

DYFED PENSION FUND

Annual Report & Accounts

2016 - 2017



www.dyfedpensionfund.org.uk

CONTENTS

Chairman's Foreword.....	3
Introduction.....	4
Section 1 - Management and Financial Performance Reports	
Fund Management and Advisers.....	6
Risk Management	8
Financial Performance.....	9
Administrative Management Performance.....	10
Section 2 - Investment Policy and Performance Reports	
Fund Investments.....	11
BlackRock.....	16
Schroders.....	20
Partners Group.....	25
Baillie Gifford.....	28
Columbia Threadneedle.....	31
Performance and Risk	33
Independent Investment Adviser.....	35
Section 3 – Fund Administration Report	37
Section 4 – Actuarial Report.....	44
Section 5 – Governance	
Pension Board Annual Report.....	45
Governance Policy Statement.....	47
Governance Compliance Statement	50
Section 6 – Statement of Accounts	54
Independent Auditor's Statement.....	84
Section 7 – Funding Strategy Statement	85
Section 8 – Statement of Investment Principles.....	94
Section 9 – Communications Policy Statement	101
Glossary	105
Contacting the Fund.....	106

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CHAIRMAN'S FOREWORD

My tenure as chairman of the Dyfed Pension Fund panel has finally come to an end after 17 years as I retired from my role as a county councillor prior to this year's County Council elections. My successor Councillor Elwyn Williams, who I know well, has now "taken over the reins" and he will ensure that the Fund continues to be steered down its meandering path around the challenges and threats, becoming even more efficient and effective along its journey.

I have been fortunate to have worked with many dedicated councillors and officers over the years who have all helped to ensure that the Fund is in such a healthy financial position.

2016-17, in marked contrast to last year, saw global markets perform strongly despite much political upheaval which you will read about later in this report. Your fund returned 24.3% which was 0.4% above its benchmark return of 23.9%. This has also had a positive impact on longer term performance which is shown elsewhere within this report. The return was also significantly above the average Local Authority Fund and was ranked in the 7th percentile. The Fund's market value increased by circa 20% or £400m.

As I mentioned in last year's report, this year was also a triennial fund valuation year and once again it was a pleasing outcome for your fund. The extensive exercise resulted in a funding level of 97%, the highest for many years. This meant that any increase in employer contribution rates was kept to a minimum which was welcomed by all employers during an ongoing backdrop of financial constraints.

Membership of the Fund increased during the year by 2.2% to 45,959. Active membership increased by 0.5% whereas pensioners and deferred members increased by over 3.5%. The net effect is that active contributors now account for only 42% of the total fund membership with 26% drawing pension benefits and a further 32% with deferred benefits. This trend impacts on the cash flow of the Fund and as a consequence the Investment Strategy Review that our Independent Investment Adviser is currently undertaking following the valuation will have cash flow requirements as one of its objectives.

The pension board met three times during the year. They received numerous training sessions, scrutinized pension fund documentation and reviewed panel minutes. The board members continue to work closely with the officers for the benefit of the Fund. More information can be found in the Independent Chair's report in Section 5.

This year has seen an increased focus nationally and locally on the pooling of investments across England and Wales. As I mentioned in last year's annual report, we have our own Wales pool which is now called the Wales Pension Partnership.

The appointment of a regulated third party operator to administer the pooling arrangements is progressing well with the successful operator in place before the 1 April 2018 deadline. Monthly Officer Working Group meetings have been arranged and the first Joint Governance Committee will be held on 29 June 2017.

Carmarthenshire County Council has been selected as the host authority for the Partnership with responsibility for finance, procurement, legal, democratic and systems functions.



May I therefore, for the final time, on behalf of all our stakeholders sincerely congratulate the fund officers and my fellow panel members, who have also stepped down from county council duties, on ensuring that a high quality service continues to be provided to all our stakeholders and that the assets and performance of the Fund goes from strength to strength.

Councillor Wyn Evans

Chairman of the Pension Panel

INTRODUCTION

It would be remiss of me to open this year's introduction without commenting on the Chairman's retirement.

Councillor Wyn Evans commenced his term of office as a county councillor in 1983 and as Chairman of the Dyfed Pension Fund Panel in 1999. During that time he has been supported by six county councillors and three Directors of Finance. The Fund has won numerous awards during these years which is testament to his leadership and long term commitment. His enthusiasm and dedication to the Fund is undeniable and his professionalism, with a hint of wit and humour thrown in, ensured panel meetings were chaired effortlessly and smoothly like a free flowing river.

I have no doubt that the past and current success of the Fund is predominantly due to the strategic decisions made by Councillor Evans and his fellow panel members over the years. I'm sure you'll endorse my comments and wish him well in his retirement.

As the Chairman mentioned in his foreword Councillor Elwyn Williams has now agreed to take on the role following the May 2017 election. He will be ably assisted by new panel members and current officers who are looking forward to working with them over the coming years.

Councillor Williams takes over the Fund in a healthy state as can be seen from the performance table and funding level tables below:

Periods to 31/03/17	Fund (%)	LA Universe (%)	Out Performance (%)	Ranking
1 year	24.3	21.4	2.9	7
3 year	12.7	11.2	1.5	13
5 year	11.7	10.7	1.0	15
10 year	7.8	7.0	0.8	14
20 year	8.1	7.4	0.7	6

Published Funding Levels as at:	Fund (%)	Ranking
31/03/16	97	5
31/03/13	89	9
31/03/10	91	6

The Wales Pension Partnership (WPP) is progressing well.

In our final submission to the Department for Communities and Local Government (DCLG) in July 2016, we stated that the ambition for the WPP was to create appropriate vehicles for collective investment for all participating funds in Wales across all asset classes in time. We remain on track to have the WPP operational by April 2018. Supplier engagement days were held in late 2016. This helped raise market awareness of our requirements and inform the specification of services that will best meet the requirements of the participating funds. The formal procurement exercise for a third party operator was initiated in early 2017 with the appointment due in Autumn 2017.

We have been pleased by the amount of market interest and are confident that there will be strong competition and a good choice of suppliers. As the Chairman mentioned Carmarthenshire County Council will act as "host authority" providing secretariat services, technical support and Section 151 accounting and finance to the Pool's Joint Governance Committee (JGC) and Officer Working Group (OWG). It will also provide the "client side" team dealing with the third party operator and ensuring the operator meets the performance requirements specified in the contractual terms.

The OWG is working very effectively with all 8 funds speaking with one voice and making timely and informed decisions based on advice from our consultants Hymans and our legal advisors Burges Salmon.

The pension administration team have continued their sterling work undertaking data validation and integrity checks in relation to the Guaranteed Minimum Pension (GMP) reconciliation exercise ensuring that the correct state benefits are recorded and paid by Her Majesty Revenue & Customs (HMRC). They have also implemented i-connect for Pembrokeshire County Council and Carmarthenshire County Council. The system facilitates the direct transfer of data from employer payroll systems directly into the pensions system. It will be rolled out to other large employers over the next year or so.

As you can see from the above funding level table the triennial valuation exercise was another favourable one for the Fund. At 97%, the funding level is again one of the best in the LGPS and more importantly the deficit has been reduced, the recovery plan has been set at an average of 17 years and the impact on employer contribution rates has been minimised. Our actuary, Mercer, has used prudent assumptions once again this year and adopted a Consumer Price Index (CPI) based discount rate instead of gilts based which is consistent with the majority of the actuarial profession.

The full actuarial report can be found on the Fund's website.

Following the valuation the panel commissioned our Independent Investment Adviser, Mr Eric Lambert, to prepare a Strategic Asset Allocation (SAA) revision for the Fund. Mr Lambert has over 10 years experience with the Fund and many more years experience with the LGPS (even though he probably wouldn't want me to mention it!!!) and so is well placed to perform this piece of work. He will consider the:

- Results of the Actuarial Valuation at 31 March 2016
- Fund's Investment Objectives
- Current Strategic Asset Allocation (SAA)
- Cash Flow Requirements
- Government Agenda re: Pooling and Infrastructure Expectations

He will report back to panel in Autumn 2017.

I would like to take this opportunity again this year to thank my pension teams and the Head of Financial Services for the commitment and hard work they have shown towards delivering an excellent service throughout the year. Despite the increasing workloads and the need to explain pension issues as clearly as possible in an increasingly complex area, staff continue to place the scheme members first and this is valued by our members and those responsible for the governance of the Scheme.



Chris Moore FCCA
Director of Corporate Services

MANAGEMENT AND FINANCIAL PERFORMANCE REPORTS

Fund Management and Advisers

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

The Fund's Governance Policy sets out the roles and responsibilities of the Panel. During 2016-2017 the Panel members were:

Councillor Wyn Evans	- Chairman of the Panel
Councillor Terry Davies (MBE)	- Panel Member
Councillor Siân Thomas (M.A., M.Ed)	- Panel Member
Councillor Philip Hughes	- Substitute Panel Member

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

Mr Chris Moore, FCCA	- Director of Corporate Services
Mr Owen Bowen, 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 investment managers, consultants, officers, national and local government associations.

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



The Pension Panel

Meeting attendance and training events 2016-17	Cllr Wyn Evans	Cllr Terry Davies	Cllr Siân Thomas
Voting rights	✓	✓	✓
2016-17 Meeting attendance:			
Panel meetings 15 June 2016 (BlackRock and Baillie Gifford))	✓	✓	✓
ACM 24 November 2016	✓	✓	✓
Panel meetings 24/25 November 2016 (BlackRock, Schroders and Partners Group)	✓	✓	✓
Panel meetings 9/10 March 2017 (BlackRock, Baillie Gifford and Columbia Threadneedle)	✓	✓	✓
2016-17 Training events:			
LA Conference (PLSA) May 2016		✓	
ESG issues (LAPFF) June 2016			✓
Investment Summit (LGC) September 2016	✓		
Investment & Training Seminar (Baillie Gifford) October 2016		✓	✓
ESG issues (LAPFF) October 2016	✓		
Annual Conference (LAPFF) December 2016	✓		
ESG issues & AGM (LAPFF) January 2017			✓

Independent Investment Adviser

- Mr Eric Lambert

Investment Managers

- BlackRock, Schroders, Partners Group, Columbia Threadneedle and Baillie Gifford.

Legal Advisers

- Eversheds

Performance Measurement Company

- Local Authority Pension Performance Analytics (PIRC)

Fund Actuary

- Mercer

Custodian

- Northern Trust

Bankers

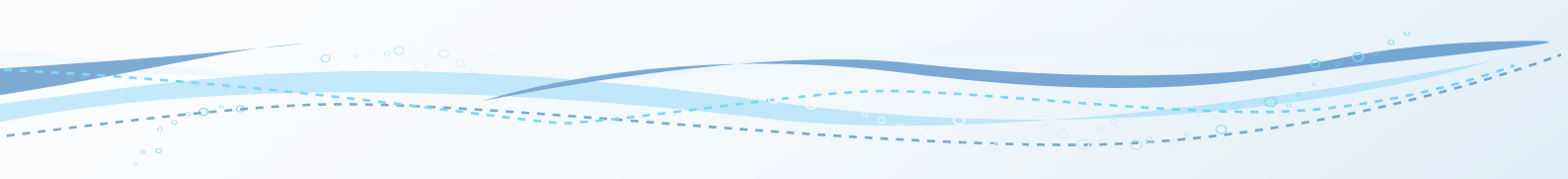
- Barclays Bank Plc

AVC Providers

- Prudential, Standard Life and Equitable Life

External Auditor

- Auditor General for Wales



Risk Management

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

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

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

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



River Taf, Laugharne

Financial Performance

Income and Expenditure

The table below shows 2016-17 actual income and expenditure against budget with reasons for any significant variances.

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

	Actual 2015-16 £'000	Budget 2016-17 £'000	Actual 2016-17 £'000	Variance 2016-17 £'000
Income				
Employee Contributions	17,661	17,546	17,815	269
Employer Contributions	51,093	46,403	52,056	5,653
Transfers In	1,986	2,000	1,889	(111)
Investment Income	28,061	23,973	31,461	7,488
Other Income	25	100	0	(100)
Total Income	98,826	90,022	103,221	13,199
Expenditure				
Benefits Payable	(74,590)	(72,182)	(76,694)	(4,512)
Transfers Out	(4,027)	(4,100)	(3,452)	648
Management Expenses	(1,339)	(1,499)	(1,430)	69
Investment Management Expenses	(3,966)	(4,010)	(5,941)	(1,931)
Total Expenditure	(83,922)	(81,791)	(87,517)	(5,726)
Changes in the Market Value of Investments	(28,116)	-	426,955	-
Net Increase/(Decrease) in the fund value	(13,212)	-	442,659	-

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

Income

Total Actual Income was £13.2m more than budgeted mostly due to recharged augmentation costs to the employers, increases in dividend rates from the assumptions used when setting the budget and new CIPFA guidance regarding Management Expenses.

Expenditure

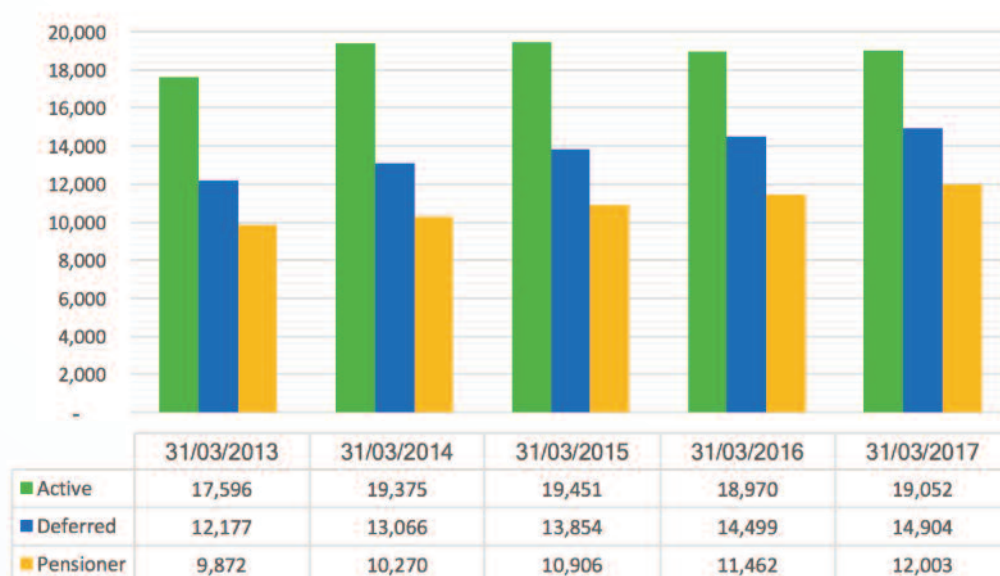
Total Actual Expenditure was £5.7m more than budgeted, mostly due to higher augmentation costs and new CIPFA guidance regarding Management Expenses.

Administrative Management Performance

Membership Statistics

A schedule of employers (as at 31 March 2017) who either participate or have a relationship with the Dyfed Pension Fund is attached to the Statement of Accounts (Section 6).

The chart below illustrates the increase in scheme membership over the last five years:



Member Movement Statistics

The adjacent table illustrates the number of individual member status movements performed by the administration team over the last five years.

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

Year	Status Entry	Status Exit	Total
2012-13	4,588	2,298	6,886
2013-14	6,214	2,696	8,910
2014-15	5,111	2,599	7,710
2015-16	5,078	2,540	7,618
2016-17	6,574	3,201	9,775

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

2016 - 2017	Total Completed	Benchmark (%)	Performance (%)
New Starters	1,105	95.00	96.38
Transfers into the Fund	149	95.00	95.45
Retirement Quotes	553	95.00	96.91
Payment of Retirement Benefits	921	95.00	95.62

In addition to the primary role of administering the Local Government Pension Scheme and its provisions, the Pension 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 Dyfed Powys Police, Mid & West Wales Fire and Rescue Service, North Wales Fire and Rescue Service respectively.

INVESTMENT POLICY AND PERFORMANCE REPORTS

Fund Investments

Investment Policy

The Fund sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Statement of Investment Principles (SIP) (Section 8). 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 and how voting rights have been exercised can also be found in the SIP.

Regulation 7 of the Local Government Pension Scheme (management and Investment of Funds) Regulations 2016 require funds to publish a new document from 1 April 2017, an Investment Strategy Statement (ISS) to replace the SIP. The ISS has been developed alongside the Fund's Funding Strategy Statement (FSS) on an integrated basis taking into account the risks inherent in the Fund and will replace the current SIP document in Section 8 of next year's annual report.

The ISS document can be found on our website:

www.dyfedpensionfund.org.uk/news/investment-strategy-statement/

Responsible Investment Policy

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

The investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund. In the execution of this, the 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

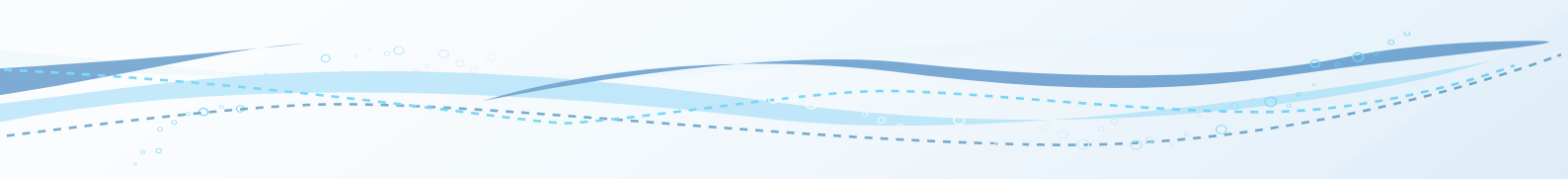
The Fund subscribes to and is a member of Pension and Lifetime Savings Association (PLSA), Local Authority Pension Fund Forum (LAPFF), CIPFA Pension's Network, LGA Scheme Advisory Board (SAB) and LGA Local Government Pension Committee (LGPC).

Voting

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

Manager changes

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



Asset Allocation

The asset allocation as at 31 March 2017 is shown below:

Mandate	Approach	Manager	Benchmark (%)	Actual (%)
UK Equities				
UK	Passive	BlackRock	25.00	24.29
Overseas Equities				
US	Active	BlackRock	9.40	9.73
Canadian	Passive	BlackRock	0.60	0.45
Japanese	Active	BlackRock	3.50	3.29
Pacific Rim	Passive	BlackRock	3.25	3.23
Emerging Markets	Passive	BlackRock	8.25	7.98
Global	Active	Baillie Gifford / Columbia Threadneedle	19.00	22.31
Fixed Interest				
Index Linked Bonds	Passive	BlackRock	10.00	9.37
Corporate Bonds	Active	BlackRock	10.00	9.46
Property				
Pan European	Active	Schroders	8.00	8.07
Pan European	Active	Partners Group	2.00	1.46
Other				
Cash	Active	BlackRock	1.00	0.36
Total			100.00	100.00

The Fund's asset allocation strategy can also be found in the SIP (Section 8).

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 increased by 23.204% from 2015-16 to 2016-17.

	Value as at 31/03/16 £'000	Value as at 31/03/17 £'000
Equities - UK Quoted	450,678	568,252
Index Linked	177,109	219,346
Fixed Interest (Corporate Bonds)	178,145	221,350
Pooled Funds - Global Equities & Overseas Equities	874,407	1,099,372
Property	7,381	5,966
Pooled Property Investments	202,363	212,418
Cash	1,715	4,880
Accrued Income	3,582	3,594
Total	1,895,380	2,335,178

Investment Performance

Periods to 31/03/17	Fund (%)	LA Universe (%)	Difference (%)
1 year	24.3	21.4	+2.9
3 year	12.7	11.2	+1.5
5 year	11.7	10.7	+1.0
10 year	7.8	7.0	+ 0.8

Performance is measured on both a quarterly and an annual basis. For the year to 31 March 2017 the Fund returned 24.3% (compared with an average local authority return of 21.4%) and was ranked in the 7th percentile. The rolling three year return for the Fund is 12.7% (compared with the average local authority fund return of 11.2%) and ranked in the 13th percentile. The rolling 5 and 10 year returns for the Fund are ranked at 15th and 14th respectively. The LA Universe is measured and compiled independently by the Local Authority Pension Performance Analytics (PIRC).

Top ten equity holdings by market value 31 March 2017



£32.1m



£24.4m



£22.8m



£21.5m



£20.2m



£20.0m



£15.3m



£14.1m



£13.6m



£11.7m

Individual Managers' Performance

The following tables show the performance of each manager for the year ending 31 March 2017.

Partners Group

(Pan European Property)

The performance of investments in private property is measured by Internal Rate of Return (IRR), a figure that will be volatile until the Fund reaches maturity. The current portfolio IRR is 12.2%. As a time weighted return based on cash flows it is not a meaningful performance measurement until all capital contributed and earnings has been returned to the investor. Until then the IRR will peak and dip based on the timing of cash inflows and outflows. The portfolio of investments continue to meet Partners Group's expectations in terms of performance.

The table illustrates the cash flows as at 31 March 2017. The valuation of the property portfolio is above the original cost of investment.

Portfolio investments		Partners Group Red Dragon L.P.	
Committed	£58.7m	Commitments	£67.0m
Commitment level	87.58%	Capital contributions	£47.6m
Commitment level - directs	15.36%	Capital contributions (in % of commitments)	70.99%
Commitment level - secondaries	28.51%	Unfunded commitments	£19.4m
Commitment level - primaries	43.70%	Distributions	£24.2m
Invested	£47.1m	Net asset value	£37.1m
Investment level	80.33%		

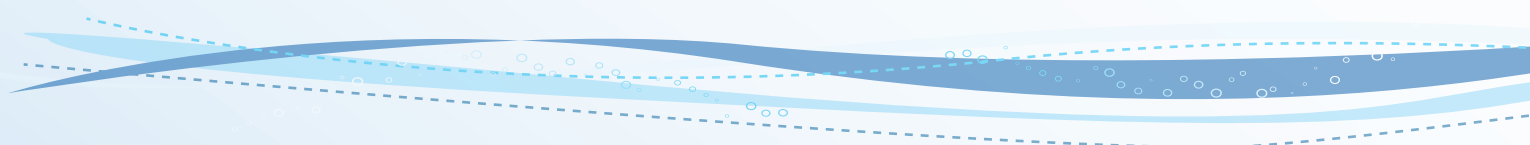
Schroders

(Pan European Property)

Performance was above benchmark over the one year period despite the impact of transaction costs on new purchases and costs associated with sales. Performance is weaker over the three years but is ahead of benchmark again over five years. Longer term performance has been diluted by the holdings in continental Europe (now representing 2.3% of portfolio value).

Performance to 31/03/17	Fund (%)	Benchmark (%)
1 year	3.8	3.7
3 year	9.6	10.2
5 year	8.7	8.4

**The property portfolio was in the 65th percentile in the LA Universe
(33rd out of 51 LGPS funds that invest in property)**



BlackRock

The active US Equities and UK Corporate Bonds have outperformed (+1.5% and +0.6% respectively) while the Japanese Equities have slightly underperformed (-0.2%) their respective indices during the year.

	Fund Return (%)	Index (%)	L A Universe (%)
US Equities	36.7	35.2	34.3
Japanese Equities	32.3	32.5	35.3
UK Corporate Bonds	9.8	9.2	10.8

Columbia Threadneedle

The aim of the Global Equity Income Fund in which Dyfed Pension Fund is invested is to outperform the MSCI AC World Index by 2.0 – 3.0% per annum gross fees over a rolling 5 year period. The Fund seeks to outperform by focusing on 'Quality Income' stocks, seeking out companies with a minimum dividend yield of 3%, a strong balance sheet and the ability to grow earnings and dividends by more than 5% per year.

Value as at 31/03/17		Performance to 31/03/17	Fund (%)	Benchmark (%)
Units Held	167,310,428	1 year	28.07	32.97
Unit Price (£)	1.4918	3 year*	14.67	16.28
Valuation (£)	249,593,698	*Annualised returns		

Performance figures are total returns in sterling terms with fund prices calculated from month end global close valuations, gross of fees.

Baillie Gifford

The aim of the Global Equity Income Fund in which Dyfed Pension Fund is invested is to outperform the MSCI AC World Index by 2.0 – 3.0% per annum gross fees over a rolling 5 year period.

Value as at 31/03/17		Performance to 31/03/17	Fund (%)	Benchmark (%)
Units Held	82,183,129	1 year	35.50	32.97
Unit Price (£)	3.2967	3 year*	17.10	16.28
Valuation (£)	270,933,120	*Annualised returns		

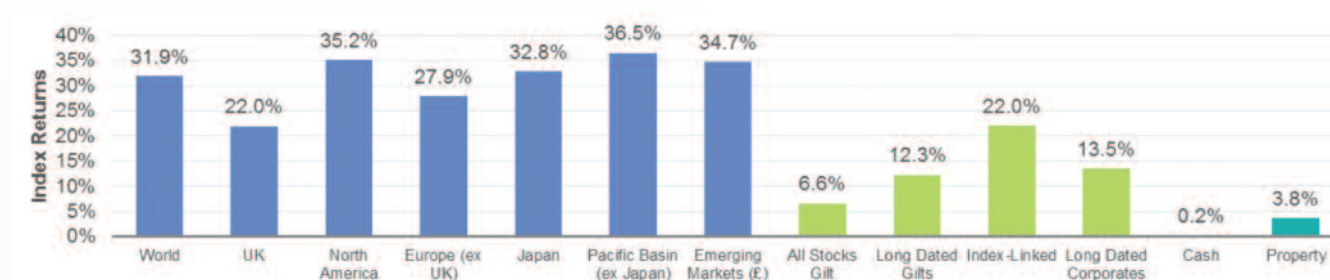
BLACKROCK

The period saw political events cause a spike in market volatility, but overall more positive macroeconomic drivers resulted in a benign environment for Equities and Fixed Income which experienced positive returns over the period.

Reflation and growth were the big themes coming through resulting in an inflection point in monetary policy amongst central banks.

- The UK's decision to leave the European Union dominated markets in June 2016. After initially selling off, Equities recovered over the period due to internationally-focused companies benefitting from the pound's depreciation.
- The other stand out event was the US presidential race, which saw Donald Trump elected. As this was not the expected result, markets were initially upset. However, equities in the US and other developed markets went on to rally strongly after the event. The strength of the dollar, and the US economy in general, led to the decision in December 2016 by the US Federal Reserve (the Fed) to raise the US base rate.

Figure 1: Market returns 1 April 2016 to 31 March 2017



Source: BlackRock. All returns in sterling

BlackRock Performance

Over the year Dyfed Pension Fund's Main Portfolio returned 25.17% for the period compared to a composite index return of 24.89%, thereby outperforming the index by 0.28%.¹

The passively managed funds tracked the indices they are managed against. For the active funds, Japanese Equities underperformed the benchmark by -0.25% and US Equities outperformed by 1.59%. Corporate Bonds were ahead of the benchmark by 0.54%.

Further detail on the market and economic background and the performance of BlackRock's active strategies follow.

¹ Performance figures are gross of fees.

Market & Economic background

April – June 2016

The UK's decision to leave the European Union shocked equity markets globally and bolstered demand for safe-haven assets. The FTSE All Share index in the UK fell over 7% on the 24th and 27th of June 2016 before staging a late rally over the final few trading days of the period. Elsewhere, most major markets around the world tumbled immediately after results were announced for the 23 June 2016 referendum. Meanwhile developed market government bonds and gold gained. The Japanese yen (considered a safe haven currency) also appreciated.

Risk sentiment had been quite different in the first part of the quarter through May 2016, when markets benefited from investors' hopes of stronger growth in the US and less focus on negative interest rates by the Bank of Japan (BOJ) and European Central Bank (ECB). In the UK, the Bank of England kept interest rates unchanged as the central bank cautioned over the UK's growth outlook ahead of the EU referendum. In emerging markets, however, equities fell, reflecting concerns of rising pressure in China's bond market and elevated political risks in Brazil.

Brexit dominated markets in the second part of the quarter, bruising developed market equities. However, emerging market equities actually increased, buoyed by hopes of continued accommodative global monetary policy. Regionally, equity losses were most pronounced in Europe and Japan, with the latter declining to a greater extent because of the strength in the Japanese yen. In the UK specifically, domestically-focused equities declined whereas internationally-focused equities increased, partly because of the benefit from repatriating overseas earnings due to the pound's depreciation. In fixed income, developed market government bond yields fell (prices rose) as investors looked to reduce risk. Despite a widening in corporate bond spreads placing pressure on prices, credit also delivered positive returns. As a result, expectations decreased for a second interest rate hike by the US Federal Reserve because of broad risk aversion as well as some recent weaker US labour market data.

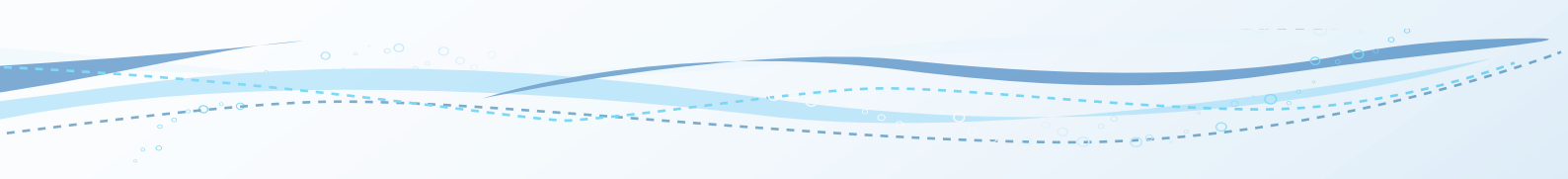
July – September 2016

Over the quarter, equities and fixed income securities broadly increased while commodity prices declined.

In equities, emerging markets outperformed developed markets. This reflected both rising commodity prices and reduced concerns around global liquidity resulting from the US Federal Reserve's cautious approach to monetary policy tightening. In developed markets, US equities rose, buoyed by strength in the labour market and robust consumer confidence. UK equities outperformed other major developed markets in response to Sterling weakness, stronger than anticipated economic data, the swift announcement of Theresa May as Prime Minister and easing by the Bank of England. Early in the quarter, European equities increased as growth concerns stemming from Brexit reduced. However, there were some concerns linked to European markets as fears around the European Banking sector re-emerged. Similarly, Japanese equities increased to the end of August 2016 as concerns around negative interest rate policy reduced. However, performance was partly offset in September 2016 as the Japanese Yen strengthened and the central bank indicated further negative interest rate cut were possible.

In fixed income, developed market government bonds yields diverged. In the US, government bond yields rose (prices fell) as expectations for an interest rate rise by year end increased. In the UK and peripheral Europe, government bond yields fell (prices rose) as the Bank of England loosened monetary policy and short-term growth concerns for both regions reduced. Meanwhile, in core Europe, government bond yields remained broadly unchanged. Corporate bonds delivered positive returns and higher yield credit outperformed.

In currencies, Sterling weakened against its major trading counterparts while both the Japanese Yen and the Euro strengthened against the US Dollar.



October – December 2016

The fourth quarter of 2016 was generally positive for the world's developed equity markets, but there were more mixed results for some of the Asian and emerging markets. The quarter's standout event was the US presidential election, which saw Donald Trump elected ahead of his Democratic rival, Hillary Clinton. As this was not the expected result, markets were initially upset. However, equities in the US and other developed markets went on to rally strongly after the event.

The strength of the dollar, and the US economy in general, led to the decision in December 2016 by the US Federal Reserve (the Fed) to raise the US base rate by 25 basis points. The Fed's policymakers said they expected to make three further rate rises in both 2017 and 2018 if US economic health continues to be robust. The anticipation of the rate rise – and its eventual materialisation – had a global impact. The US dollar strengthened as many other currencies weakened. US and global bond prices fell, and investors rotated out of riskier overseas equities and debt and back towards developed assets.

In fixed income the rise in government bond yields (prices fell) was more pronounced for longer-dated bonds which have greater sensitivity to changes in interest rate expectations, apart from Japan, where the central bank's yield targeting policy (supporting prices) helped keep moves more contained. Despite the tightening of credit spreads, investment-grade corporate bonds delivered negative returns. Emerging market debt also delivered negative returns.

Japan had a positive quarter as a weaker yen spelled improved export trade. For China, although the economic news was positive, equities were subdued amid concerns that a Trump presidency would not be a positive one for Chinese markets – Trump was a known protectionist of US jobs and industry. Latin American countries were also hit by the Trump election result, and currencies, equities and bond prices dropped. However, the rise in the oil price following the OPEC production cut was positive news for oil-producing nations.

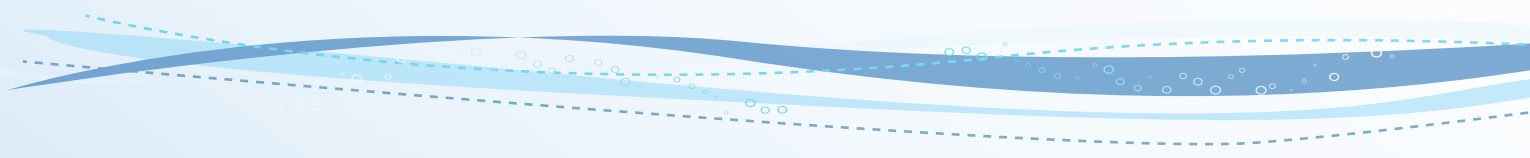
For the UK and Europe, this was a strong quarter. Positive employment and GDP news emerged across the region. The banking crises in both Italy and Greece appear to have abated and, for a nation on the brink of a painful divorce process, the UK's economy seemed to display signs of resilient health. Exporting, manufacturing and employment showed strong growth; however, the chancellor's autumn statement warned that 2017 growth would be lower with Brexit than it might otherwise have been.

January – March 2017

During the first quarter of 2017, growth improvements across developed and emerging markets, combined with the expectation for only gradual interest rate increases in the US helped most asset classes deliver positive returns. Policy, particularly in the US, continued to dominate the headlines although there was evidence that some of the 'Trump trades' began to decelerate towards the end of the period. Commodities markets (excluding precious metals) underperformed where concerns over increasing supply weighed on prices. Overall, the broadly positive tone led to the outperformance of equities versus bonds.

In equities, emerging markets outperformed developed markets. This was, in part, driven by the synchronised improvement in global growth, reduced fears of a protectionist Trump agenda, increasing evidence of near term stability in China and, a pick-up in the export cycle for Korea and Taiwan.

Within developed markets, European (ex UK) equities overlooked political risk (particularly in France) and outperformed US equities as investors identified parts of the market that are expected to benefit from the recent up-tick in global economic activity. Despite the Bank of Japan raising its domestic growth expectations, Japanese equity market performance lagged the broader market on the back of a strengthening yen versus key developed market currencies such as the US dollar.



US equities rose because of some healthy performance from the technology, healthcare and consumer discretionary sectors. Employment data continued to strengthen, and consumer confidence for March 2017 reached its highest level since 2000. The strong US growth trajectory meant the Federal Reserve raised rates at their March 2017 meeting. Meanwhile, into quarter end, the failure of the US healthcare bill brought into question President Trump's policy making ability. This was observed across equity markets, where some 'Trump trades' such as US financial stocks have underperformed the S&P 500 Index over the three months to 31 March 2017.

In the UK, the robust growth backdrop and weakness in Sterling helped equities rise over the quarter. At the end of March, Prime Minister May triggered Article 50 and, largely as expected, the Bank of England kept interest rates unchanged. UK stocks rose in value, partly supported by the continued weakness in sterling.

In fixed income, markets continue to expect fewer rate hikes than the Federal Reserve which led to positive performance from most segments of the market. Meanwhile, in continental Europe, ten-year government bond yields rose (prices fell), despite ongoing asset purchases from the European Central Bank, because of improvements in growth and rising political risks in the European periphery. Improvements in risk appetite helped corporate bond and emerging market debt spreads narrow (supporting prices) versus government bonds.

In commodities, the price of precious metals rose as geopolitical risks in North Korea and the European periphery increased. Meanwhile, the price of oil dropped as US production increased and uncertainty rose around whether OPEC will extend their production cut.

Contact over the year

Over the review period, BlackRock reported formally to the Pension Panel, attended the annual ACM meeting, provided training to the Pension Board, and hosted a CIPFA conference in Cardiff.

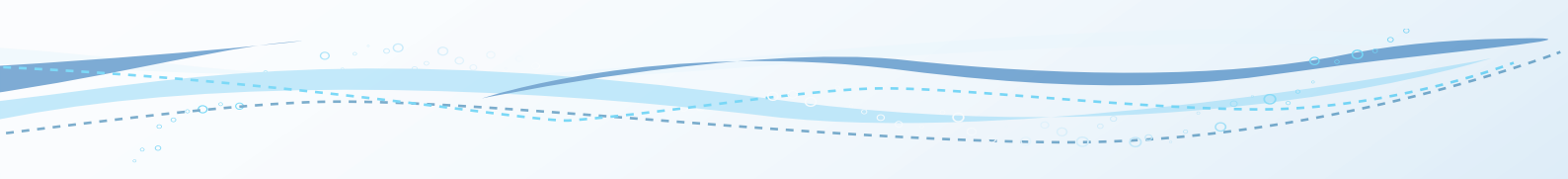
The Dyfed Pension Fund Relationship team:



Christopher Head
Managing Director



Tamryn Reynolds
Vice President





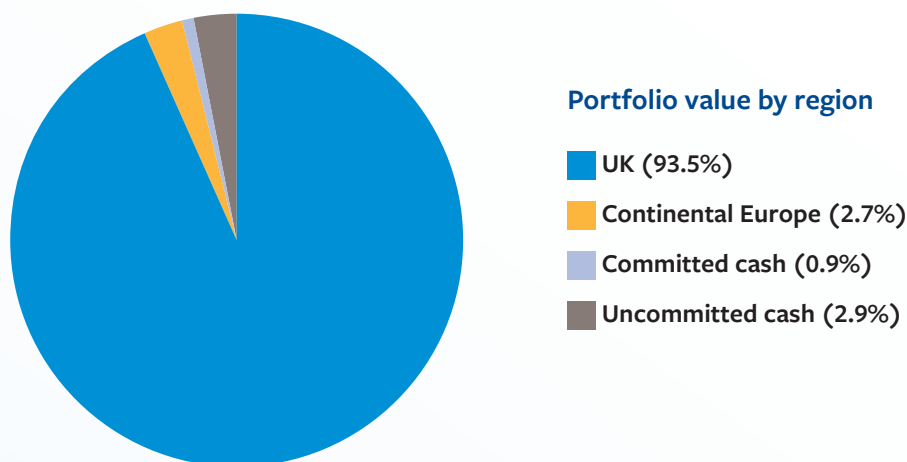
Schroders

Background

Schroders was appointed to manage a pan-European portfolio of indirect investments in March 2010. An initial allocation of £88m was committed at inception, with a further £32 million committed in July 2013.

Progress

As at 31 March 2017 the value of the property portfolio stood at circa £189m, approximately £69m above the amount committed, with 93.5% by value invested in the UK, 2.7% invested in continental Europe and 3.8% held in cash. There is a circa £1.7m undrawn commitment to Regional Office Property Unit Trust. Reflecting commitments and trades agreed post quarter end, there is currently circa £5.2m of cash available on account, representing 2.7% of portfolio value.

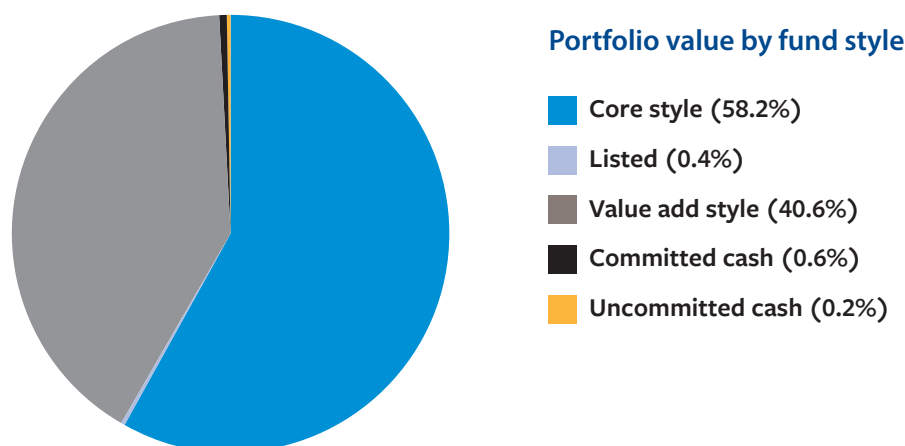


When fully drawn we expect the UK element of the portfolio to comprise 95% of portfolio value.

Exposure to continental Europe has reduced to 2.7% of portfolio value as at 31 March 2017. This is due in part to capital distributions received from the European holdings, but also due to the relatively strong performance of the UK assets.

The lookthrough sector structure of the UK portfolio broadly follows our preferred weightings, i.e. underweight to retail and central London offices compared to the benchmark and overweight to industrials and non-mainstream sectors. The most significant divergence from House View is in regional offices where we are seeking to increase the portfolio weighting. The major changes in the House View over the last twelve months have been further reducing exposure to central London offices and increasing our target overweights to the industrial and non-mainstream sectors.

By fund style, approximately 57.9% of the portfolio by value is invested in UK core style strategies. Core funds are typically lowly geared and open-ended in structure. 37.9% by portfolio value is invested in value add funds, these are typically sector focussed funds, may have a moderate exposure to leverage and are generally closed-ended. 0.4% by value of the portfolio is invested in the listed sector.



The continental European portfolio (2.7% of portfolio value) provides access to five individual investments (including the listed investment), 13 underlying countries and a variety of property sectors. Within continental Europe the underlying property exposure is generally skewed towards northern and western countries, with 27.0% in Denmark being the largest single country exposure. By value 51.3% of the portfolio is invested in the retail sector with the remainder mainly invested in the industrial (26.0%) and office (20.7%) sectors.

Performance

Performance was above benchmark over the three months to end March 2017 (+0.3%), but portfolio returns were below the benchmark (-0.6%) over a twelve month period, with the disappointing return over one year in the main due to the negative impact of transaction costs and cash drag. Over the longer term, performance also narrowly fails to meet the benchmark over three years (-0.3% per annum) but returns are on a par with the benchmark over five years. Holdings in continental Europe have been the main detractors of performance over the longer term. The UK has outperformed the benchmark over all time periods.

UK property outlook

The vote to leave the EU has generated different responses from UK business and consumers. Despite the Bank of England's cut in interest rates and other measures implemented, business investment fell in 2016 and companies have become more cautious about recruitment. Conversely, the immediate reaction of consumers has been to borrow and spend more, and this helped the economy to maintain momentum through the second half of 2016. The sharp upturn in inflation caused by sterling's depreciation will curb real incomes and consumer spending in 2017 and is unlikely to be fully offset by an improvement in exports. Schroders expects quarterly GDP growth to slow from 0.7% in the final quarter of 2016 before seeing a modest pick-up next year, assuming that sterling stabilises and inflation then decelerates.

Historically, strong consumer spending would boost retailers' profits, which in turn would feed through to retail rents. However, online sales have put retailers' profits under serious pressure, despite the growth in volumes. Retailers' profit margins are being squeezed by a number of factors including investment in websites, online delivery, the increase in the national living wage and the ending of foreign exchange hedges, which initially protected them from the jump in the sterling price of imports. The increase in business rates will also hit stores in London and the South East, although the impact on national retailers is likely to be broadly neutral, as rates decline in other regions. Our retail strategy is to focus on convenience retail and out-of-town retail, where rents are relatively affordable. We also favour schemes that can be converted to accommodate hotels, restaurants and other leisure operators.

The greater caution of corporates is most visible in the central London office market. Gross take-up fell by 20% last year and indications for the first quarter of 2017 suggest that demand has remained relatively weak. Given the uncertainty over passporting rights for financial services, the recognition of professional qualifications and the free movement of labour, we assume that employment in central London will fall over the next couple of years leading to declining office rents. We think that the City office market is most vulnerable, given its high exposure to financial services and the volume of new space under construction.

Outside of London, we expect that office rents will be stable through 2017-2018. Occupiers are generally less reliant on international business while the government's plan to consolidate the civil service outside London into 13 hubs will provide further support to office markets in cities such as Birmingham, Bristol, Leeds and Manchester. Furthermore, new building has remained muted and the introduction of permitted development rights legislation in 2013 has meant that a lot of obsolete offices have been converted into apartments, especially in southern England. We also continue to see good demand for distribution warehouse space, reflecting the growth in online retail and expansion by discount retailers.

The CBRE all property initial yield has held steady at 5.1% since last July. Looking forward, with 10-year gilt yields at around 1.25%, the current yield gap is so large that we doubt whether an increase in long-dated gilt yields even to 2.0% would have an impact on real estate yields. However, investors will also be influenced by the Brexit negotiations and there is an obvious risk that sentiment could weaken, and yields rise, if the talks between London and Brussels get off to a difficult start. If this were the case, secondary assets would be more likely to be adversely affected.

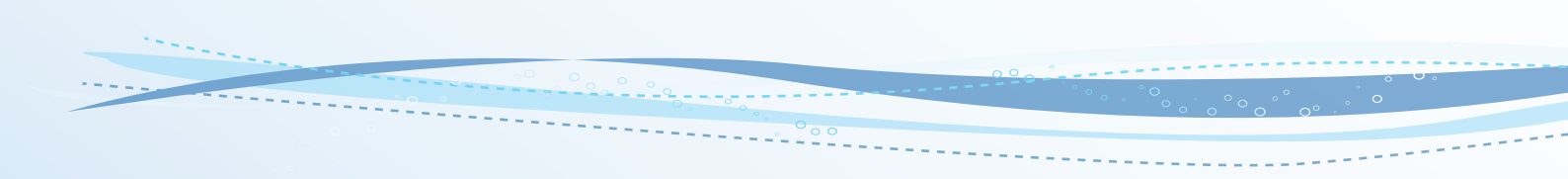
Continental European property outlook

The eurozone economy is currently ticking all the right boxes. GDP is growing slightly above trend, business confidence is strong, unemployment fell to 9.6% in January 2017 and core inflation, excluding energy, is steady at 1%. As a result, the European Central Bank (ECB) is becoming less concerned about deflation and has trimmed its programme of quantitative easing, marking the first step towards an eventual increase in interest rates, probably in 2019. Schroders expects the eurozone economy to grow by 1.5%-1.8% p.a. through 2017-2018. While higher energy prices will curb consumer spending a little, the improvement in the world economy and last year's depreciation of the euro against the dollar should help exports. This in turn should support an increase in business investment. Germany, the Nordics and Spain are likely to lead, while France and Italy will probably lag behind.

Most European cities saw a fall in office vacancy and a rise in prime rents last year. The key driver has been the sustained growth in the eurozone economy over the last 3-4 years, so that a lot of the office space which was vacant in 2013 has now been re-occupied. Office markets have got back to equilibrium. The other supporting factor has been low interest rates and high residential prices. This encouraged developers to convert obsolete office space into apartments, particularly in Amsterdam and Frankfurt, and discouraged them from building new offices. It is no coincidence that, so far, the increase in office development has been strongest in cities like Barcelona, Dublin and Madrid where house prices are still well below their pre-Lehman peak. By contrast, in most German cities, where house prices have risen by 30-40% since 2008, office development is still fairly muted.

While almost every European city saw a fall in office vacancy in 2016, the picture in retail is more mixed. In Italy and Spain, the recovery in consumption has encouraged retailers to expand and shopping centre vacancy has fallen since 2014, albeit from high levels. By contrast, in France and Germany, which historically have had tight retail planning controls and little empty space, vacancy rates have risen over the last couple of years. This difference is largely due to online retail, which now accounts for 9-13% of total sales in northern Europe, but only 3-4% in southern Europe (source: Centre for Retail Research), reflecting the greater reluctance of consumers there to use credit cards and online payments. However, although online diversion is less of a threat in Italy and Spain, the direction of travel is clear. Our strategy across Europe is to focus on mid-sized supermarkets, convenience stores and retail warehouses selling goods that are relatively internet-immune.

The rapid growth of online retailers such as Amazon and Zalando, coupled with good demand from manufacturers, third party logistics firms (3PLs) and conventional retailers has pushed warehouse demand in continental Europe to record levels. However, rental growth has remained fairly modest, partly because many occupiers work on very thin margins and partly because of a big increase in new building. We therefore prefer smaller industrial estates that are benefiting from the growth in "last mile" deliveries and returned items, but which are in built-up areas where new supply is constrained.



Turning to the investment market, last year saw a further significant fall in yields across continental Europe, reflecting strong competition between domestic and foreign investors. As a result, prime office yields in many major cities now stand at 3.0-3.5%, half a percent lower than in mid-2007. While that might suggest that European real estate is now expensive, the investment market is different from 2007-2008 in several key respects. First, prime yields are currently 2-3% above 10-year government bond yields, whereas in 2007 they were 0-1% below. Second, investors have not bought indiscriminately and whereas the gap between prime and secondary office yields narrowed to 0.3% in 2007-2008, it is currently around 1.25% (source: CBRE). These differences can in turn largely be explained by the fact that gearing is generally a lot lower now than in 2007-2008, when banks could syndicate loans on the commercial mortgage-backed securities market and loan-to-value ratios of 75% were commonplace.

We forecast total returns of 5-7% p.a. on average investment-grade European real estate between end-2016 and end-2020, assuming the eurozone economy continues to grow. The mainstay will be an income return of 4.5%, while capital values will be driven primarily by a steady increase in rents. We think that the era of yield compression is now over. Our strategy is to focus on certain winning cities that are benefiting from urbanisation, have diverse economies, a large pool of skilled labour, good infrastructure and are attractive places to live. Examples include Amsterdam, Berlin, Hamburg, Madrid, Munich, Paris, Stockholm and Stuttgart. We also like certain smaller university cities which share many of the same characteristics. While there is a growing degree of political uncertainty in the EU, we think that real estate in growth cities should be relatively resilient.

Strategy

As confidence has returned to the real estate market, the previous overweight position in cash relative to benchmark has been reduced to neutral and a higher target allocation has been made to industrial and alternative sectors – the portfolio is overweight relative to benchmark to both these markets.

Medium term performance has been negatively impacted by the decision to reduce exposure to central London offices after several years of very strong performance. The portfolio is underweight to central London offices and we expect the final redemption holdings from the West End of London Property Unit Trust to be received by the end of Q2 2017.

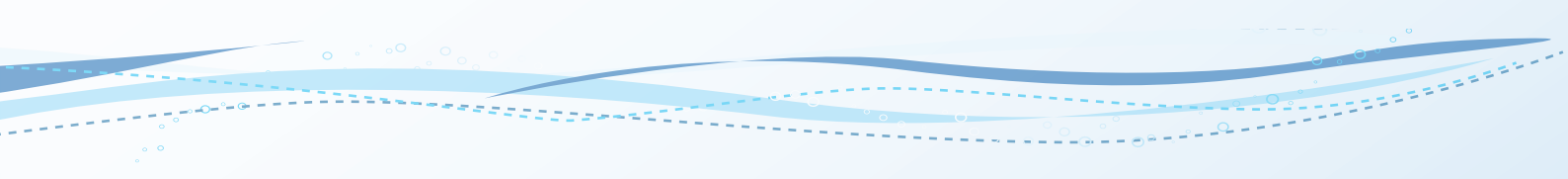
We still have a strong requirement for regional offices. There is a circa £1.7m undrawn commitment to Regional Office Property Unit Trust to partially address the current underweight position. Reflecting commitments and trades agreed post quarter end, there is currently circa £2.8m of cash available on account, representing 1.5% of portfolio value.

We are considering a number of new investment opportunities, with real estate debt being the most advanced of these.

‘Flow of capital’

Despite the more uncertain outlook for the economy, the flow of capital into UK commercial real estate is supporting values and in some markets, such as industrials, values are still rising. While domestic and foreign institutions have been relatively quiet since the EU referendum, the sharp fall in sterling has encouraged private buyers from Asia and the Middle East back into the market. Chinese investors have also been concerned that the authorities there will tighten capital controls. The other active buyers have been UK local authority treasury departments, who have become particularly competitive given their very low cost of borrowing, and have been acquiring income-producing assets outside London which will help to fund local services. As a result, liquidity has been surprisingly strong, particularly at the prime end of the market, and investment volumes appear to have stabilised.

We believe that this flow of capital from outside of the UK, combined with constrained levels of supply in most markets, will continue to support real estate capital values in the short-term.



Summary

Over the long term, performance is comparable with the benchmark, but returns are marginally below benchmark over one and three years as a consequence of weak contributions from continental European holdings, cash dilution and transaction costs. UK holdings have outperformed over all time periods.

Returns are expected to moderate over the next few years as performance becomes more dependent on income and rental value growth and less upon inwards yield movement.

We have incurred significant transaction costs repositioning the portfolio in 2016, reducing exposure to central London offices and re-investing into favoured sectors such as regional offices, industrials and non-mainstream sectors. Whilst this activity has impaired short-term performance, we are confident that the portfolio is now well positioned to deliver above benchmark returns in the years ahead.



Graeme Rutter

Head of Schroder Real Estate Capital Partners,
and Fund Manager of the Dyfed Pension Fund property portfolio



River Aeron, Aberaeron



Partners Group

Passion for Private Markets

Background

Partners Group was appointed to make real estate investments in Europe. The investment objective is to achieve long-term capital growth by executing a wide range of real estate investments such as direct equity and debt investments, and secondary as well as primary investments. Partners Group seeks to capitalize on the dynamic nature of the real estate market through ongoing relative value analysis and rigorous investment selection. Based on its top-down analysis, cross-segment comparisons and thorough due diligence, Partners Group steers the flow of the investments toward geographic regions within Europe, value creation strategies (value-added and opportunistic real estate) and other market segments that it believes offer superior value at a given point in time.

Current focus: transformative trends

As core properties in prime locations maintain high valuations despite weakening investor appetite for the asset class, we focus on properties and locations that stand to benefit from the key transformative trends that are reshaping real estate markets.

Market overview

While investor appetite for real estate remains strong, an uncertain political environment, modest growth, modest economic recovery, as well as the risk of rising interest rates have begun to suppress investors' seemingly unending appetite for the asset class. The current 'risk-off' sentiment has driven a narrower focus on prime properties and greater scrutiny of quality of income.

Core properties maintain high valuations and investors are still highly attracted to quality cash flows from prime properties in excellent locations. However, events such as the UK's Brexit referendum and the subsequent repricing of London's real estate market highlight the susceptibility prime real estate has to geopolitical and macro-economic events. To mitigate the impact of some of these risks, we strategically focus on properties and locations that stand to benefit from key transformative trends that are redefining real estate markets globally: new urbanization influencing property design that caters to 'live-work-play' lifestyles; demographic shifts influencing residential and office occupier requirements; and the rise of the global consumer and growth in e-commerce impacting changing retail and logistics demand.

From social and demographic change to technology, the forces reshaping real estate continue to grow and are becoming more interconnected. Successful real estate investments now more than ever before are dependent on cities, districts and buildings which embody the 'sharing economy,' allowing people to collaborate effectively and share resources – from infrastructure and technology to ideas.

From a relative value perspective, we believe the current environment offers a wide variety of investment opportunities, particularly in properties that are located within 'up-and-coming' secondary cities that are on the verge of becoming major metros – areas where walkability is often a priority over drivability, where in-fill developments are regularly occurring with not one, but multiple tenant uses in mind. Areas once not considered prime CBD locations are being transformed by infrastructure into key transit-oriented locations and formerly blighted urban pockets are offering opportunity for new development.

In Europe, we have focused less on expectations of growth and have instead targeted markets which offer unique structural imbalances, high degrees of liquidity or potential opportunities to exploit unique seller situations that are a benefit to buyers of quality properties.

Opportunities in the current market: in an uncertain environment, we look for defensive property types

While investors' appetite for yield in European property markets is as strong as ever, uncertainty clouds the outlook for Europe in 2017 and beyond. Global real estate investors are largely 'playing it safe' by focusing on key gateway cities and ratcheting down return expectations. Europe's macro-economic and political developments generally make it difficult to underwrite growth, but this is not to say that a region, country or metro that is forecast to have a shrinking population does not possess cities or specific locations that are experiencing positive demand trends and thriving real estate opportunities.

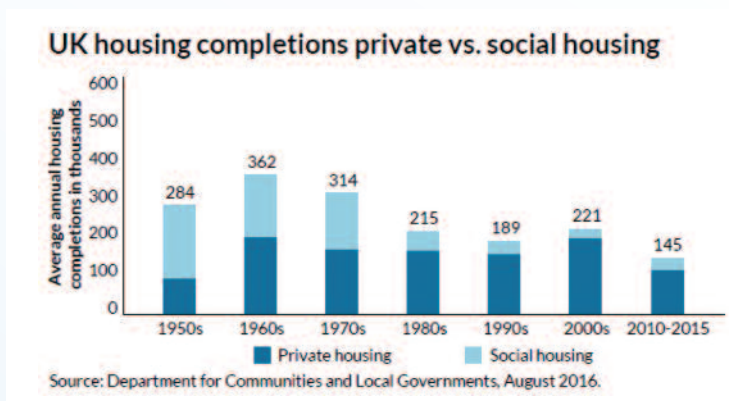
More broadly, our relative value assessment has compelled us to move down the capital structure toward more conservative investments within defensive property types. In addition, residential and logistics properties in particular will be an overweight strategic focus due to the defensive characteristics of these property types.

From a regional perspective, we currently overweight the real estate markets of Germany, the Nordics and select locations in Southern Europe, where we believe we can still achieve attractive returns on a risk-adjusted basis. An example of an investment made in one of these markets in 2016 includes our secondary purchase of a portfolio of 97 retail, office and hotel properties located across Sweden and Finland. We believe Nordic markets are well-positioned to perform strongly and also see potential for further value creation in the assets in the portfolio.

UK real estate post-Brexit vote

If we focus on the residential segment, the events clouding Europe's future have not dislodged the major undersupply of residential accommodation blighting the region's major cities. London is no exception, with government figures indicating that there will be an annual shortfall of 20,000 to 25,000 housing units each year for the next four years. UK housing delivery has struggled to keep pace with the growth in the number of households and this trend has been exacerbated by the economic downturn.

While London has recently experienced the greatest surge in residential development since the end of the First World War, this has been mainly concentrated at the higher end of the market and, more importantly, new supply still falls short of the 42,000 new homes required to balance the market. The combination of stretched affordability of first-time buyers and constrained supply is leading to structural changes in the housing market. The most significant of these patterns will be the continued rise of the private rental sector. We focus on investment opportunities that couple London's undersupply of residential property with our interest in taking more defensive positions in the market, for example through mezzanine financings.



Furthermore, while generally the environment following the Brexit referendum has prompted us to take a more measured investment approach in the UK, it has also compelled us to take a harder look at investments being offered by asset owners in the UK eager to dispose of properties subsequent to the Brexit vote. In this market, downside protection remains key for us.

One such recent example, includes our junior debt financing of a mixed use site adjacent to a major tube station in the City of London. The buildings comprising the site have a net lettable area of over 645,000 square feet and are currently 73% occupied. The business plan consists of complete rent reviews and lease renewals for a portion of the buildings, and a £47m capex refurbishment of several vacant buildings to Class A standard. This junior debt opportunity arose as a direct consequence of the Brexit announcement. A decrease in senior lender appetite for central London office property forced the refinancing of this property. A new junior debt piece was incorporated in the capital stack to keep the senior tranche below a 55% LTV. It is anticipated that upon exit the property will offer a cost-competitive location to a broad tenant base, flexible leasing on various sized floorplates and the potential to be exited on a single asset or portfolio sale basis.

Our key investment strategies

Buy below replacement cost

We target assets with low valuations located in rebounding markets that can be repositioned and then leased-up by under-cutting market rents. These opportunities typically arise as a result of ineffective management, inadequate leasing or physical deficiencies – often these issues can be addressed in our value creation approach.

Buy, fix, and sell

This approach typically targets older buildings in great locations that are in need of owner-oriented asset management initiatives including capital expenditure, repositioning, lease-up and the implementation of building efficiencies to capture rental and pricing differentials.

Develop core

In markets with strong long-term fundamentals and trends that support additional absorption, we will selectively develop properties through ground-up construction. We focus on developments that will meet end-user demand and appeal to core investors.

Relative value analysis

Among property types, office is a relative overweight due to historically low vacancy rates, below average new completions and strong job-creation levels. Retail properties are generally underweight across regions, due to increasing threats from e-commerce, whereas logistics and industrial properties are a significant overweight due to accelerating demand for large modern warehouses in distribution hubs, as well as small well-located facilities close to urban populations. Apartments are a neutral weighting due to lower income-generated returns, but still remain a property type that is in healthy demand with solid fundamentals across regions.

From a secondary perspective, deal flow continues to grow as the private real estate secondary market evolves. However, we believe the pool of 'traditional' secondary opportunities originating from sellers like public pension plans, banks and insurance companies could reduce in 2017, as pricing expectations remain high and regulatory pressure eases. In our view, the biggest opportunity for buyers lies off the beaten track in 'non-traditional' secondaries, for example, in secondary transactions originated by GPs. Many pre-global financial crisis programs are still full of under-capitalized assets that would benefit from more time and capital. From a relative value perspective, we have a strategic overweight to these mature programs, where we can structure tail end liquidity solutions or provide liquidity to fatigued investors.



James Larner
Vice President



Background

Global equity markets have performed strongly over the 12 months, despite much political upheaval. In June 2016, the UK referendum on European Union membership proved unsettling. The result, a vote to leave the single market, caused sharp movements in markets around the world for a brief period before recovering. Whilst share prices recovered quickly, Sterling remained weak throughout. This has been a significant contributor to the high absolute returns for the Global Alpha portfolio, a vast majority of which is domiciled overseas. The other big political news story of the year – Donald Trump’s surprise victory in the US presidential election – had an unexpectedly positive effect on markets. While commentators anticipated lots of uncertainty and a slump in share prices, markets responded by going up.

Portfolio

Over the period, we have invested in a range of businesses across different sectors and geographies.

One company we have added to the portfolio is Ctrip, China’s largest online travel agency. The structural growth of tourism in China should support the long-term growth of this business, which we believe has a bright future. Other online businesses that have been added to the portfolio include two trading platforms: Interactive Brokers which is used by small institutions and semi-professional traders; and MarketAxess which dominates the US electronic corporate bond trading market. We also took a holding in Japanese social media platform, Line Corporation, which has exciting exposure to a range of high growth emerging markets.

Furthermore, there have been a number of other names added to the portfolio. ResMed is a US business which manufactures devices that promote oxygen flow during sleep for those suffering from sleep apnoea or breathing complications. Verisk is a US data analytics company which provides data and analysis services to customers in the insurance and financial services. We have also added to our holdings in Europe with the purchase of Infineon, the German semiconductor manufacturer. Infineon specialises in power semiconductors, which are becoming increasingly important in automated and electric vehicles.

Selling activity included the decision to exit the positions in Aggreko (temporary power supply) and American Express (credit card provider). Continued weakness in key emerging markets and a lack of strategy regarding alternative energies of the future were the main drivers of our decision to sell Aggreko. Concerns surrounding the ongoing pricing power of American Express prompted questions on our part as to the sustainability of its business model. Volvo (trucks) has not demonstrated the revenue and margin progression we had expected. This, allied with further management change, led us to sell. Finally, from here, we do not expect Wolseley’s (plumbing supplies) future growth will be sufficient to deliver an attractive return and, on the back of a strong recovery post the global financial crisis, we decided to sell this holding.

Our annual Research Agenda for 2017 was published in early February 2017. As a reminder this is a forward-looking research piece which outlines some of the bigger topical questions that we are considering for the year ahead. There are four areas highlighted in the agenda: Economic Normalisation in the US; Re-Emerging Markets; Technology Platforms; Demands on Healthcare. These topics are neither exclusive nor binding, but they are a helpful tool in shaping the focus of research, investment trips and discussions. We look forward to making progress on a number of these fronts and remain confident our approach will deliver attractive returns over the long term.

Performance

The objective of the strategy is to outperform the MSCI All Country World Index by 2-3% per annum, before fees, over rolling five year periods. Our long-term approach means that performance can be volatile, both in absolute and relative terms, over the shorter term. Over the year ending March 2017, the fund returned 35.5%, before fees, compared to the benchmark's 33.0% return. Since we were appointed in April 2014, the fund has returned 17.1% p.a., before fees, while the benchmark returned 16.0%.

The list of positive contributors to the portfolio over the past 12 months includes examples of three broad areas of exposure currently in the portfolio: technology and innovation; US economic growth; and Asian consumption.

Amazon and NVIDIA are both good examples of the attractive growth rates that innovative companies can deliver. Amazon is one of the largest holdings in the portfolio and has delivered excellent operating results. Counterintuitively for a large company, its growth is accelerating, and the Amazon Web Services arm of the business in particular is becoming ever more profitable. NVIDIA, purchased in 2016, has also demonstrated rapid growth. The company designs high powered graphic processing chips. Its core business is supplying chips for high end gaming PCs where revenue growth remains robust. We are also excited about the broader application of their technology within datacentres, artificial intelligence, autonomous vehicles, and virtual reality.

It is perhaps not surprising to see that a number of the top contributors to performance are US listed, and this has been, in part, driven by sentiment following President Trump's election victory. First Republic Bank's share price has been strong as investors anticipate interest rate rises and decreased regulation. Martin Marietta Materials (construction aggregates) and Lincoln Electric (welding equipment) have benefitted from the expectation of increased infrastructure spending.

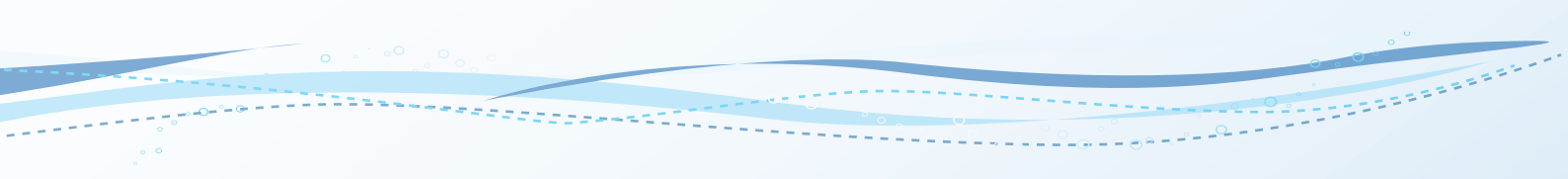
Finally, Alibaba's appearance as a top contributor serves as a reminder that, as global investors, we should not be blinkered by recent events in the West. We think Asia's vast and growing middle class will be a force to be reckoned with for decades, and that it offers an attractive backdrop for a range of growth companies. Alibaba's ecommerce revenue growth has been in the region of 30 - 40% and, like Amazon, it is also building out a cloud computing business.

The list of detractors includes healthcare-related names Myriad Genetics (genetic testing), Novo Nordisk (insulin producer) and Stericycle (waste management). All three companies have disappointed operationally over the past few months and we are assessing each in turn. For now, we retain these holdings as much bad news is already priced in and we still think good management could deliver growth. We will continue to monitor them closely.

Governance

Stewardship and responsible share ownership on behalf of our clients are of significant importance to long-term value creation. By regularly engaging with companies over many years, we endeavour to develop deeper understanding of their corporate culture, strategy, values, and motivations. Certain company engagements, proxy voting, and reporting on our stewardship activities are the responsibilities of our dedicated Corporate Governance team, and all are undertaken with a focus on the long term and are integrated into our investment process.

We also regularly contribute to the debate at a wider policy setting level. One example in 2016 was the UK Government Business, Innovation, and Skills Committee Corporate Governance Inquiry, which is focused on three key governance areas: executive pay; directors' duties; and composition of boards. We stressed that more regulation or strict quotas are not necessarily the best solutions. More important is that boards understand their responsibilities to all stakeholders, ensure pay is aligned with corporate performance over the long term, and have appropriate challenge at all levels of the organisation. Although this inquiry is UK specific, the three areas that it focuses on are also three of the main governance areas that we engage with companies on across all geographies.



Management's approach to sustainability is another area where we engage with companies. With our long-term approach, we would far rather management focused on producing sustainable growth rather than trying to boost short-term returns that cannot be maintained. An example of this is the aforementioned sale of Aggreko where one of our concerns was the company's lack of strategy for alternative energies of the future.

We strongly believe that corporate responsibility and transparency are important drivers of sustainable value generation for companies. As long-term shareholders, our stewardship responsibilities are of significant importance in helping companies understand this. This is not a box ticking exercise for us, but through repeated, thoughtful engagement we look to build relationships with companies. For example, we have been engaging with Amazon on corporate governance matters for more than seven years. At our most recent meeting, we discussed corporate culture, data privacy, tax and working conditions in distribution centres. These challenges are also high on the company's agenda.

Outlook

Our Research Agenda reminds us that, despite no shortage of alarming headlines and continued speculation over the direction of Western politics, there is much in the world about which to remain optimistic. While others may remain glued to President Trump's Twitter account, as long-term investors, we remain focused on company meetings and fundamental analysis. Government policies or new trade agreements may have some impact on a company's profitability, but we believe progress in renewable energy, artificial intelligence, and genomics, or the huge growth in Asian consumers will be more meaningful for investment returns over decades to come. We are confident in both the positioning of the portfolio and the ongoing operational progress of the businesses that we invest in on your behalf.



Tom Wright
Director

A wide-angle landscape photograph of the River Teifi in Cenarth. The river flows through a lush green valley, with a stone bridge visible in the background. The foreground shows rocky banks and dense vegetation. The sky is blue with scattered white clouds.

River Teifi, Cenarth



Market background

Global markets made solid gains during the year. Despite volatility prompted by concerns over China's economy and the UK's Brexit vote, global equities gained on the back of recovering oil prices and ongoing monetary stimulus. The election of Donald Trump in November 2016 sparked a late-year rally, amid expectations of lower taxes, laxer regulation and increased spending. But in March 2017, his failure to repeal Obamacare led global investors to question whether his growth-friendly policies would materialise.

In the US, robust employment data in the third and fourth quarters of 2016 heightened expectations for a rate hike. The Federal Reserve (Fed) delivered two 25 basis-point rate hikes over the period – one in December 2016 and one in March 2017. Key US equity indices consistently hit record highs in early 2017 amid expectations that the new president would implement policies to spur growth but receding “Trumponomics” hopes in March 2017 weighed on equities.

Unlike the Fed, the European Central Bank eased policy over the review period. In December 2016, the bank extended its bond-buying scheme until at least December 2017, albeit at a reduced monthly rate from April 2017. As the new year progressed, economic markers were increasingly encouraging but investors worried about the impact of possible populist victories in elections across the continent. These fears were somewhat eased by the defeat of eurosceptic Geert Wilders' party in the Dutch elections in March 2017.

In the UK, market sentiment initially shifted in line with forecasts for the Brexit vote. Although the result initially prompted a large-scale sell-off, markets quickly bounced back as the sterling depreciated, fears about the global impact of Brexit eased and the Bank of England announced rate cuts, a cheaper bank funding scheme and more quantitative easing. UK equities were largely sanguine about the triggering of Article 50 in March 2017 and finished the year higher.

In Japan, the central bank battled to boost inflation and weaken the yen throughout the year, with mixed results. Nevertheless, the Topix finished the year with a positive return, in local currency terms.

Emerging markets made strong gains over the year, despite the prospect, then reality, of rising interest rates in the US. Trump's rhetoric on trade prompted concern among some key US trading partners, notably Mexico and China.

Strategy

- We believe dividends are an underappreciated signal of investment quality.
- Our focus is companies with a high dividend yield, growth, and a robust balance sheet.
- When investing for dividend income, a balanced and diversified portfolio is important to control risk.

Performance

- Gross of fees, the Global Equity Income Fund returned 28.07% in the year to 31 March 2017, while its benchmark returned 32.97%.
- Stock selection led to the fund beating its benchmark in the second quarter of 2016 but these relative gains were insufficient to offset underperformance over the rest of the year. From a regional perspective, our picks in North America were strongest, while selections in financials and healthcare were most beneficial at a sector level.

- In the six months that followed, returns by region fluctuated amid changes in global sentiment. Strong Q3 2016 contributions from regions such as Far East ex Japan were reversed in the fourth quarter, while our US stock selection turned positive as Trump's election altered outlooks on policies and trade relations. An appetite for value, at the expense of quality and growth, proved detrimental throughout this period, as stock selection detracted – particularly within technology.
- In the first quarter of 2017, sector positioning dragged, driven by the underweight in technology – the best-performing sector over the quarter – and the overweight in energy, which suffered as oil prices dipped following reports of high inventory levels in the US. However, stock selection effects were beneficial, as we experienced a rotation back into growth and quality stocks, and away from the appetite for value, which had hindered our performance in 2016. Consumer staples and energy proved particularly strong areas. Regional allocation was effectively neutral but selection detracted.
- We made several new additions to the portfolio over the review period, including Deutsche Telekom, British American Tobacco and Bridgestone. Deutsche Telekom looks set to benefit from continued market share gains in the US and stabilisation in its German fixed-line business, while British American Tobacco is one of the most globally diversified tobacco businesses, with good growth potential. Bridgestone offers an attractive yield – the company has the biggest market share in the tyre market and is likely to benefit from a weaker yen as around half of its earnings come from the US. At the same time, the threat from border tax implications should be limited due to the company's significant US production. Notable sales over the review period included JPMorgan, Coca-Cola and UPS, all of which passed through our yield hurdle following periods of strong performance. We also exited National Bank of Canada and used the proceeds to open a position in US lender Wells Fargo; its sensitivity to rising US interest rates should be a positive catalyst.

Philosophy & Process

As a long-term active investment manager, we fundamentally believe that markets are inefficient, and that an active approach can benefit investors both in terms of risk and return. Our investment philosophy and process are built around the flow of information and collaboration across teams and sectors. We place great emphasis on teamwork and integrated research to ensure that our process is robust. We believe that we can deliver superior returns for our clients through:

- An active approach that takes advantage of market inefficiencies
- Our perspective advantage – the interconnectivity of macro and micro insights
- The appropriate allocation of risk

Each year, across our equity teams, we coordinate approximately 1,200 company meetings (both on- and off-site). With a common meeting diary, global team members are able to join our regional colleagues in meetings they have scheduled, as well as scheduling our own. Discussions with management can prompt further research on the company represented, or a competitor, supplier or customer.

Portfolio construction is judgement based, with the aim of investing in the most attractive bottom-up ideas globally, while maintaining a balanced and diversified portfolio. Portfolio construction and investment decisions are made by both the lead manager and the deputy manager with the lead manager having the final say. Steve Thornber was the lead manager until December 2016, when he sadly passed away. Deputy manager Jonathan Crown subsequently took over the role of lead manager, supported by William Davies, head of the global equity team. In April 2017, Georgina Hellyer joined from our emerging market equity team and became the new deputy, bringing the global equity income team back up to full strength following Steve's loss.



Moira Gorman
Client Director

PERFORMANCE AND RISK

Local Authority Funds

Over the last twelve months the average Local Authority pension fund has returned 21.4%. This return is well ahead of the 30 year average of 8.7% p.a. and well ahead of actuarial assumptions which are currently estimating around 5% p.a. With the full LGPS currently valued at around £200bn this year's return represents a net gain of some £40bn for the public sector schemes. Funds also had an unusually strong year compared to their own benchmarks – with more than three quarters outperforming. This is in contrast to the ten year results where the majority of funds underperformed their benchmarks after fees.

Local authority funds have retained a high commitment to equities which, this year, has been extremely favourable. The strong overall returns have been driven by the excellent performance from equity markets in the last twelve months.

UK equities performed well despite the large fall in the value of Sterling and the UK returned 21.4% for the year with large companies outperforming their smaller peers for the first time in eight years. Overseas returns were better still and Local authority funds saw returns of around 35% across their US, Japanese and Pacific Rim investments with a marginally lower 33% from Emerging Markets and 27% from Europe.

Despite the increased political instability and resulting volatility, bond markets produced positive results. Funds achieved an average return from UK government bonds of 10.1% with corporate rather better at 11.7%. Index Linked gilts returned 18.2%.

Alternative Investments as usual had a mixed time and there was a very wide dispersion of returns across this group. The average fund produced a return of 16.0% from this grouping. Property produced a return of 6.2%.

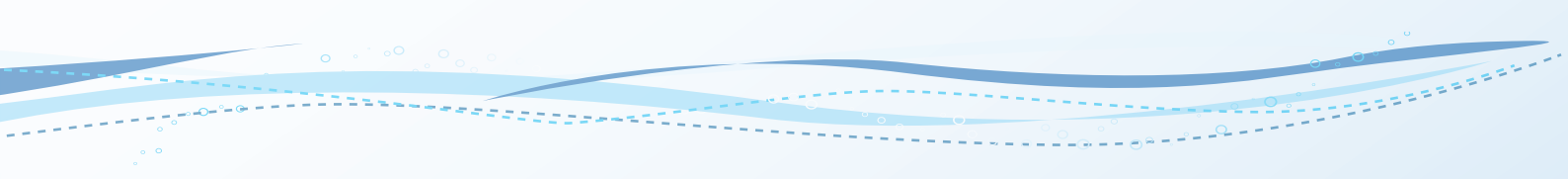
In terms of asset allocation, there was no significant change at the macro level over the year. The relatively small changes observed resulted from differential market movements rather than cash flow, with equities increasing in proportion as a result of the strong results achieved over the year and property reducing because of the relatively poor results.

Performance has been extremely strong over the medium and longer term. Over the three years the average fund returned 11.2% p.a. and over the ten years (which includes the period of the global financial crisis) returned 7.0% p.a. These results are particularly impressive when viewed in the context of very low single digit inflation.

Dyfed Pension Fund

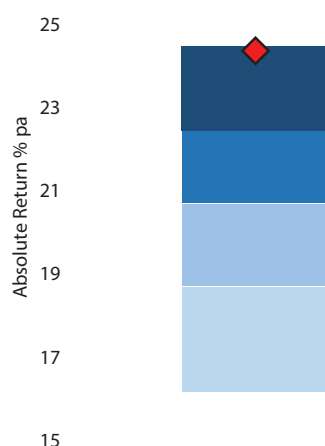
Asset Allocation

- The Fund has a different asset strategy from the average LGPS fund
- The key difference is the lack of exposure to 'alternative' assets and a heavier weighting to traditional assets
- This strategy has benefitted the Fund well in recent years
- The Fund's asset strategy is relatively non complex



Latest Year Return

- The Fund returned 24.3% in the latest year. This ranked it in the 7th percentile
- Asset allocation dominated the outcome for fund rankings
- The best performers were heavily invested in growth assets
- The lowest returns were delivered by funds with more defensive allocations



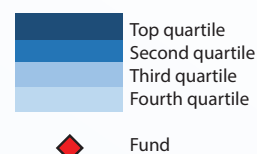
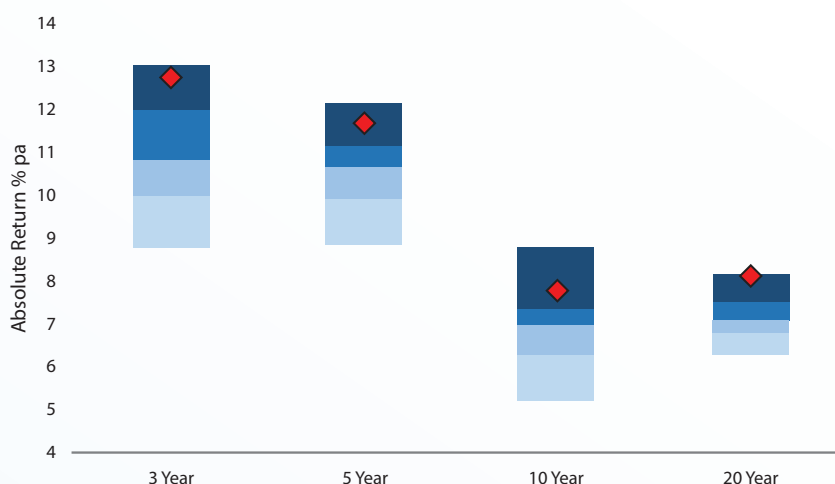
The figure shows the Fund return within the range of results achieved by the LGPS Universe in the latest year. The returns are divided into quarters (quartiles) and the fund is shown as a red diamond.

Longer Term Returns

- The Fund has performed extremely well relative to peers over the medium term 13th percentile over three years, 15th over five years
- The Fund is well ahead of the average (top quartile) over the decade and in the top ten percent over twenty years
- The range of returns over the last two decades is relatively narrow, 2% separating best to worst
- Returns from the major asset classes have been very similar so funds' differing strategies haven't determined outcomes

Risk & Return

- Funds have typically been rewarded for additional volatility i.e. higher exposure to equity – more so nearer-term
- Over five years, the Dyfed Pension Fund has delivered a much better return but at a slightly higher level of volatility
- Over ten years, the Fund has again been rewarded for its moderately higher level of volatility, with a substantially better return than the average



David Cullinan

Local Authority Pension
Performance Analytics (PIRC)

INDEPENDENT INVESTMENT ADVISER

Like a river running to the sea, nothing seemed able to arrest the flow of equity markets to ever higher prices. The main attempted diversions, which some might describe as very large boulders, in the fiscal year to 31 March 2017 concerned 'political' risk. In particular the surprise – if not possibly even shock – votes that elected Donald Trump as US President and that the majority of UK voters wanted to leave the European Union, the so-called 'Brexit'. Both events were yet more occasions when the experts were wrong footed by the populist vote. However despite the scaremongering and sensationalist media coverage, the world's economies and businesses have not collapsed. A passage from a Baillie Gifford investment report sums it up particularly well: 'Despite the unremitting gloomy focus of much media coverage, the global economy is in fact enjoying its most rapid expansion for many years. US consumer confidence is at its highest level since the year 2000, the European economy is recovering strongly, and government bond yields have risen in many countries, another sign of improving confidence.'

The most noticeable effect for UK investors has been the waterfall depreciation of sterling, typically weaker by 10-20%. This has two beneficial impacts on the UK stock-market: non-UK earnings are worth significantly more in (weak) sterling terms and depreciation makes UK goods and services cheaper for international buyers. The former is particularly significant for the largest UK companies as represented by say FTSE100 for which overseas earnings dominate. The UK stock-market returned 22% over the year, although this was eclipsed by the even stronger returns of the US and, as the US is over 50% of the global stock-market, Global equities with a return in sterling of around 33%. The year under review was most definitely a case of 'risk on'.

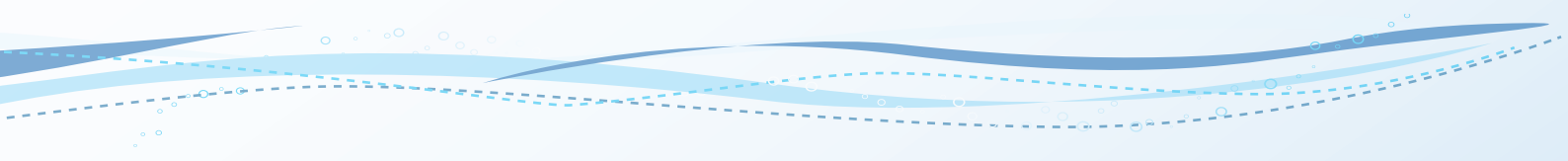
Property, following several very strong years of returns, was somewhat becalmed with a return typically around 5%. Brexit was the main concern both directly from the possible adverse economic impact but also indirectly as companies, particularly financial, with significant interests in Europe may have postponed renting more office space in London and/or talked about moving some people and their attendant office space from London to other leading European financial cities, especially Paris.

Fixed income returns were generally modest but UK gilts, both conventional (nominal) and index-linked, held up well and longer maturities especially so. The over 15 year gilt index gave a return of 12.3% over the year and the over 5 year index-linked gilt index gave a very strong return of 22%. These are particularly important returns as many funds have their liabilities valued on the basis of these returns. Thus while assets powered ahead over the year, with a typical Local Authority fund returning about 20%, funding levels will not necessarily have advanced.

The Dyfed Pension Fund returned around 24.3% over the year, above its benchmark return of 23.9% and significantly above the average Local Authority fund. Over the important rolling 3 years, the Fund's return of c12.7% pa is in line with its benchmark but again significantly ahead of its Local Authority peers (10.9% pa).

As anyone reading this report is probably aware there are significant changes in the Local Authority pension fund landscape as a result of Government regulations and this will have a strong influence on the future of this fund. The 89 Local Authority funds in England and Wales are being consolidated into no more than 8 larger pools: the Dyfed Pension Fund is quite naturally throwing its hat into the All Wales pool to be named the 'Wales Pension Partnership'. Indeed the Fund is to be the host fund. While this fund has relatively little to gain from possible cost efficiencies that greater investment scale might provide – it already operates on a relatively low cost base – there may be some marginal benefits and it may benefit from access to assets such as infrastructure that are relatively complex and costly to gain exposure as an individual fund.

In next year's report I hope to report on the revision to the fund's strategy, which is normally conducted following the triennial actuarial valuation at end March 2016. One of the key tributaries to investigate, and possibly redirect, is the fund's cash flow. In common with many Local Authority funds the fund regularly pays out more in benefits than the contributions received leading to the so-called cash flow deficit on 'dealing with members'. Our fund's assets typically generate more than enough investment income to cover this shortfall, the strategy will review how best to achieve this.



In closing my report for this year there is an opportunity – which I am seizing – to record my thanks and appreciation to the Dyfed Pension Panel (Cllr Wyn Evans as Chairman, Cllr Terry Davies, Cllr Siân Thomas and Cllr Philip Hughes as Substitute Member) as they step down. The Panel have always made me feel very welcome and, while the business of running a large pension fund is serious, this has often been laced with humour, typically at my expense! As they say on all the best reality TV shows (an oxymoron if ever there was one), it has been an amazing journey on which I have enjoyed their company.



Eric Lambert

Independent Investment Adviser

A wide-angle photograph of a powerful waterfall cascading down a dark, moss-covered rock face. The surrounding area is densely populated with green plants and trees, creating a lush, natural setting. The water is white and frothy as it falls.

River Rheidol, Devil's Bridge

FUND ADMINISTRATION REPORT

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.

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

Main provisions of the LGPS 2014 scheme

- **Benefit Accrual** - From 1 April 2014, you will have a pension account per employment, which will be credited annually with the amount of pension that you have built up from 1 April to 31 March each year. This is based on your actual pensionable pay from 1 April to 31 March and a 1/49th accrual rate. Your pension account will then be re-valued each April in line with the Consumer Price Index (CPI). Your membership up to 31 March 2014 will be protected and continue to be calculated on a final salary basis when you retire with reference to your pensionable pay upon retirement and under the 2008 definition of pensionable pay.
- **Tax free Lump Sum** - individuals may convert an element of pension into an additional tax free cash lump sum, on the basis of £12 for each £1 of pension. Benefits accrued up to and including 31st March 2008 will automatically provide a Tax Free Cash Lump Sum at retirement.
- **50/50 Option** - From 1 April 2014, you will have the option to pay half your normal contribution, to receive half the level of pension in return during this period. However, you will retain full ill health and death cover during this time.
- **Normal Pension Age (NPA)** - your NPA will be linked to your State Pension Age (SPA), therefore any future changes in your SPA will impact on your NPA.
- **Enhanced pension** if you retire on the grounds of ill-health.
- **Death in Service** - a Tax Free Cash Lump Sum of three times the annual salary payable to the estate. In addition, Spouse's, Civil Partners and Dependent's benefits are payable.
- **A cohabiting 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.

National Fraud Initiative

The Dyfed Pension 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

Pensions Increase

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

This year, pensions were increased by 1% from 10 April 2017 and represents the increase in the consumer price index for the 12 month period to the 30 September 2016. Pensions increase is normally applied to pensioners who are age 55 or over, or have retired at any age on ill-health grounds or are in receipt of a spouse's or child's pension. A pensioner who retired during the financial year will have a proportionate increase applied.

Local Government Pensioner pay dates for 2017-2018 are as follows:

28 April 2017	31 August 2017	22 December 2017
31 May 2017	29 September 2017	31 January 2018
30 June 2017	27 October 2017	28 February 2018
28 July 2017	30 November 2017	29 March 2018

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 you and your partner:

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

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'.

Pension 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 2017 are as detailed:

Band	Actual Pensionable Pay (£)	Gross Rate (%)
1	Up to 13,700	5.5
2	13,701 - 21,400	5.8
3	21,401 - 34,700	6.5
4	34,701 - 43,900	6.8
5	43,901 - 61,300	8.5
6	61,301 - 86,800	9.9
7	86,801 - 102,200	10.5
8	102,201 - 153,300	11.4
9	153,301 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.

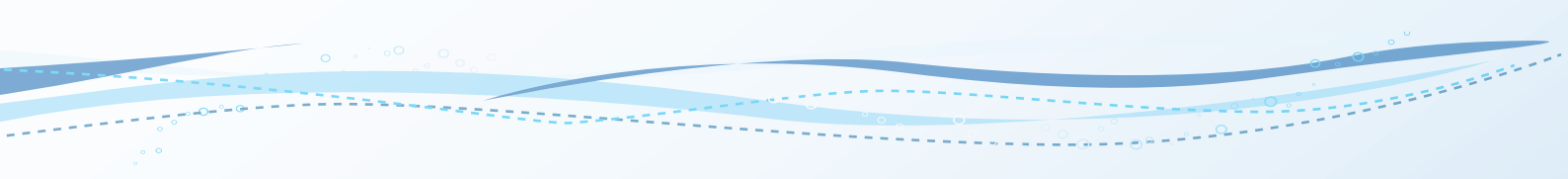
For a more detailed understanding of your own position you should log in to 'My Pension Online' or contact the pension administration section directly.

Tax Changes

From April 2016, the Lifetime Allowance (LTA) for tax-privileged pension saving decreased from £1.25m to £1m. 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. As with previous changes to the LTA there are two new forms of protection and these will work in a similar way to Fixed Protection 2014 and Individual Protection 2014. The new protections are called Fixed Protection 2016 and Individual Protection 2016. Further information on how these changes may impact upon you is detailed on the HMRC website.

You will recall from April 2014 the Annual Allowance limit reduced to £40,000 and this limit continues. To calculate the value of any annual increase in the LGPS you need to work out the difference in the total value of any accrued pension benefits between two 'pension input periods'. This is done by multiplying the value of the increase in pension by 16 and adding the increased value of any lump sum and AVC fund. Your 2017 Annual Benefit Statement will contain further information regarding the impact of the annual allowance on your pension accrual in the LGPS. The outcome of this calculation must then be added to any increases in pension entitlement that may arise from any other pension arrangement an individual may have to ascertain whether the annual limit has been breached.

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



Reform of the state pension scheme

You will recall from documentation there has been reforms to the State Pension with the introduction of a new larger single tier-state pension and the removal of contracting-out from April 2016. Below is a reminder of how the changes will impact on you.

What is contracting-out?

As an employee, if you are paying National Insurance contributions, you will be contributing towards the Basic State Pension (BSP), payable from your State Pension Age (SPA)*. Some employees though, also contribute to an earnings related pension top up to their BSP by paying more National Insurance Contributions. This additional pension is known as S2P. Prior to April 2016, whilst you have been a member of the Local Government Pension Scheme (LGPS) you will have been paying a lower percentage of National Insurance contributions because you have been contracted out of the earnings related part of the State Pension (S2P). For periods of contracted out employment you have paid National Insurance Contributions towards your BSP but have not built up any rights to the additional pension (S2P).

When you reach State Pension Age, you will be advised of the amount of Guaranteed Minimum Pension (GMP) which is included in your pension. The GMP relates to the part of your pension for the period between April 1978 and April 1997 for which you were 'contracted-out'. For this period, the Scheme has to guarantee that your pension will be at least the same as it would have been, had you not been 'contracted-out'.

Following the end of contracting out in April 2016, HMRC will be sending a statement to all individuals affected stating who is responsible for paying their Guaranteed Minimum Pension (GMP). Ahead of this, the pensions section will reconcile the GMP values it holds for members with those calculated by HMRC. This exercise is called GMP Reconciliation. If a data discrepancy is identified this may result in an adjustment to pension in payment.

What happened when contracting out ceased?

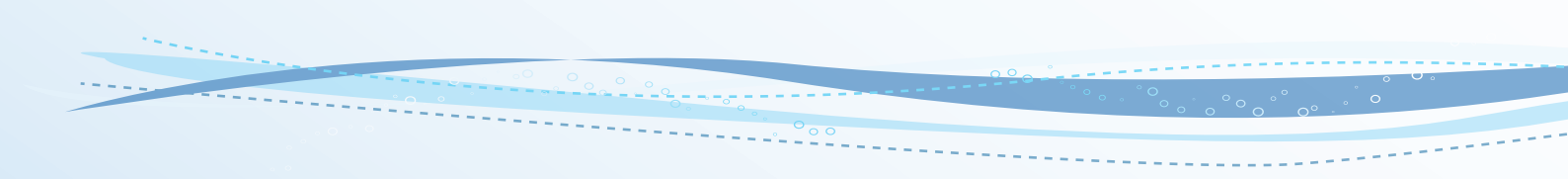
Both Employers and Scheme members had an increase to the level of national insurance contributions paid from 6 April 2016 onwards. Employees retiring after 6 April 2016 will receive a single state pension depending upon their National Insurance contributions record. National insurance contributions paid from 6 April 2016 onwards will start counting towards the new level of maximum pension. As everyone's circumstances are different, there is no simple way of describing how this reform will affect individuals. If you would like more information about how the reform will affect you, the government website has a useful guide to the new State Pension that will provide many of the answers to questions raised.

The guide can be accessed using the web address: www.gov.uk/new-state-pension/overview

Councillor Pensions

The LGPS 2014 has not impacted on the provisions for elected member pensions as their arrangement 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 five distinct groups with whom the Fund needs to communicate:

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

The policy document (Section 9) 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.

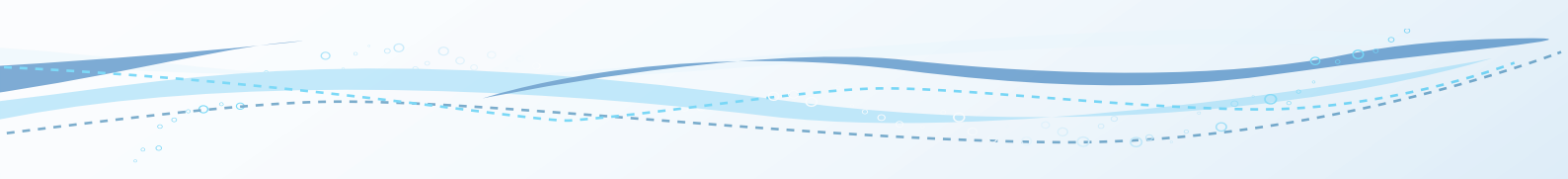
Customer Charter & Service Standards

To complement 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.

Your Pension Administration Section

In addition to implementing legislative changes and responding to numerous consultation documents by set timescales, your Pension Administration Section additionally:

- Ensured employers formulate, publish and keep under review a policy statement in respect of their discretions under the 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 the internal staff training programme. Alongside its training for participating Fund Employers, this investment is viewed as key for the effective delivery of pension administration services in an ever changing regulation environment and increasing stakeholder expectations.



- Continued with the production and issue of Annual Benefit Statements (ABS) for Deferred (individuals who have left the Scheme with a future entitlement to pension benefits) and Active (contributing) Scheme members. 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 in addition to also undertaking monthly mortality checks on UK based pensioners.
- Continued to utilise Western Union in order to undertake mortality checks on overseas pensioners.
- Continued with the production of a more detailed and personalised update for each pensioner outlining the increase in pensions arising from annual pension increase awards.
- Participated in the Audit Commission's - National Fraud Initiative exercise as outlined above.
- Continued to engage with colleague LGPS Fund authorities in Wales to examine available partnership opportunities and share best practice in Scheme administration. The Dyfed Pension Fund taking the lead on a number of exercises including specific Newsletters outlining changes to Scheme rules, further development of the Annual Benefit Statements and production of a number of specific 'factsheets' on key legislative aspects.
- Commenced work on updating the website.
- Ensured model fund data was received by the Government Actuary's Department.
- Through the FRS17 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.
- Commenced work on the GMP Reconciliation exercise which must be undertaken in respect of all scheme members to ensure HMRC do not have incorrect information on their records.
- Implemented i-connect for Pembrokeshire County Council and Carmarthenshire County Council which facilitates the direct transfer of data from employer payroll systems directly into the pensions system.

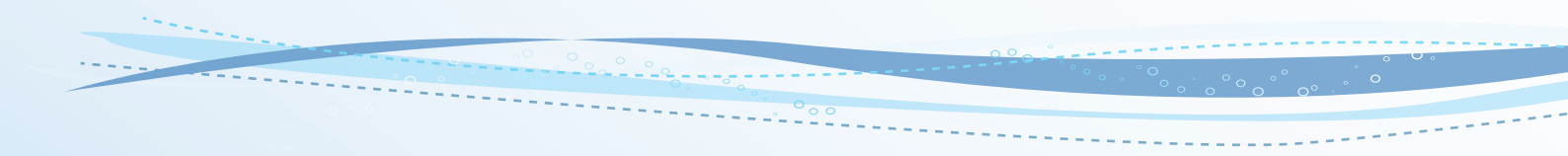
Looking Forward

The Pensions Administration Section anticipates yet another busy year, as in addition to their core functions, they 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 consultations on scheme arrangements and implement changed structures as a result of amending legislation.
- Continue to liaise with all scheme employers to ensure appropriate processes and procedures are in place in order to comply with auto enrolment requirements.
- Continue to undertake data validation and integrity checks in respect of the GMP Reconciliation exercise in order that the correct state benefits are recorded and paid by HMRC.
- Continue to work with all scheme employers to ensure that clean and accurate data is provided.
- Implement i-connect for larger employers which facilitates the direct transfer of data from employer payroll systems directly into the pensions system.

The introduction of new Local Government, Police and Fire schemes brought inherent complexities and retrospective protections that staff have to continually ensure are applied appropriately in each individual case. This had been coupled with further changes issued by the Government Actuary's Department for revised transfer value factors.

I would like to take the opportunity to record my sincere thanks to all staff involved on Scheme administration not only for the work done over the last scheme year 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.



River Ystwyth, Aberystwyth

ACTUARIAL REPORT

All LGPS Pension Funds are required to commission and publish a valuation of the Fund on a specified date every three years. The last valuation of the Dyfed Pension Fund took place as at March 2016, the Actuarial Statement is detailed in the Statement of Accounts (Section 6) and the full report can be found on the Dyfed Pension Fund website.

The Actuary's View

It's that time again. It comes round all too quickly, but employers will have been waiting in anticipation about the results of the 2016 actuarial valuation, what it means for their employer contributions and what the implications are for their overall budgets. On the whole, the outcomes from this valuation cycle have not been too onerous, with many employers being able to keep their contributions at comparable levels with those they were already paying. As always, though, there are some outliers, with some smaller employers in particular experiencing greater changes.

The actuarial valuation process is merely an estimate, intended to set contributions that will allow the Fund to meet its outflow of benefits. Just like a river, that path is never a straight one, there will be ebbs and flows, and along the way adjustments will be needed to maintain the Fund's course, but by making those small changes as we go along, we help to avoid having to make more drastic shifts in direction!

The Dyfed Fund is in an enviable position: well-funded, in terms of being in the top 15% of LGPS Funds' funding levels, which gives it the stability it needs to be able to withstand the gentle meanders which it will encounter, meaning that the changes needed to bring the funding plans back on course are overall relatively manageable. The next stage in the process will be to look ahead, to try and anticipate the more major obstacles, hopefully so that we can make minor changes in direction before more substantial ones are needed. That part of the journey will be more difficult, but if we can get it right then the Fund, employers and members will all benefit.



John Livesey
Actuary, Mercer Limited

PENSION BOARD ANNUAL REPORT

This is the second annual report from the Dyfed Pension Board set up with effect from April 2015 under new arrangements for the governance of Local Authority Pension Funds. As I reported last year, the purpose of the Board is to assist Carmarthenshire County Council (as the scheme manager) in the management of the Local Government Pension Scheme (LGPS), and to provide assistance and challenge. The terms of reference for the Board are available on the Fund website. These terms of reference were also reviewed by The Board with a recommendation that the number of meetings be increased from 3 to 4 annually in line with the Pension Panel.

The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair, and details of the members of the Board are shown in Appendix A to this report. The Board is not a decision making body and can only provide advice and comment on the management of the LGPS by Carmarthenshire County Council. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way.

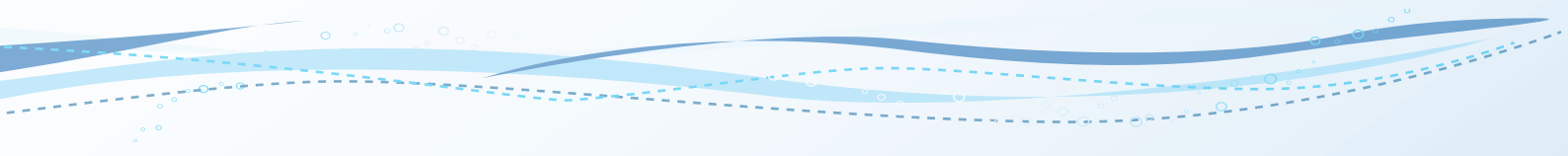
At the end of March 2017, the Dyfed Pension Fund had total assets of £2.3 billion and a membership of 45,959, comprising pensioners, deferred pensioners and current contributors.

The Board met on 3 occasions during 2016/17 on 19 July and 24 November 2016 and 10 February 2017. The Chair also presented to the Annual Consultative Meeting on 24 November 2016. There have been full agendas for the meetings and the issues discussed during the year included:

- The development of a work plan for the year
- Briefing and discussion on the performance of the pension administration service including consideration of activity data. The Board have asked that a report on pension administration activity data be submitted to each meeting
- Briefing and discussion on the Investment performance of the Fund
- Consideration of the key performance indicators of the Fund
- Review and discussion of the decisions of the Pension Panel
- Regular updates and discussion of the Governments proposals for the consolidation of the LGPS and the setting up of asset pools, and the new Investment Regulations
- Audit and risk management issues affecting the Fund.

I am pleased to report that once again average attendance over the 3 meetings was very good at 86% showing a high degree of commitment by members to the work of the Board. The Board will continue to focus on the key issues affecting the Fund and its beneficiaries through the forward work plan to ensure that it best placed to support the Council in the delivery of the LGPS in Dyfed.

Pension Fund Investment and administration is becoming ever more complex so a structured programme of training and development is essential for individual members and the Board collectively to discharge its responsibilities. With this in mind, members of the Board have attended various training sessions over the past year. This has included:

- A training session on the proposals for the All Wales Pooling arrangement, progress to date and the plans going forward
 - An update on the outcome of the 2016 Actuarial review and Dyfed's very good relative position compared with other LGPS Funds
 - A training session and discussion on fund manager fees and performance.
- 

Regular training sessions will continue to be arranged and also incorporated as part of Board meetings. All Members of the Board remain fully committed to training and development and have also attended other relevant training events.

The LGPS nationally is currently going through major change and upheaval with the setting up of asset pools. The Wales pension fund authorities are establishing an all Wales collective investment vehicle (CIV) for this purpose. In future the assets of the Dyfed Pension Fund will be invested through this pool rather than directly as is the case at present. There will be a period of transition as assets are moved into the CIV. The Pension Board have been updated on developments at each meeting, and will continue to take a close interest in this process and work alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

Member Representatives:

- Janet Wyer, Union Representative
- Catherine Davies, Active Member Representative
- Mike Rogers, Pensioner Member Representative

Employer Representatives:

- Cllr. Anthony Jones, Carmarthenshire County Council
- Ian Eynon, Pembrokeshire County Council
- Mark Miles, Mid and West Wales Fire and Rescue Service

Independent Chair:

- John Jones, AllenbridgeEpic



John Jones

Independent Chair of the Pension Board

GOVERNANCE POLICY STATEMENT

Introduction

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

Purpose of the Governance Policy

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

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

Governance of the Dyfed Pension Fund

Within Carmarthenshire County Council's constitution, a 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 Corporate Services 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 Director of Corporate Services will accept for admission into the Dyfed Pension Fund employees of authorities and bodies as prescribed in Regulations, subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.

The Pension 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 necessary
- To produce an Annual Report by 30 September each year on the state of the Fund and on the investment activities during the year
- To have overall responsibility for investment policy and monitor overall performance
- To review governance arrangements and the effective use of its advisers to ensure good decision-making
- To receive regular reports on Scheme administration to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers that the Fund is being run on an effective basis
- To appoint Investment Managers to discharge functions relating to the management of the Fund's investments
- To appoint the Fund's custodian, performance measurement adviser, actuary, independent adviser and AVC provider
- To approve a Funding Strategy Statement and a 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
- two officers from Carmarthenshire County Council. The Director of Corporate Services and Treasury and Pension Investments Manager
- the Independent Investment Adviser.

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

The Treasury and Pension Investments Manager and officers in the Treasury and Pension Investments team support the Director of Corporate Services 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 Pension 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)

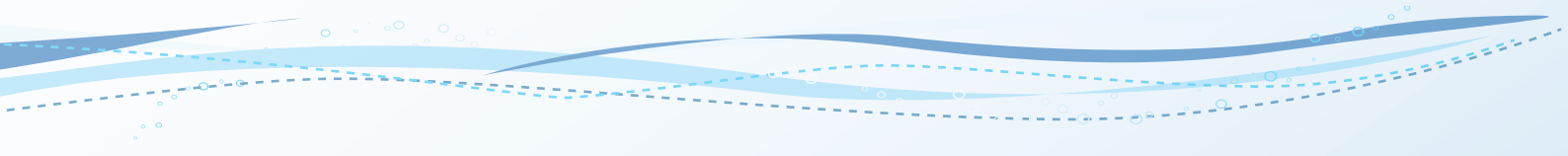
The Dyfed Pension Fund is committed to the widest inclusion of all stakeholders in respect of consultation and communication arrangements. Any major policy changes are put to consultation with all participating employers, Trade Union representatives and retired member representative, before a decision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

An Annual Consultative Meeting (ACM) is held in the Autumn 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 Corporate Services, the Fund Advisers and Investment Managers attend the ACM to answer any questions.

Local Pension Board

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

There must be equal numbers of scheme member representatives and employer representatives on the Board. The Dyfed Pension Fund Board has 3 scheme member and 3 employer representatives and an independent member who is also the Chair of the Board.



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:

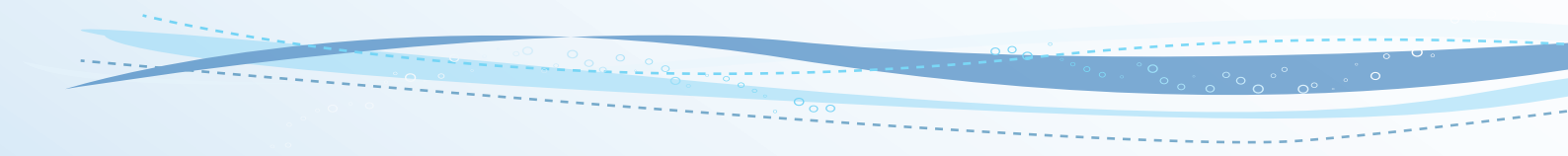
- The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council
- Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioners and deferreds) are members 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.

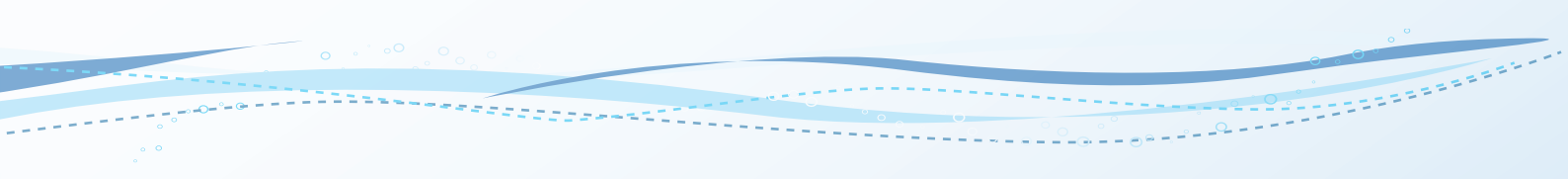
Effective representation is a two way process involving the Fund authorities providing the opportunity and the representative bodies initiating and taking forward the selection process under the general oversight of fund authority.

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.

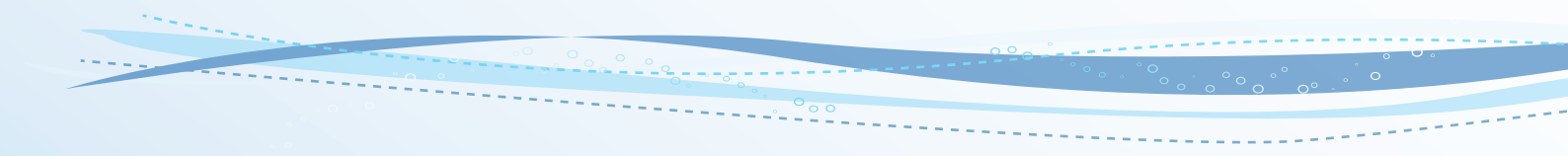
Best Practice Principle F: Meetings (frequency / quorum)

- 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 well.
Representation		✓	Regular meetings and discussion with other major stakeholders occur and an Annual Consultative Meeting is held.
Selection	✓		
Voting	✓		
Training, facility time & expenses	✓		
Meetings (frequency/quorum)	✓		
Access	✓		
Scope	✓		
Publicity	✓		

STATEMENT OF ACCOUNTS

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 2016-2017. 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 2016-2017, "the code" which is based upon International Financial Reporting Standards (IFRS), as amended for the public sector. Reference is also made to the Financial Reports of Pension Schemes – A Statement of Recommended Practice published by the Pensions Research Accountants Group (PRAG) where it is felt that these disclosures provide more sufficient detail.

For readers with a more detailed or specialist interest of the operation of the Dyfed Pension Fund during 2016-2017, reference should be made to the Annual Report and Accounts 2016-2017.

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



River Gwaun, Fishguard

Fund Account for the Year Ended 31 March 2017

2015-16		Note	2016-17
£'000			£'000
	Dealings with members, employers and others directly involved in the Fund		
	Contributions		
	Employer		
36,503	Normal		36,980
7,082	Augmentation		7,125
7,508	Past Service Deficit		7,951
	Member		
17,484	Normal		17,739
177	Additional voluntary		76
1,986	Transfers in from other pension funds	6	1,889
70,740			71,760
	Benefits payable		
(59,798)	Pensions payable		(61,761)
(13,392)	Commutation and lump sum retirement benefits		(13,099)
(1,400)	Lump sum death benefits		(1,834)
(4,027)	Payments to and on account of leavers	7	(3,452)
(78,617)			(80,146)
(7,877)	Net Additions (Withdrawals) from dealings with Members		(8,386)
(7,015)	* Management Expenses	8	(7,371)
(14,892)	Net Additions (Withdrawals) including fund management expenses		(15,757)
	Returns on Investments		
29,828	* Investment Income	9	31,508
(32)	Taxes on Income (Irrecoverable Withholding Tax)	10	(47)
	Changes in the market value of investments		
(78,090)	Unrealised	11.2	374,710
49,974	Realised	11.3	52,245
1,680	Net Return on Investments		458,416
(13,212)	Net Increase (Decrease) in the net assets available for benefits during the year		442,659
1,913,621	Opening Net Assets of Scheme		1,900,409
1,900,409	Closing Net Assets of Scheme		2,343,068

2015-16 Re-stated in accordance with CIPFA Management Costs guidance

Net Assets Statement

31/03/2016			Note	31/03/2017
£'000				£'000
1,894,613		Investment Assets		2,330,544
1,715		Cash deposits		4,880
(948)		Investment liabilities		(246)
1,895,380			11.1	2,335,178
9,227		Current assets	16	11,164
(4,198)		Current liabilities	17	(3,274)
5,029		Net Current Assets/(Liabilities)		7,890
1,900,409		Total Net Assets		2,343,068

Reconciliation of the movement in Fund Net Assets

2015-16			2016-17
£'000			£'000
1,913,621		Opening Net Assets	1,900,409
14,904		Net New Money Invested	15,704
(28,116)		Profit and losses on disposal of investments and changes in the market value of investments	426,955
1,900,409		Closing Net Assets of Fund	2,343,068



River Tywi, Ferryside

Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2017

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 2016-17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

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

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

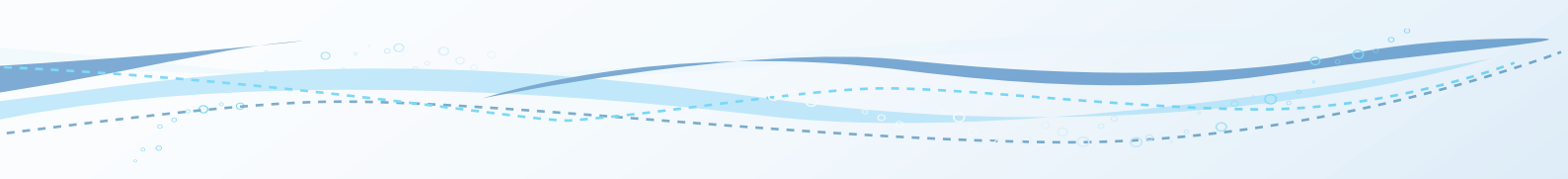
1.2 Membership

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 67 employer organisations within the Dyfed Pension Fund as at 31 March 2017 and these are detailed in Note 21. The membership details of these organisations are summarised overleaf:



31/03/2016			31/03/2017
18,970		Number of active contributors in the Fund	19,052
11,462		Number of pensioners	12,003
14,499		Number of deferred pensioners	14,904
44,931		Total membership	45,959
49		Number of employers with active members	50

These figures reflect the recorded position as at 31 March 2017 but are always subject to some movement post year end for notifications from employing bodies received after this date.

1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuation as at 31 March 2013. Currently, employer contribution rates range from 7.4% to 27.7% of pensionable pay as detailed in Note 21.

1.4 Benefits

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

	Service pre 1 April 2008	Service 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.

From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index (CPI).

There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits. For more details, please refer to the Dyfed Pension Fund website: www.dyfedpensionfund.org.uk

2 Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2016-17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3 Summary of significant accounting policies

Fund Account – revenue recognition

3.1 Contributions

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

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

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

3.2 Transfers to and from other schemes

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

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers in.

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

3.3 Investment income

3.3.1 Interest income

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

3.3.2 Dividend income

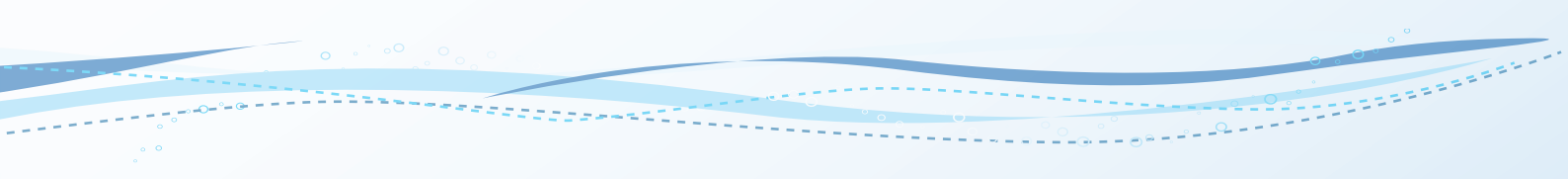
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a financial asset.

3.3.3 Distributions from pooled funds

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

3.3.4 Movement in the net market value of investments

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



3.4 Benefits payable

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

3.5 Taxation

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

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

3.6 Management expenses

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

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

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

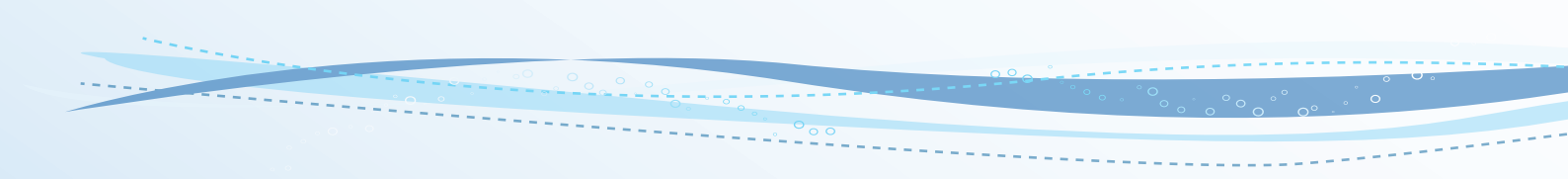
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

An element of one of the Investment Managers' fees is performance related. The performance related fee was £0.18m in 2016-2017 (2015-2016: Fee was £0.34m).

Where an investment manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2016-2017, £0.2m of fees is based on such estimates (2015-2016: £0.4m).

The costs of the council's pension investments team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund.



Net assets statement

3.7 Financial assets

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

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

3.7.1 Market-quoted investments

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

3.7.2 Fixed interest securities

Fixed interest securities are recorded at net market value.

3.7.3 Unquoted investments

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

3.7.4 Limited partnerships

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

3.7.5 Pooled investment vehicles

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

3.8 Foreign currency transactions

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

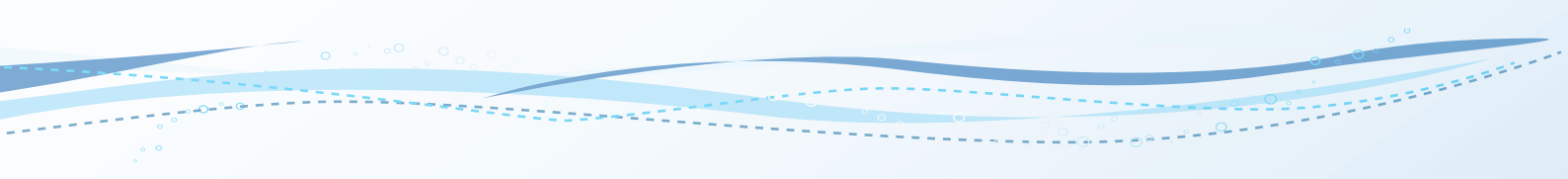
3.9 Cash and cash equivalents

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

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

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

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



3.10 Financial liabilities

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

3.11 Actuarial present value of promised retirement benefits

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

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

3.12 Additional voluntary contributions (AVC)

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

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

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

4 Critical judgements in applying accounting policies

4.1 Fund liability

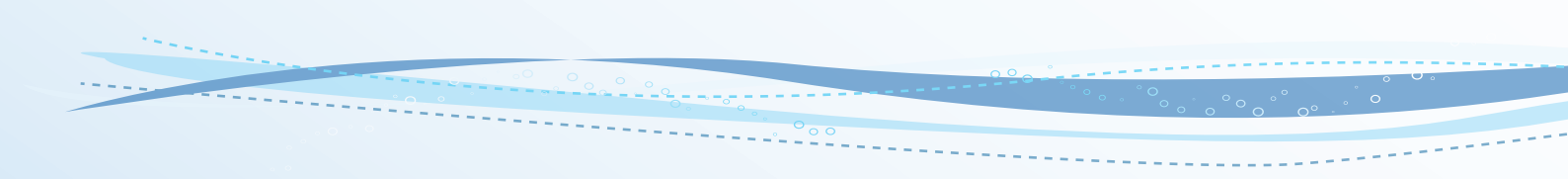
The Fund's liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant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

4.2 Unquoted Property investments – Partners Group Red Dragon Limited Partnership

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

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

These practices are in line with widely used international industry guidelines. The value of the Partners Group Red Dragon Limited Partnership as at 31 March 2017 was £37.1m (31 March 2016: £33.3m).



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 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £25.2m for 2016-17. However, the assumptions interact in complex ways. During 2016-17, the Authority's actuaries advised that the net pensions liability had decreased by £1.6m due to previous estimates being corrected as a result of actual experience and increased by £259.7m attributable to updating of the assumptions.
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 £37.1m. There is a risk that this investment may be under or overstated in the accounts.

6 Transfers in from other pension funds

2015-16		2016-17
£'000		£'000
1,986	Individual transfers	1,889
1,986		1,889

7 Payments to and on account of Leavers

2015-16		2016-17
£'000		£'000
(103)	Refunds to members leaving service	(138)
(28)	Payments for members joining state scheme	(1)
(3,896)	Individual transfers	(3,313)
(4,027)		(3,452)

8 Management Expenses

2015-16			2016-17
£'000			£'000
(925)		Administrative costs	(942)
(5,733)		Investment management expenses (Note 13)	(5,941)
(357)		Oversight and governance costs	(488)
(7,015)			(7,371)

2015-16 Re-stated in accordance with CIPFA management Costs guidance

2016-17 Audit fees of £28,858 included within Oversight and governance costs. (2015-16: £26,874)

9 Investment Income

2015-16			2016-17
£'000			£'000
20,630		Income from equities	21,921
9,199		Pooled property investments	9,597
(1)		Interest on cash deposits	(10)
29,828			31,508

2015-16 Re-stated in accordance with CIPFA management Costs guidance

10 Taxation

2015-16			2016-17
£'000			£'000
(32)		Withholding tax - equities	(47)
(32)			(47)



River Cleddau, Pembroke

11 Investments

11.1 Net Investment Assets

Fair value 31/03/2016 £'000		Investment assets	Fair value 31/03/2017 £'000
		Bonds	
		UK Corporate Bonds	
178,145		- BlackRock	221,350
		Indexed Linked Securities	
177,109		- BlackRock	219,346
		Equities	
		UK Quoted Equities	
450,678		- BlackRock	568,252
		Pooled Investments	
		Overseas equities	
479,667		- BlackRock	578,845
		Global equities	
199,874		- Baillie Gifford	270,933
194,866		- Columbia Threadneedle	249,594
		Pooled property investments	
175,362		- Schroders	183,045
27,001		- Partners Group	29,373
		Property	
1,047		- Schroders	1,144
6,334		- Partners Group	4,822
		Cash deposits	
736		- BlackRock	1,705
979		- Schroders	275
0		- Partners Group	2,900
		Investment income due	
2,973		- BlackRock	3,126
0		- Schroders	45
		Tax reclaims due	
276		- BlackRock	312
88		- Schroders	99
		Amounts receivable for sales	
1,193		- BlackRock	258
1,896,328		Total investment assets	2,335,424
		Investment liabilities	
		Amounts payable for purchases	
(948)		- BlackRock	(246)
(948)		Total investment liabilities	(246)
1,895,380		Net investment assets	2,335,178

11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £121m whilst sales totalled £59m. The sales realised a net gain of £62m. Acquisition costs are included in the purchase price of the investment.

	Fair value 31/03/16	Purchases at Cost	Sales at Cost	Cash movement	Change in unrealised gains/ (losses)	Fair value 31/03/17
	£'000	£'000	£'000	£'000	£'000	£'000
Bonds	355,254	38,086	(9,469)	0	56,825	440,696
Equities	450,678	56,152	(10,681)	0	72,103	568,252
Pooled investments	874,407	1,081	(25,847)	0	249,731	1,099,372
Pooled property investments	202,363	25,283	(12,918)	0	(2,310)	212,418
Property	7,381	269	0	0	(1,684)	5,966
	1,890,083	120,871	(58,915)	0	374,665	2,326,704
Other investment balances						
Cash deposits	1,715	0	0	3,165	0	4,880
Amount receivable for sales investments	1,193	0	0	(935)	0	258
Investment income due	2,973	0	0	153	45	3,171
Tax reclaims due	364	0	0	47	0	411
Amounts payable for purchases investments	(948)	0	0	702	0	(246)
	1,895,380	120,871	(58,915)	3,132	374,710	2,335,178

	Fair value 31/03/15	Purchases at Cost	Sales at Cost	Cash movement	Change in unrealised gains / (losses)	Fair value 31/03/16
	£'000	£'000	£'000	£'000	£'000	£'000
Bonds	371,507	24,567	(33,544)	0	(7,276)	355,254
Equities	463,834	50,445	(27,173)	0	(36,428)	450,678
Pooled investments	878,458	45,195	(6,401)	0	(42,845)	874,407
Pooled property investments	177,139	35,385	(19,996)	0	9,835	202,363
Property	11,449	0	(3,073)	0	(995)	7,381
	1,902,387	155,592	(90,187)	0	(77,709)	1,890,083
Other investment balances						
Cash deposits	2,774	0	0	(1,059)	0	1,715
Amount receivable for sales investments	16	0	0	1,177	0	1,193
Investment income due	2,974	0	0	380	(381)	2,973
Tax reclaims due	321	0	0	43	0	364
Amounts payable for purchases investments	(16)	0	0	(932)	0	(948)
	1,908,456	155,592	(90,187)	(391)	(78,090)	1,895,380

11.3 Realised gains and losses

2015-16		2016-17
£'000		£'000
11,441	Bonds	2,796
1,336	Equities	9,683
32,948	Pooled Investments	35,128
4,971	Pooled property investments	4,508
(722)	Property	130
49,974		52,245

11.4 Geographical analysis of investments

Fair value 31/03/2016 £'000	Geographical analysis	Fair value 31/03/2017 £'000
1,032,530	UK	1,260,994
99,498	Europe (excl UK)	124,203
407,341	North America	483,243
78,408	Japan	84,628
89,054	Pacific Rim	125,034
188,549	Emerging Markets	255,575
0	International pooled funds	1,501
1,895,380		2,335,178

11.5 Fund manager analysis

Fair value 31/03/2016 £'000	Fund manager analysis	Fair value 31/03/2017 £'000
1,289,830	BlackRock	1,592,948
177,476	Schroders	184,608
33,334	Partners Group	37,095
199,874	Baillie Gifford	270,933
194,866	Columbia Threadneedle	249,594
1,895,380		2,335,178

12 Concentration of Investments

The following investments represent more than 5% of the Fund's total net assets as at 31 March 2017:

	Value as at 31/03/2017 £'000	Proportion of Investment Portfolio %
Baillie Gifford Global Alpha Fund	270,933	11.60
Threadneedle Global Equity Fund	249,594	10.69
BlackRock Ascent Life US Equity Fund	227,587	9.75
BlackRock Active Selection Fund UK	221,316	9.48
Aquila Life over 5yr UK index linked	219,346	9.39
BlackRock Active Selection Fund – Emerging Market Index Fund	135,990	5.82

13 Investment Management Expenses

2015-16		2016-17
£'000		£'000
(3,579)	Management fees	(3,813)
(338)	Performance related fees	(180)
(49)	Custody fees	(50)
(1,767)	Transaction costs	(1,898)
(5,733)		(5,941)

2015-16 restated in accordance with CIPFA Management Costs guidance.

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.

2015-16					2016-17			
Designated at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total		Designated at fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
				Financial assets				
355,254	0	0	355,254	Bonds	440,696	0	0	440,696
450,678	0	0	450,678	Equities	568,252	0	0	568,252
874,407	0	0	874,407	Pooled investments	1,099,372	0	0	1,099,372
202,363	0	0	202,363	Pooled property investments	212,418	0	0	212,418
7,381	0	0	7,381	Property	5,966	0	0	5,966
0	4,041	0	4,041	Cash	0	9,768	0	9,768
4,530	0	0	4,530	Other investment balances	3,840	0	0	3,840
0	6,901	0	6,901	Debtors	0	6,276	0	6,276
1,894,613	10,942	0	1,905,555		2,330,544	16,044	0	2,346,588
				Financial liabilities				
(948)	0	0	(948)	Other investment balances	(246)	0	0	(246)
0	0	(4,198)	(4,198)	Creditors	0	0	(3,274)	(3,274)
(948)	0	(4,198)	(5,146)		(246)	0	(3,274)	(3,520)
1,893,665	10,942	(4,198)	1,900,409	Total	2,330,298	16,044	(3,274)	2,343,068

14.2 Net gains and losses on financial instruments

2015-16		2016-17
£'000		£'000
	Financial assets	
(28,116)	Fair value through profit and loss	426,955
(28,116)	Total financial assets	426,955
	Financial liabilities	
0	Fair value through profit and loss	0
0	Total financial liabilities	0
(28,116)	Total	426,955

14.3 Fair value on 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	Fair value		Carrying value	Fair value
31/03/2016	31/03/2016		31/03/2017	31/03/2017
£'000	£'000		£'000	£'000
		Financial assets		
1,480,598	1,894,613	Fair value through profit and loss	1,541,819	2,330,544
10,942	10,942	Loans and receivables	16,044	16,044
1,491,540	1,905,555	Total financial assets	1,557,863	2,346,588
		Financial liabilities		
(948)	(948)	Fair value through profit and loss	(246)	(246)
(4,198)	(4,198)	Financial liabilities at amortised cost	(3,274)	(3,274)
(5,146)	(5,146)	Total financial liabilities	(3,520)	(3,520)
1,486,394	1,900,409	Total	1,554,343	2,343,068

14.4 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

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

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

Level 2

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

Level 3

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Fair values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	1,015,985	1,097,870	216,689	2,330,544
Loans and receivables	16,044	0	0	16,044
Total financial assets	1,032,029	1,097,870	216,689	2,346,588
Financial liabilities				
Financial liabilities at fair value through profit and loss	(246)	0	0	(246)
Financial liabilities at amortised cost	(3,274)	0	0	(3,274)
Total financial liabilities	(3,520)	0	0	(3,520)
Net financial assets	1,028,509	1,097,870	216,689	2,343,068

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Fair values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	811,788	1,049,491	33,334	1,894,613
Loans and receivables	10,942	0	0	10,942
Total financial assets	822,730	1,049,491	33,334	1,905,555
Financial liabilities				
Financial liabilities at fair value through profit and loss	(948)	0	0	(948)
Financial liabilities at amortised cost	(4,198)	0	0	(4,198)
Total financial liabilities	(5,146)	0	0	(5,146)
Net financial assets	817,584	1,049,491	33,334	1,900,409

14.5 Fair value – Basis of valuation

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

14.6 Reconciliation of fair value measurements within level 3

Asset type	Market Value 1 April 2016	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised Gains/ (Losses)	Realised Gains/ (Losses)	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equities - Unquoted overseas equity	0	6,240	0	0	0	(22)	0	6,218
Property	33,334	173,914	0	14,386	(13,906)	(2,346)	5,089	210,471
Total	33,334	180,154	0	14,386	(13,906)	(2,368)	5,089	216,689

14.7 Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2016-17.

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. The potential volatilities shown below, are consistent with a one standard deviation movement in the change in value of the assets over the latest three years:

Asset Type	Potential market movements (+/-)
Cash	1.90%
UK Equities	9.60%
Overseas Equities	12.30%
Global Pooled Equities inc UK	9.20%
UK Corporate Bonds	7.80%
Index Linked Securities	13.70%
Property	4.80%

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 2017	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash	4,880	1.90	4,973	4,787
UK Equities	568,252	9.60	622,805	513,700
Overseas Equities	578,845	12.30	650,042	507,647
Global Pooled Equities inc UK	520,527	9.20	568,415	472,638
UK Corporate Bonds	221,350	7.80	238,615	204,085
Index Linked Gilts	219,346	13.70	249,397	189,296
Property	218,384	4.80	228,866	207,901
Sales receivable	258	0.00	258	258
Purchases payable	(246)	0.00	(246)	(246)
Income receivables	3,582	0.00	3,582	3,582
Total Assets	2,335,178		2,566,707	2,103,648

Asset Type	Value as at 31 March 2016	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash	1,715	0.01	1,715	1,714
UK Equities	450,678	10.66	498,720	402,636
Overseas Equities	479,667	10.25	528,833	430,501
Global Pooled Equities inc UK	394,740	10.08	434,530	354,950
UK Corporate Bonds	178,145	6.23	189,243	167,046
Index Linked Gilts	177,109	9.45	193,846	160,373
Property	209,744	1.96	213,855	205,633
Sales receivable	1,209	0.00	1,209	1,209
Purchases payable	(964)	0.00	(964)	(964)
Income receivables	3,337	0.00	3,337	3,337
Total Assets	1,895,380		2,064,324	1,726,435

15.4.1 Sensitivity of assets valued at level 3

Asset Type	Value as at 31 March 2017 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Equities - Unquoted overseas	6,218	12.30	6,983	5,453
Property	210,471	4.80	220,574	200,369
Total	216,689		227,557	205,822

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 2017 and 31 March 2016 are set out in the table. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31/03/2016 £'000	Asset type	31/03/2017 £'000
1,715	Cash and cash equivalents	4,880
2,326	Cash held at CCC	4,888
355,254	Bonds	440,696
359,295	Total	450,464

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 31/03/17 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	4,880	49	(49)
Cash held at CCC	4,888	49	(49)
Bonds	440,696	4,407	(4,407)
Total change in available assets	450,464	4,505	(4,505)

Asset type	Value as at 31/03/16 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	1,715	17	(17)
Cash held at CCC	2,326	23	(23)
Bonds	355,254	3,553	(3,553)
Total change in available assets	359,295	3,593	(3,593)

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.

Fair value 31/03/16	Asset type	Fair value 31/03/17
833,807	Overseas Equities	1,039,211
29,011	Property	34,973
32	Cash	0
862,850	Total	1,074,184

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.

This table summarises the Fund's currency exposure as at 31 March 2017 and as at 31 March 2016.

15.9 Currency risk sensitivity analysis

The aggregate currency exposure within the Fund as at 31 March 2017 was 8.30% (2015-16: 6.23%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 8.30% 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 31/03/17	Change in year in the net assets available to pay benefits	
		+8.30%	-8.30%
	£'000	£'000	£'000
Overseas equities	1,039,211	86,255	(86,255)
Property	34,973	2,903	(2,903)
Cash	0	0	0
Total change in available assets	1,074,184	89,158	(89,158)

Asset type	Fair value 31/03/16	Change in year in the net assets available to pay benefits	
		+6.23%	-6.23%
	£'000	£'000	£'000
Overseas equities	833,807	51,946	(51,946)
Property	29,011	1,807	(1,807)
Cash	32	2	(2)
Total change in available assets	862,850	53,755	(53,755)

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

31/03/16		31/03/17
£'000		£'000
	Contributions due from employer	
4,956	- Employer	4,468
1,432	- Employee	1,456
2,326	Cash Balances	4,888
513	Debtors	352
9,227		11,164

16.1 Analysis of Current assets

31/03/16		31/03/17
£'000		£'000
2	HMRC	1
8,016	Other local authorities	9,906
1	NHS bodies	1
1	Public corporations and trading funds	1
1,207	Other entities and individuals	1,255
9,227		11,164

17 Current liabilities

31/03/16		31/03/17
£'000		£'000
(2,206)	Unpaid benefits	(1,823)
(1,992)	Creditors	(1,451)
(4,198)		(3,274)

17.1 Analysis of Current liabilities

31/03/16		31/03/17
£'000		£'000
(586)	HMRC	(609)
(454)	Other local authorities	(67)
(670)	Public corporations and trading funds	(417)
(2,488)	Other entities and individuals	(2,181)
(4,198)		(3,274)

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:

	Value as at 31/03/16	Contributions	Expenditure	Change in Market Value	Value as at 31/03/17
AVC Provider	£ '000	£ '000	£ '000	£ '000	£ '000
Prudential	2,858	1,009	(469)	369	3,767
Equitable Life	585	23	(99)	40	549
Standard Life	3,435	605	(674)	325	3,691
Total	6,878	1,637	(1,242)	734	8,007

19 Funding arrangements

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

For more details, and to view the Funding Strategy Statement (FSS), please refer to the Fund's website – www.dyfedpensionfund.org.uk and the Annual Report and Accounts 2016-17.

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 £0.929 million (2015-2016: £0.889 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 £31.756 million to the Fund in 2016-2017 (2015-2016: £31.102 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 2017, the Fund had an average investment balance of £6.58 million (2015-2016: £4.73 million) earning interest of £26,558 (2015-2016: £26,180).

20.1 Governance

Pension Panel

There are three members and one substitute member of the Pension Panel. During 2016-17 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 Corporate Services, Mr Chris Moore, who has the role of Section 151 Officer for the Authority, played a key role in the financial management of the Fund and is also an active member of the Fund.

The 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 Corporate Services accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

Pension Board

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

For more details, and to view the Governance Policy, please refer to the Fund's website –www.dyfedpensionfund.org.uk and the Annual Report and Accounts 2016-17.

20.2 Key Management Personnel

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

31/03/16		31/03/17
£'000		£'000
12	Short-term benefits	13
3	Post-employment benefits	3
15		16

21 Employing bodies contribution rates, contributions receivable and benefits payable

2015-16					2016-17			
Contribution rate	Deficit Contribution	Contributions	Benefits payable		Contribution rate	Deficit Contribution	Contributions	Benefits payable
%	£'000	£'000	£'000		%	£'000	£'000	£'000
				Scheduled bodies				
12.9	4,690	26,459	31,650	Carmarthenshire County Council	12.9	5,019	26,753	32,822
13.5	1,107	13,776	14,600	Pembrokeshire County Council	13.5	1,152	14,103	16,322
13.6	730	10,008	10,792	Ceredigion County Council	13.6	760	9,949	9,927
11.6	389	3,455	2,048	Office for the Police & Crime Commissioner for Dyfed-Powys	11.6	405	3,643	2,066
13.5	133	1,167	930	Mid & West Wales Fire Authority	13.5	138	1,389	1,139
15.2	(1)	275	224	Coleg Ceredigion	15.2	(1)	281	340
14.3	139	1,244	1,046	Coleg Sir Gar	14.3	144	1,211	836
15.1	(24)	592	681	Pembrokeshire Coast National Park Authority	15.1	(25)	591	821
12.8	55	851	258	Pembrokeshire College	12.8	57	847	281
	7,218	57,827	62,229			7,649	58,767	64,554
				Designated (Resolution) bodies				
20.0	2	3	53	Aberystwyth Town Council	20.0	2	4	13
12.6	0	1	0	Aberaeron Town Council	12.6	0	1	0
18.6	13	71	123	Carmarthen Town Council	18.6	14	72	95
18.7	0	6	0	Cwmaman Town Council	18.7	0	14	0
27.7	1	5	5	Gorslas Community Council	27.7	1	5	4
24.4	0	9	30	Haverfordwest Town Council	24.4	0	11	30
27.6	7	9	14	Kidwelly Town Council	27.6	7	13	12
17.3	0	2	1	Llanbadarn Fawr Community Council	17.3	0	2	1
21.2	0	1	1	Llanarthney Community Council	21.2	0	1	1
14.6	11	196	136	Llanelli Rural Council	14.6	12	185	200
17.8	8	52	74	Llanelli Town Council	17.8	8	100	76
12.8	0	6	0	Llangennech Community Council	12.8	0	6	0
18.2	4	21	7	Llannon Community Council	18.2	4	23	7
23.5	3	25	7	Pembrey & Burry Port Town Council	23.5	3	30	7
13.0	(1)	6	12	Tenby Town Council	13.0	(1)	6	12
12.0	0	9	3	Pembroke Town Council	12.0	0	10	1
8.5	0	7	0	Pembroke Dock Town Council	8.5	0	7	0
24.9	0	3	0	Pontyberem Community Council	24.9	0	0	0
	48	432	466			50	490	459

2015-16					2016-17			
Contribution rate	Deficit Contribution	Contributions	Benefits payable		Contribution rate	Deficit Contribution	Contributions	Benefits payable
%	£'000	£'000	£'000		%	£'000	£'000	£'000
				Admission bodies				
				Community Admission Body (CAB)				
26.1	(12)	1	26	Cardigan Swimming Pool	26.1	(12)	0	14
13.2	13	31	17	Ceredigion Association of Voluntary Org.	13.2	13	32	19
13.3	40	937	892	Careers Wales	13.3	42	811	891
11.7	6	38	38	Carmarthenshire Association of Voluntary Services	11.7	6	31	46
26.5	(5)	11	0	Carmarthenshire Federation of Young Farmers Clubs	26.5	(5)	9	0
17.9	0	34	84	Iaith Cyf	17.9	0	16	39
20.0	5	3	16	Leonard Cheshire Disability	20.0	5	3	16
0.0	0	0	0	Llanedi Community Council	21.7	0	7	0
18.1	5	32	37	Llanelli Burial Board	18.1	5	29	49
7.8	3	60	0	Menter Bro Dinefwr	7.8	3	55	27
11.5	15	35	28	Menter Cwm Gwendraeth	11.5	16	33	31
7.4	0	15	0	Menter Gorllewin Sir Gar	7.4	0	16	0
23.7	1	12	40	Menter Iaith Castell-Nedd Port Talbot	23.7	1	21	10
16.0	1	10	2	Narberth & District Community & Sports Association	16.0	2	9	2
14.5	4	60	33	Pembrokeshire Association of Voluntary Services	14.5	4	63	23
12.6	7	57	40	PLANED	12.6	7	45	33
13.4	0	1	26	PRISM	13.4	0	0	73
14.2	(41)	301	179	Tai Ceredigion	14.2	(42)	265	320
16.5	101	582	529	University of Wales-Trinity St David	16.5	105	607	563
22.5	74	10	189	Aberystwyth University	22.5	77	11	228
15.1	22	254	374	Welsh Books Council	15.1	22	222	371
13.8	6	32	40	West Wales Action for Mental Health	13.8	6	34	40
17.8	1	56	44	Valuation Tribunal Wales	17.8	1	52	44
13.5	0	3	0	Swim Narberth	13.5	0	7	0
	246	2,575	2,634			256	2,378	2,839
				Transferee Admission Body (TAB)				
14.9	0	0	0	Garnant Golf Club Ltd	14.9	0	0	0
19.3	(4)	87	70	Grwp Gwalia	19.3	(4)	17	36
21.5	0	25	45	Danfo	21.5	0	15	6
20.3	0	219	93	Human Support Group (HSG)	20.3	0	175	198
	(4)	331	208			(4)	207	240
				Bodies with no pensionable employees				
0.0	0	6	7	DVLA	0.0	0	5	6
0.0	0	51	352	Dyfed Powys Magistrates Courts	0.0	0	51	325
0.0	0	1	6	Carmarthen Family Centre	0.0	0	1	5
0.0	0	1	5	Milford Haven Town Council	0.0	0	1	2
0.0	0	0	2	Mencap	0.0	0	0	2
0.0	0	0	8,615	Dyfed County Council	0.0	0	0	8,198
0.0	0	0	2	Dyfed AVS	0.0	0	0	2
0.0	0	8	8	NHS	0.0	0	6	7
0.0	0	13	42	Welsh Water	0.0	0	13	42
0.0	0	0	7	Cwm Environmental	0.0	0	0	7
0.0	0	0	5	Cartrefi Cymru	0.0	0	0	5
0.0	0	1	1	Rent Officer Service	0.0	0	1	1
	0	81	9,052			0	78	8,602
	7,508	61,246	74,589	Total		7,951	61,920	76,694

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.

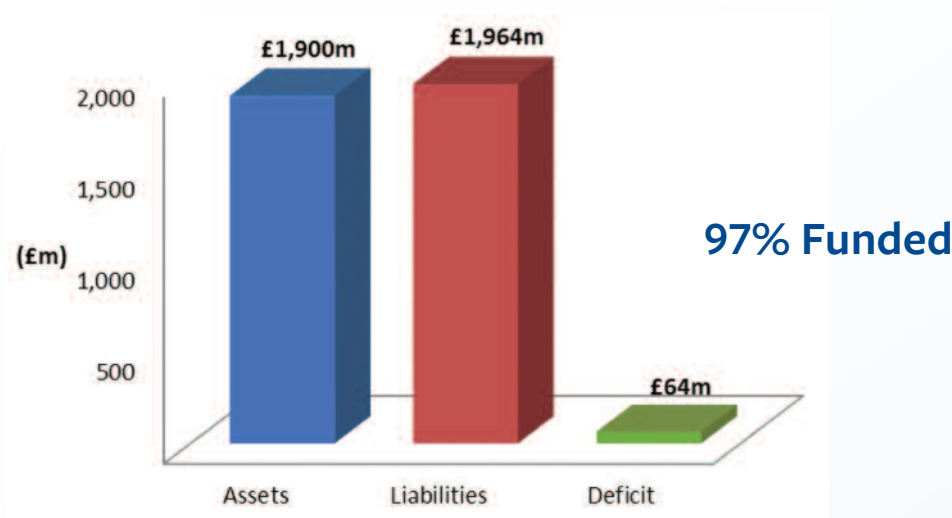
	Proportion to be recharged (%)
DVLA	100
Milford Haven Town Council	100
National Health Service	100
Carmarthen Family Centre	100
Welsh Water	50

22 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 2016 to determine the contribution rates for the period 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,900 million represented 97% of the Fund's past service liabilities of £1,964 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £64 million.



The valuation also showed that a common rate of contribution of 15.2% 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.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 17 years, and the total initial recovery payment (the “Secondary rate”) for 2017/18 is approximately £3.6 million (this allows for some employers to phase in any increases). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers may also opt to pay some of their deficit contributions early in return for a suitably agreed reduction.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017. 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) where there is no allowance in the contribution rate 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)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 16	31 March 17
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases *	3.5% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% 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 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3% p.a. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2016 was estimated as £2,337 million. Interest over the year increased the liabilities by c£84 million, and allowing for net benefits accrued/paid over the period increased them by c£13 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £563 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £2,997 million.

John Livesey

Fellow of the Institute and Faculty of Actuaries Mercer Limited
June 2017

23 Events after the balance sheet date

Passive Equity Transition

During April 2017, the Dyfed Pension Fund transitioned all of its passive equity assets, approx. £570m, into passive pooled equity funds with BlackRock as a result of a joint procurement exercise with all 8 Wales funds.

Pension Panel

Following retirements and the County Council elections in May 2017 the pension panel membership is:

Cllr Elwyn Williams (Chairman)

Cllr Jim Jones

Cllr John Prosser


Cllr Dai Thomas (Substitute)

These events do not require any adjustments to these accounts.

24 Wales Pension Investments Pooling

Following HM Government's approval of the Wales Investment Pool in November 2016, a Financial Conduct Authority regulated Third Party Pool Operator will be appointed in summer 2017 to manage the investments and the reduction of investment management expenses for all 8 Wales funds. An Inter Authority Agreement, the legal framework for establishing a Joint Governance Committee has been approved by all 8 administering authorities with an officer Working Group which will act as advisors to the JGC.

Carmarthenshire County Council has been selected as the Host Authority to provide administrative and secretarial support and implement decisions made by the Joint Governance Committee.



INDEPENDENT AUDITOR'S STATEMENT

Auditor General for Wales' 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 2016-17 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 2017 which were authorised for issue on 29 September 2017. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

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

The Administering Authority, Carmarthenshire County Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on 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.

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 2017 which were authorised for issue on 29 September 2017 on which I issued an unqualified opinion.

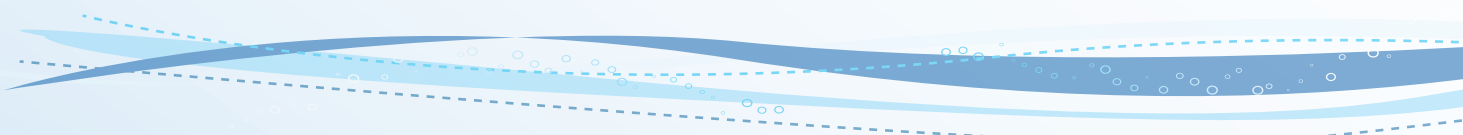
I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the authority's Statement of Accounts, 29 September 2017 and the date of this statement.



For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales

Date 13 October 2017

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ



FUNDING STRATEGY STATEMENT

This Statement has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (the Fund), as required by legislation, following the completion of the 2016 actuarial valuation. The full document including appendices is published on our website: www.dyfedpensionfund.org.uk/news/funding-strategy-statement/

Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

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

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

Benefits

The benefits provided by the Dyfed Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Dyfed Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.


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

Employer Contributions

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

Primary Rate

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.



Secondary Rate

The “Secondary rate” is an adjustment to the Primary rate to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

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

Purpose of FSS in Policy Terms

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

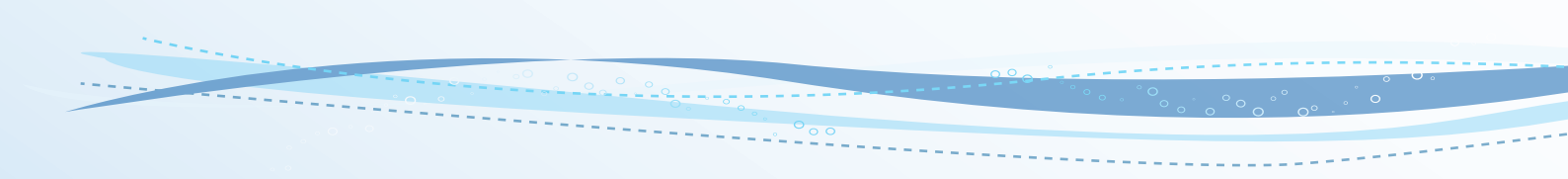
Aims and Purpose of the Fund

The aims of the fund are to:

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

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.



Responsibilities of the key parties

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

Key parties to the FSS

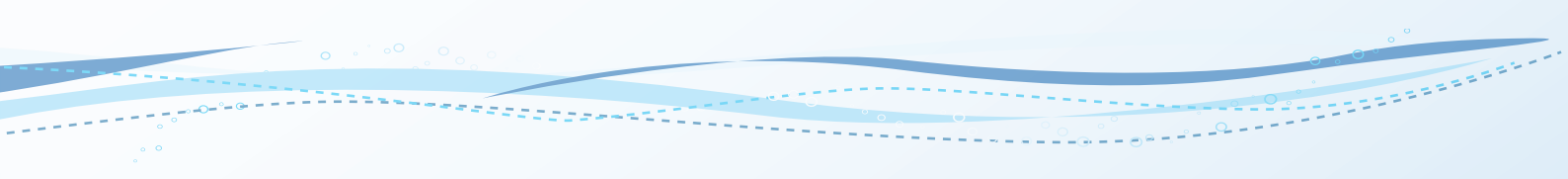
The Administering Authority should:

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

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the Fund Actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The Fund Actuary should:

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

- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

The Fund's Investment Manager(s) should:

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

Solvency Funding Target

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

Solvency and long term efficiency

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

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

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

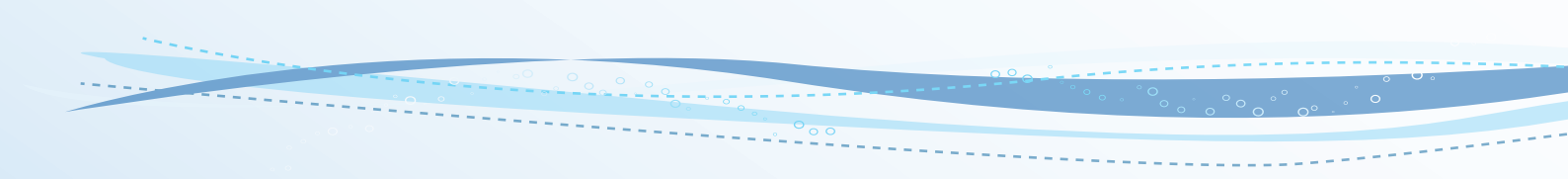
Determination of the Solvency Funding Target and Deficit Recovery Plan

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

Underlying these assumptions are the following two tenets:

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

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



In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest. As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

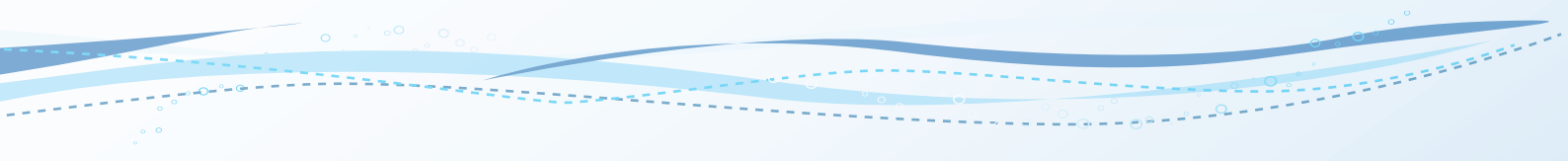
- The Fund does not believe it appropriate for monetary contribution reductions to apply compared to the existing funding plan (allowing for indexation of deficit contributions where applicable) where deficits remain unless there is a compelling reason to do so.
- Certain employers may follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.
- As a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in [Appendix B](#)). Application of these principles have resulted in an average recovery period of 16 years being adopted across all Fund employers.
- Individual employer contributions will be expressed and certified as two separate elements:
 - o the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
 - o the Secondary rate: a schedule of lump sum monetary amounts or % adjustments over 2017/20 in respect of an employer's surplus or deficit (including any phasing adjustments).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

- Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be deferred until 1 April 2018 or with the agreement of the Administering Authority implemented in steps, over a maximum period of 3 years. Employers should be aware that any stepping or deferral of increases may affect the contribution requirements arising at future valuations.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

Funding for Non-Ill Health Early Retirement Costs

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



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

The results of the 2016 valuation show the liabilities to be 97% covered by the current assets, with the funding deficit of 3% of liabilities being covered by future deficit contributions.

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

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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance nor any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 62%.

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

The current strategy is:

	Benchmark (%)	Range (%)
UK Equities	25.00	23.50 - 26.50
Overseas Equities	25.00	23.50 - 26.50
Global Equities	19.00	10.00 - 30.00
Pan European Property	10.00	5.00 - 15.00
Bonds	20.00	18.50 - 21.50
Cash	1.00	0.00 - 10.00
Total	100.00	

Overseas Equities	Benchmark (%)	Range (%)
North America	10.00	5.00 - 15.00
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	25.00	

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	0.00 - 7.00
Total Overseas Exposure	43.00 - 53.00

As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 3.8% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

Identification of Risks and Counter-Measures

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

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

Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the All Wales pool.

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

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

Demographic

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations.

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

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

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

Insurance of Certain Benefits

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

Regulatory

The key regulatory risks are as follows:-

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

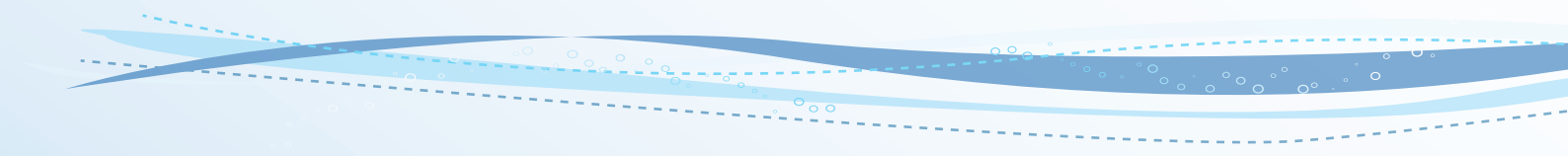
Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it has been shared with the Pensions Panel in March and a copy published on the Fund's website inviting comments from all interested parties. The final Statement will be formally approved prior to 31 March 2017 in accordance with Council delegations.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level



- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes to senior Fund Officers and the Panel membership.

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

Monitoring and Review

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

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

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

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

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



River Cleddau, Burton Ferry

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:

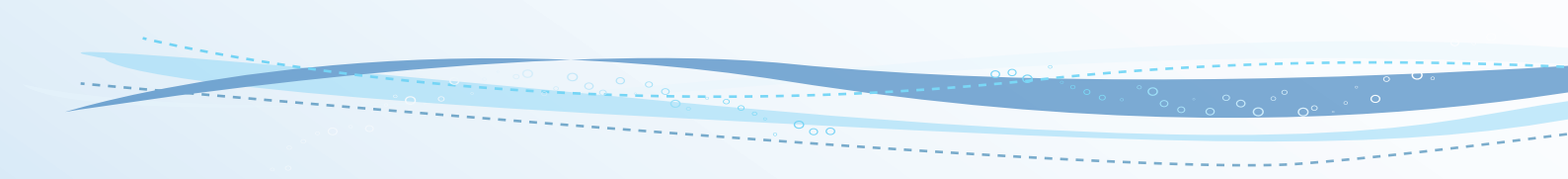
- The strategic management of the assets which is fundamentally the responsibility of the Pension Panel. The Pension Panel consists of 3 Elected Members of Carmarthenshire County Council (and 1 substitute member) nominated with delegated powers from Carmarthenshire County Council, who are advised by 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.



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

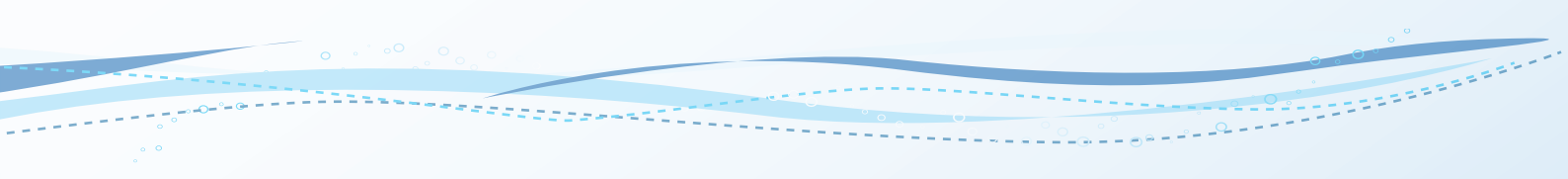
- Concentration – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity – The risk that the Fund cannot meet its liabilities because it has insufficient liquid assets.
- 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. 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.

The day to day management of the Assets

Where Investment Management Agreements (IMAs) between Carmarthenshire County Council and investment managers are appropriate they 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	25.00	23.50 - 26.50
Overseas Equities	25.00	23.50 - 26.50
Global Equities	19.00	10.00 - 30.00
Pan European Property	10.00	5.00 - 15.00
Bonds	20.00	18.50 - 21.50
Cash	1.00	0.00 - 10.00
Total	100.00	

Overseas Equities	Benchmark (%)	Range (%)
North America	10.00	5.00 - 15.00
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	25.00	

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	0.00 - 7.00
Total Overseas Exposure	43.00 - 53.00

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 Investment Management Agreements (IMAs). The following investments are allowable for the Dyfed Pension Fund:

- Units in active and passive funds, including GTAA.
- 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 their respective benchmarks.

The target given to BlackRock is to seek to outperform its benchmark by 0.4%p.a. over rolling 3 years, using a weighted contribution of mid targets (1.5) of 1-2%p.a. for active equities and 1%p.a. for active bonds.

The target given to Schroders is to seek to outperform the AREF / IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average by 0.75%p.a. over a rolling 5 year period.

The target given to Partners Group is to seek a 12%p.a. gross absolute return (with a secondary benchmark of 200 basis points p.a. above the AREF / IPD UK Quarterly Property Fund Index All Balanced Funds Weighted Average) over any 3 year rolling period.

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

The Pension Panel, assisted by the independent adviser and the Head of Financial Services, meet regularly 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:

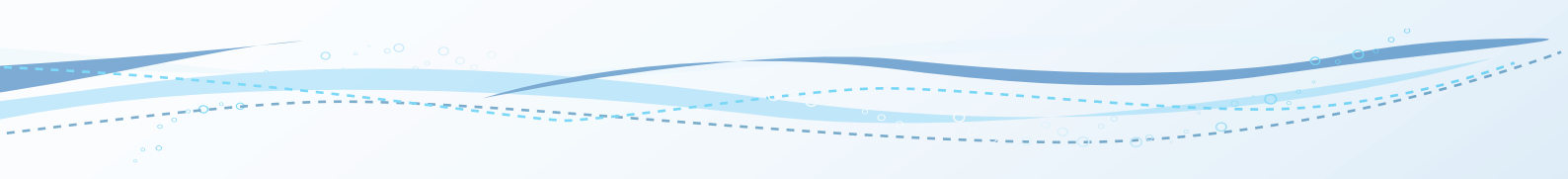
Investment Managers - BlackRock, Schroders, Partners Group, Baillie Gifford and Columbia Threadneedle

Independent Investment Adviser - Mr Eric Lambert

Performance Measurement Company - Local Authority Pension Performance Analytics (PIRC)

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.

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.

Compliance with this Statement

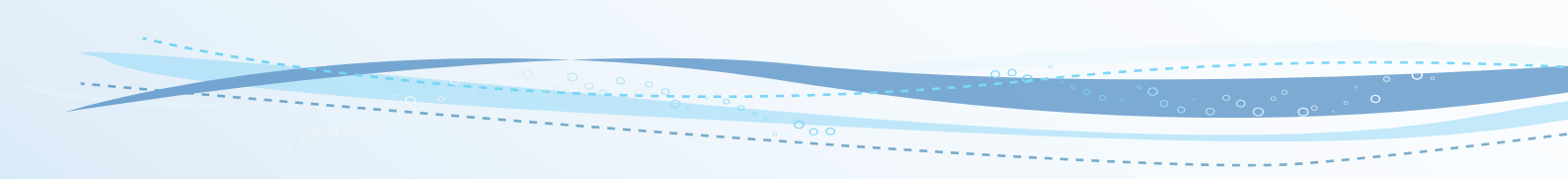
The Pension Panel will monitor compliance with this statement annually. The investment managers will confirm annually in writing that they have complied with this statement and should this statement materially change the investment managers will be informed promptly.

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, Partners Group, Baillie Gifford and Columbia Threadneedle 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.



Myners 6 Principles and Compliance Checklist

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

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 out 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

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

Bilingual Scheme Literature

An extensive range of Scheme literature is produced by the Dyfed Pension Fund and is supplied to employing bodies and Scheme members directly. This Scheme literature forms part of the data held on the Fund's website. 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. The My Pension Online facility also acts as another electronic medium.

Payment Advice / P60

Pensioners are issued with payment advice slips every April, and thereafter when a variance of £5 or more occurs, unless they have chosen to utilise the My Pension Online Service. P60 notifications are also issued annually in May. 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. These are issued electronically to those that have registered to the My Pension Online service.

Existence Validation - (Life Certificate Exercise)

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

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 program and are issued with an induction schedule. A periodic appraisal programme is also exercised to review and monitor employee performance and development.

Meetings

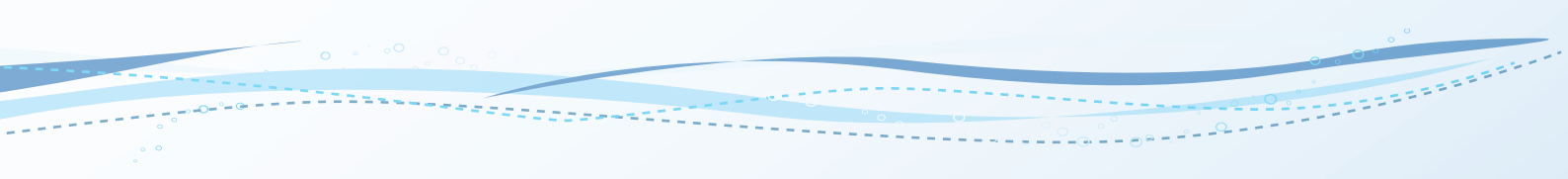
Departmental and Section meetings are held on a regular basis. Items arising from such meetings are escalated through to Senior Managers and Chief Officers. Any relevant matters are cascaded to all staff.

Training & Support

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



Website

The Fund Website sets out Scheme provisions in a simple and concise manner, and all staff are actively encouraged to view. Whilst it is intended primarily as a means of external communication, access to the site is valuable to staff as it acts as a point of reference. www.dyfedpensionfund.org.uk

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.

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.

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