statement annually at its March meeting. The investment managers will confirm annually in writing that they have complied with this statement and should this statement materially change the investment managers will be informed promptly.

The Review of this Statement

A review of this statement will take place in response to any valuation, asset liability study, or any other material event that would influence the policies of the Fund.

This includes changes to the liabilities, the finances, regulations or risk acceptance of the Fund. This review will take place every year at a minimum, or sooner if the situation warrants it. All relevant parties will be involved in the review.

Statement by the Fund Managers

Blackrock, Schroders, and Partners Group confirm that they have been made aware of any changes to the Statement of Investment Principles (SIP) and have complied with the SIP over the past year.

Baillie Gifford and Threadneedle were appointed in December 2013 and hence it is too soon for them to prove compliance with the SIP. Compliance will be sought in March 2015.

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Statement of Investment Principles

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

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

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

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

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

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