Cronfa Bensiwn DYFED Pension Fund

DYFED PENSION FUND

Annual Report & Accounts 2017-2018

Investment strategy...

...building on firm foundations

LAPF INVESTMENTS AWARDS 2017
LGPS FUND OF THE YEAR (UNDER £2.5 BILLION)
WINNER

Cyngor Sir Gâr Carmarthenshire County Council

CONTENTS

If you need this information in large print, braille or on audio tape, please call **01267 224129**

100% recycled
This publication is printed on 100% recycled paper

CHAIRMAN'S FOREWORD

Welcome to this year's Dyfed Pension Fund Annual Report and Accounts and my first as Chair of the Pension Committee. May I firstly thank Councillor Wyn Evans for his exceptional chairmanship of the Dyfed Pension Fund over the past 17 years. His dedication and astuteness and that of his fellow pension fund committee members have ensured that I have inherited a fund that is one of the finest in terms of management and success in the Local Government Pension Scheme.

This year's theme of "Investment strategy… building on firm foundations" is apt for 2017-18. The pension committee endorsed an increased allocation to property from 10% to 15% as part of the Strategic Asset Allocation review which was approved in November 2017. We also approved an investment of 5% of the Fund in an alternatives income generating asset and an allocation of 5% to infrastructure in keeping with government expectations. Further detail can be found in the rest of this report.

One of my roles as chair of the Fund is as a member of the Joint Governance Committee (JGC) for the Wales Pension Partnership (WPP). During the year following an extensive procurement process we appointed the operator for the WPP, namely, Link Fund Solutions. They have partnered with Russell Investments who will perform manager selection and due diligence functions. Our host authority responsibilities have been executed on a timely and efficient basis on behalf of all eight Wales funds. Officer Working Group (OWG) and JGC meetings have been held regularly with Hymans attending as the investment consultant. Since March 2018, the Financial Conduct Authority (FCA) prospectus has been approved which includes the development of the first 2 sub funds (Global Equities) to the value of £3.5bn.

The wider investment opportunities available via the WPP reminds us of the importance to act as a responsible investor and take Environmental, Social and Governance (ESG) matters seriously whilst also being clear that the Fund must operate in the best interests of its members. The Fund itself is a member of the Local Authority Pension Fund Forum (LAPFF), a collective of local government pension funds who look to influence behaviours within those companies which we invest in. Where equity shares are owned, the Fund via its advisers and asset managers will also engage with companies to understand the extent of a company's planning for ESG matters.

Market returns were relatively tightly grouped during 2017-18 with bonds, equities and alternatives returning 1%, 4%, and 6% respectively. Strategic asset allocation therefore had less of an impact than usual. Property was the best performing of the major asset classes returning an average of 10% for the year. Our property managers, Schroders and Partners Group, returned 11.9%!

Your fund returned 4.6% during 2017-18 which was 0.9% above its benchmark of 3.7% and also above the LA universe average of 4.5%. Longer term performance is also good for rolling 3 and 5 years at 9.1% per annum and 9.7% per annum respectively. The Fund's market value increased by circa 4% or £100m to £2.4bn. In terms of performance, we are now positioned at the 12th, 15th and 13th percentiles over 3, 5 and 10 years from information provided by our performance providers (PIRC). This indicates stable long term performance when compared to our peers and reiterates the comments I made earlier.

Membership of the Fund also continues to increase but at a slower pace. Total membership as at 31 March 2018 was 46,514 with actives actually falling and pensioners and deferred members increasing to 12,585 and 15,354 respectively. We continue to engage regularly with our members and employers and promote the "My Pension Online" interactive facility.

It is now three years since the pension board was established! John Jones continues to chair the meetings and I attend as an observer. It has been an interesting and eye opening experience for me on how well the board members work with the fund officers and how the board's scrutiny and support complements the pension committee. There have been a few board member changes for various reasons which John expands on in his report in Section 5.

I am pleased to announce that we were double winners at the LAPF Investments 2017 Awards, held in London in September 2017. The Fund won the Scheme Administration Award and the LGPS Fund of the Year. It is gratifying that the hard work and effort that goes into supporting the Fund is recognized nationally.

Thank you to the members of the Pension Committee who, following their appointments in May 2017, have risen to the challenge of providing governance, stewardship and direction for the Fund. My thanks also go to the senior managers and officers in the Administration and Investment teams for their commitment and hard work towards delivering a quality service during the year. Despite the increasing workloads 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 Fund.

Councillor Elwyn Williams
Chairman of the Pension Committee

INTRODUCTION

I would like to welcome Councillor Elwyn Williams on to the pension committee as chairman and to his fellow councillors as members of the committee.

Historically, the pension committee and officers have worked effectively together under the terms of the Fund's Governance Policy. The pension committee:

- decides on the policy matters and strategic direction relating to the investments of the Pension Fund
- reviews and monitors the investment performance of the Fund
- reviews and determines on all valuation matters of the Fund
- determines on administering pension fund authority policy and strategic matters

Operational matters of both the Investments and Administration functions are delegated to myself.

The full Governance Policy can be found in Section 5 of this report.

As the chairman mentioned in his foreword and in relation to the annual report theme, the Fund has increased its allocation to property. This was decided following the recommendations from our Independent Investment Advisor's Strategic Asset Allocation report. The increased allocation will give rise to a much needed regular income stream, will provide protection against inflation and ensure the Fund fulfils its investment objectives. Index Linked Gilts, due to their forecast of more modest, possibly even negative, future returns will be gradually disinvested to meet this allocation. The other asset allocation decisions that the chairman mentioned will also contribute to meeting the investment objectives.

The revised asset allocation of the Fund once these changes have been implemented will be:

	Benchmark (%)
UK Equities	25.0
Overseas Equities	20.0
Global Equities	20.0
Pan European Property	15.0
Fixed Income (Corporate Bonds)	10.0
Infrastructure	5.0
Alternatives	5.0
TOTAL	**100.0**

As you will have read in previous annual reports your Fund prides itself on communicating to all stakeholders via internet based technology.

Again this year the Pension Administration team undertook 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 Fund's carbon footprint. You will find more detail on this facility including how to register in Section 3 of this report.

The team have also redeveloped the Dyfed Pension Fund website. It continues to provide a valuable source of information on all aspects of the Fund including administration, investment and governance. Please visit us on **www.dyfedpensionfund.org.uk** for all your pension fund needs.

I attended numerous Joint Governance Committee (JGC) and Officer Working Group (OWG) meetings during 2017-18 in my capacity as Section 151 officer for Carmarthenshire County Council and as the responsible officer for our host authority role in the Wales Pension Partnership (WPP). The eight pension committee chairs, my fellow Section 151 officers and I are very pleased in the way the WPP is progressing. I must however stress that the time and commitment that the Wales LGPS is contributing to the partnership is immense and was probably underestimated when we set out on the pooling path.

In March 2018 Link Fund Solutions and Russell Investments presented the initial recommendation for two Global Equity sub funds to the value of £3.5bn. The sub funds will be approved and launched in 2018-19. UK and European Equities and Fixed Income asset classes will be the next tranches to be pooled in 2019-20.

We have provided a couple of WPP progress updates to the Ministry of Housing Communities and Local Government (MHCLG) and the Minister, who we are due to meet him in November 2018 to present to him our strategy and respond to any specific questions he may have.

Finally, I would like to thank my pension teams and the newly appointed Head of Financial Services for their commitment and hard work again this year in delivering an excellent service. The pensions industry continues to become more complex which inevitably results in ever increasing workloads. We will however maintain our high standards and meet the challenges head on for the benefit of all our stakeholders.

Chris Moore FCCA
Director of Corporate Services

MANAGEMENT AND FINANCIAL PERFORMANCE REPORTS

Fund Management and Advisers

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

The Fund's Governance Policy sets out the roles and responsibilities of the Committee. During 2017-2018 the Committee members were:

Councillor Elwyn Williams - Chairman of the Committee

Councillor John Prosser - Committee Member

Councillor Jim Jones - Committee Member

Councillor Dai Thomas - Substitute Committee Member

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

Mr Chris Moore, FCCA - Director of Corporate Services

Mr Owen Bowen, FCCA - Head of Financial Services (up to 31 Dec 2017)

Mr Randal Hemingway, CPFA - Head of Financial Services (From 1 Jan 2018)

Mr Anthony Parnell, FCCA - Treasury and Pension Investments Manager

Mr Kevin Gerard, MIPPM - Pensions Manager

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

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

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

The Pension Committee

Meeting attendance and training events 2017-18	Cllr. Elwyn Williams	Cllr. John Prosser	Cllr. Jim Jones
Voting rights	✔	✔	✔
2017-18 Meeting attendance:			
Committee Meeting 21 September 2017	✔	✔	✔
ACM 25 October 2017	✔	✔	✔
Committee Meeting 25/26 October 2017	✔	✔	✔
Committee Meeting 27 November 2017	✔	✔	✔
Committee Meeting 14 March 2018	✔	✔	✔
2017-18 Training events:			
Induction Training (CCC Staff) June 2017	✔	✔	✔
Property (Schroders & Partners Group) July 2017	✔	✔	✔
Equities & Bonds (BlackRock) July 2017	✔	✔	✔
Global Equities (Columbia Threadneedle) July 2017	✔	✔	✔
Investment Summit (LGC) September 2017	✔		✔
ESG issues (LAPFF) October 2017		✔	
Fundamentals Training (LGPC) October 2017			✔
Fundamentals Training (LGPC) November 2017	✔	✔	✔
Fundamentals Training (LGPC) December 2017	✔	✔	✔
Annual Conference (LAPFF) December 2017		✔	
ESG issues & AGM (LAPFF) January 2018		✔	
Investment Seminar (LGC) March 2018	✔		

The Fund's Independent Investment Adviser:
Mr Eric Lambert - He advises the Committee on all aspects of investment management at quarterly meetings and ad hoc meetings as necessary.

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

Financial Performance

Income and Expenditure

The table below shows 2017-18 actual income and expenditure against budget with reasons for any significant variances.

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

	Actual 2016-17 £'000	Budget 2017-18 £'000	Actual 2017-18 £'000	Variance 2017-18 £'000
Income				
Employee Contributions	17,815	17,823	18,229	406
Employer Contributions	52,056	48,187	53,441	5,254
Transfers In	1,889	2,000	1,699	(301)
Investment Income	31,461	24,316	18,948	(5,368)
Other Income	0	60	0	(60)
Total Income	**103,221**	**92,386**	**92,317**	**(69)**
Expenditure				
Benefits Payable	76,694	72,201	80,200	(7,999)
Transfers Out	3,452	4,100	2,304	1,796
Management Expenses	1,430	1,663	1,506	157
Investment Management Expenses	5,941	4,536	9,710	(5,174)
Total Expenditure	**87,517**	**82,500**	**93,720**	**(11,220)**
Changes in the Market Value of Investments	426,955	-	98,447	-
Net Increase/(Decrease) in the fund value	**442,659**	**-**	**97,044**	**-**

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

Income

Total Actual Income was less than budgeted. There was an increase in Active members, an increase in payments from employers for members that retire early and a reduction in dividends due to investment in pooled equities instead of segregated equities.

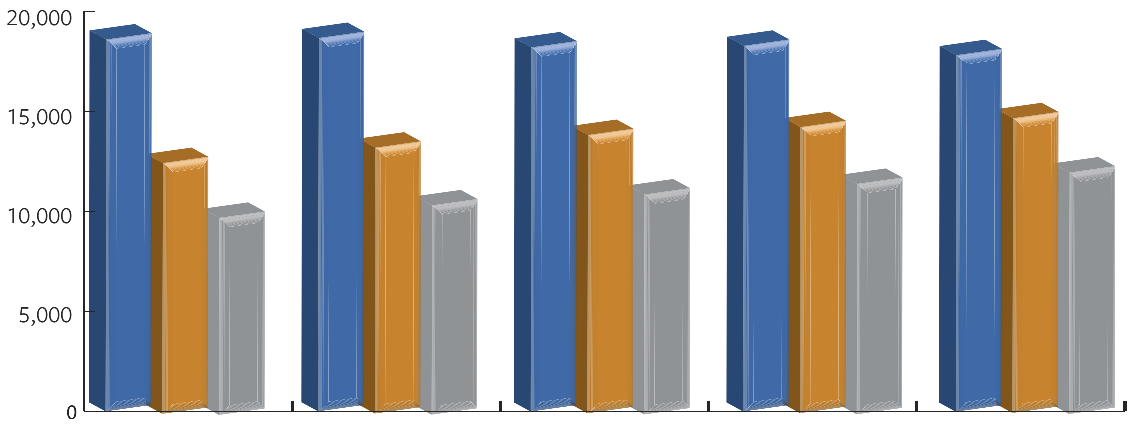
Expenditure

Total Actual Expenditure was more than budgeted mainly due to an increase in pension costs and new CIPFA guidance regarding Management Expenses.

Administrative Management Performance

Membership Statistics

A schedule of employers (as at 31 March 2018) 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 5 years:



	31/03/2014	31/03/2015	31/03/2016	31/03/2017	31/03/2018
Active	19,375	19,451	18,970	19,052	18,575
Deferred	13,066	13,854	14,499	14,904	15,354
Pensioner	10,270	10,906	11,462	12,003	12,585

Member Movement Statistics

The adjacent table illustrates the number of individual member status movements performed by the administration team over the last 5 years. This provides a reflection of the work undertaken in relation to New Members, Leavers and Retired Members.

Year	Status Entry	Status Exit	Total
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
2017-18	5,522	3,021	8,543

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:

01/04/2017 – 31/03/2018	Total Completed	Benchmark (%)	Performance (%)
New Starters	2,902	95.00	97.00
Transfers into the Fund	134	95.00	98.67
Retirement Quotes	934	95.00	96.57
Payment of Retirement Benefits	545	95.00	95.23

In addition to the primary role of administering the Local Government Pension Scheme and its provisions, the Pensions 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 Investment Strategy Statement (ISS) (Section 8). The ISS also sets out the Fund's policies in respect of responsible investment and other environmental or social issues.

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

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

Responsible Investment Policy

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

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

Membership of Pension Fund Institutions

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

Voting

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

Manager changes

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

Asset Allocation

The asset allocation as at 31 March 2018 is shown below:

Mandate	Approach	Manager	Benchmark %	Actual %
UK Equities				
UK Equities	Passive	BlackRock	25.00	19.73
Overseas Equities			25.00	27.60
US Equities	Active	BlackRock	-	10.15
Canadian Equities	Passive	BlackRock	-	0.41
Japanese Equities	Active	BlackRock	-	3.41
Pacific Rim Equities	Passive	BlackRock	-	2.55
European Equities	Passive	BlackRock	-	3.35
Emerging Markets	Passive	BlackRock	-	7.73
Global Equities	**Active**	**Baillie Gifford / Columbia Threadneedle**	**20.00**	**22.36**
Fixed Interest				
Index Linked Bonds	Passive	BlackRock	10.00	10.22
Corporate Bonds	Active	BlackRock	10.00	9.90
Property				
Pan European Property	Active	Schroders	8.00	8.30
Pan European Property	Active	Partners Group	2.00	1.62
Other				
Cash	Active	BlackRock	-	0.27
Total			**100.00**	**100.00**

The Fund's asset allocation strategy can also be found in the ISS (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 4.3% from 2016-17 to 2017-18.

	Value as at 31/03/17 £'000	Value as at 31/03/18 £'000
Equities - UK Quoted	568,252	480,061
Index Linked	219,346	248,675
Fixed Interest (Corporate Bonds)	221,350	240,907
Pooled Funds - Global Equities & Overseas Equities	1,099,372	1,220,499
Property	5,966	6,057
Pooled Property Investments	212,417	231,874
Cash	4,880	6,587
Accrued Income	3,595	490
Total	**2,335,178**	**2,435,150**

Investment Performance

10 Year Returns

Periods to 31/03/18	Fund (%)	LA Universe (%)	Difference (%)
1 year	4.6	4.5	+0.1
3 year*	9.1	8.3	+0.8
5 year*	9.7	8.8	+0.9
10 year*	8.6	7.7	+0.9

*Annualised Returns

Performance is measured on both a quarterly and an annual basis. For the year to 31 March 2018 the Fund returned 4.6% (compared with an average local authority return of 4.5%) and was ranked in the 27th percentile. The rolling three year return for the Fund is 9.1% (compared with the average local authority fund return of 8.3%) and ranked in the 12th percentile. The rolling 5 and 10 year returns for the Fund are ranked at 15th and 13th respectively. The LA Universe is measured and compiled independently by the Local Authority Pension Performance Analytics (PIRC).

Individual Managers' Performance

The following tables show the performance of each manager for the year ending 31 March 2018.

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 12.9%. As a time weighted return based on cash flows it is not a meaningful performance measurement until all capital contributed and earnings has been returned to the investor. Until then the IRR will peak and dip based on the timing of cash inflows and outflows. The portfolio of investments continue to meet Partners Group's expectations in terms of performance.

The table illustrates the cash flows as at 31 March 2018. The valuation of the property portfolio is above the original cost of investment:

Portfolio investments	
Committed	£66.1m
Commitment level	98.65%
Commitment level - directs	19.90%
Commitment level - secondaries	34.97%
Commitment level - primaries	43.78%
Invested	£54.9m
Investment level	83.05%

Partners Group Red Dragon L.P.	
Commitments	£67.0m
Capital contributions	£53.9m
Capital contributions (in % of commitments)	80.39%
Unfunded commitments	£13.1m
Distributions	£28.2m
Net asset value	£44.0m

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 also above the benchmark for 3 and 5 year periods.

Performance to 31/03/18	Fund (%)	Benchmark (%)
1 year	11.50	10.00
3 year*	8.40	8.10
5 year*	10.60	10.50

*Annualised Returns

The property portfolio was in the 4th percentile in the LA Universe (3rd out of 53 LGPS funds that invest in property PIRC)

BlackRock

The active US Equities and UK Corporate Bonds have outperformed (+3.7% and +1.4% respectively) while the Japanese Equites have underperformed (-1.9%) their respective indices during the year.

	Fund Return (%)	Index (%)	L A Universe (%)
US Equities	5.0	1.3	2.6
Japanese Equities	5.6	7.5	8.4
UK Corporate Bonds	2.6	1.2	2.0

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 31/03/18	
Units Held	167,310,428
Unit Price (£)	1.4369
Valuation (£)	240,408,355

Performance to 31/03/18	Fund (%)	Benchmark (%)
1 year	(1.95)	2.90
3 year*	9.27	10.78

*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 31/03/18	
Units Held	107,987,720
Unit Price (£)	2.84
Valuation (£)	306,577,138

Performance to 31/03/18	Fund (%)	Benchmark (%)
1 year	13.30	2.90
3 year*	14.76	10.78

*Annualised returns

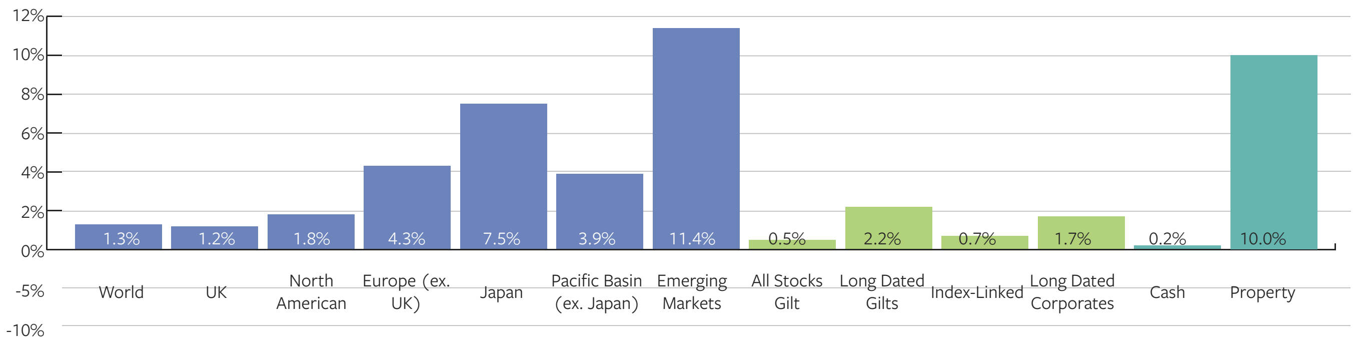
BlackRock

Despite political events, market volatility was low over 2017 and the overall positive macroeconomic drivers resulted in a benign environment for Equities and Fixed Income which experienced positive returns over the period. Volatility however returned in February unsettling equity markets which gave back some of the gains over the year.

Reflation and growth were the big themes coming through and we saw monetary policy normalisation amongst central banks.

- Post the UK's election surprise, the remainder of the year was dominated by Brexit negotiations and reasonable robust economic data. This saw a rise in inflation and currency appreciation over the period, with equities continuing to reach record levels until February.
- The other stand out event in France was Emmanuel Macron's En Marche party's convincing win in both the presidential and assembly elections. This signaled a relief in Europe and markets performed solidly for the remainder of the period.
- The broad strength of the US economy led the US Federal Reserve (the Fed) to continue policy normalisation.

Figure 1: Market returns 1 April 2017 to 31 March 2018



Source: BlackRock. All returns in sterling

BlackRock Performance

Over the year, Dyfed Pension Fund's Main Portfolio returned 3.63% for the period compared to a composite index return of 2.95%, thereby outperforming the index by 0.68%[1].

The passively managed funds tracked the indices they are managed against. For the active funds, Japanese Equities underperformed the benchmark by -1.87% and US Equities outperformed by 3.72%. Corporate Bonds were ahead of the benchmark by 1.36%.

Further detail on the market and economic background follow.

[1] Performance figures are gross of fees.

Market & Economic background

April – June 2017

Overall, global equity markets were positive over the quarter. Markets in the UK, US and Europe saw most of their gains from the quarter recede towards the end of period, as market leadership rotated to Asia in June.

Elections in the UK and France, low oil prices amid supply concerns, and increasingly hawkish central banks worldwide dominated financial headlines. Despite the ongoing Senate investigation into President Trump and unease over events in North Korea and Syria, US equities performed well over the quarter. The US Federal Reserve (Fed) raised interest rates for the third time in seven months, even though inflation growth in May of 1.9% year on year was below expectations. This, along with slower economic expansion, led to the IMF downgrading US GDP growth to 2.1% for 2017.

Equity markets in Asia Pacific showed solid overall strength, with China hitting 18-month highs in June when it was added to the MSCI Emerging Markets and World indices.

July – September 2017

Global equities recorded solid gains for the third quarter of 2017, with emerging-market equities outperforming developed markets over the quarter, although September saw a reversal of this year-to-date trend. China and Latin America had especially strong performance for the quarter.

Most of the world's major central banks kept their interest rates unchanged during the quarter, but sentiment was generally perceived to be turning more hawkish (in favour of higher rates and policy normalisation). The US Federal Reserve (Fed), the Bank of England (BoE) and the European Central Bank (ECB) all indicated that they will be tightening their monetary policy.

October – December 2017

The third quarter of 2017 was positive for equities across the globe, with indices moving upwards to new highs. The MSCI All Country World index ended a year of exceptional gains at a record level. Towards the end of the quarter, equities in the US rose in anticipation of President Trump's tax reform bill – which would see tax cuts for corporations and the highest-rate payers – being signed into law. Encouraged by the signs of growth in the US economy, the Federal Reserve (the Fed) made its third rate rise of the year, nudging the interest rate up by 25 basis points (bps).

There was positive economic news in Europe, enough for the European Central Bank (ECB) to announce that its asset-buying programme would be tapered from January onwards. Politically, turbulence came in the form of Catalonia's demands for independence, Britain's troubled Brexit negotiations and German Chancellor Angela Merkel's failing to form a minority government. European stocks made a small gain over the quarter. UK equities fared better, with a strong performance by the FTSE 100 at the end of the quarter, boosted by rising commodities prices.

Inflation grew over the period and employment figures remained buoyant. GDP expansion accelerated, but remained subdued compared with growth in the US and the eurozone.

January – March 2018

The year began with a positive January, as markets across the globe made gains, but February and January proved to be volatile. In January, the IMF raised its global economic growth forecast for 2018 and 2019, and equities in the US continued to respond positively to the tax cuts introduced by President Trump's administration. By the end of January, fears that US inflation and interest rates would rise more quickly than expected contributed to an equities sell-off.

This began in the US, but, in early February, quickly spread to markets around the globe. Chinese markets were hit particularly hard.

March saw the US Federal Reserve (Fed) make its anticipated rate rise of 25 basis points.

However, further political and market turbulence followed in March when Russian and UK relations were strained by the poisoning of a former Russian spy on UK soil, and when President Trump announced tariffs on US imports of steel, aluminium, and later, on some $60 billion worth of unspecified products from China.

The MSCI All Countries World index was down over the quarter.

Contact over the year

Over the review period, BlackRock reported formally to the Pension Fund Committee, attended the annual ACM meeting and hosted a CIPFA conference in Cardiff. In line with the theme of investment strategy and building firm foundations, BlackRock provided training to the new Pension Fund Committee. We wish them every success as they go from strength to strength!

The Dyfed Pension Fund Relationship team:

Christopher Head
Managing Director

Tamryn Reynolds
Vice President

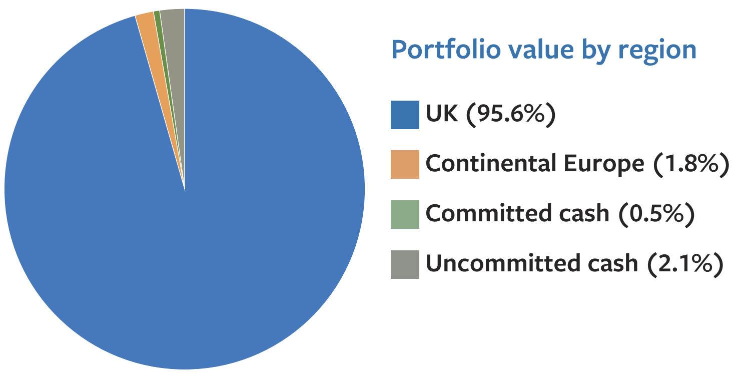
Schroders

Background

Schroders was appointed to manage a pan–European portfolio of indirect investments in March 2010. An initial allocation of £88 million was committed at inception, with a further £32 million committed in July 2013. In 2018 we received confirmation from the client that they had revised their allocation with Schroders to 13% of the Dyfed Pension Fund. As at 31st December 2017, this equates to a property allocation of circa £325 million.

Progress

As at 31st of March 2018 the value of the property portfolio stood at circa £206 million, approximately £86 million above the amount committed, with 95.6% by value invested in the UK, 1.8% invested in continental Europe and 2.6% held in cash. There are undrawn commitments to Income Plus Real Estate Debt Fund (circa £24.4 million) and Regional Office Property Unit Trust (circa £1.1 million), with cash for the former being held by the client. Reflecting commitments and trades agreed post quarter end, there is currently circa £0.7 million of cash available on account, representing 0.3% of portfolio value.

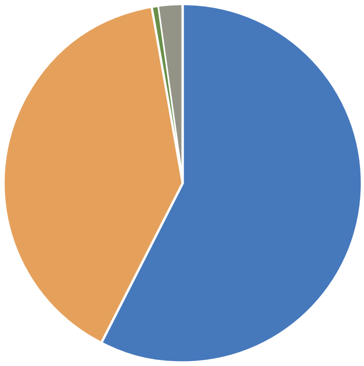


Excluding the new allocation to the portfolio, when fully drawn we expect the UK element of the portfolio to comprise 98% of portfolio value.

Exposure to continental Europe has reduced from circa 7% of portfolio value as at 31st March 2015. 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 look-through 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, regional offices and non-mainstream sectors. 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 rest of UK office sectors. We would like to add further to regional offices and alternative sectors to bring the portfolio sector structure more in-line with our House View.

By fund style, approximately 57.6% of the portfolio by value is invested in UK core style strategies. Core funds are typically lowly geared and open-ended in structure. 39.8% 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.



The continental European portfolio (1.8% of portfolio value) provides access to four individual investments, eight underlying countries and a variety of property sectors. Within continental Europe the underlying property exposure is generally skewed towards northern and western countries, with 29.7% in Poland being the largest single country exposure. By value 49.8% of the European portfolio is invested in the retail sector with the remainder mainly invested in the office (40.4%) and industrial (6.4%) sectors.

Performance

Performance was in-line with the benchmark over the three months to end March 2018. Portfolio returns were above the benchmark over a twelve month period (+1.5%), three years (+0.3% per annum) and five years (+0.1% per annum). The industrial sector continues to be the strongest near term driver of performance. Holdings in continental Europe have detracted from performance over all time periods. The performance of the UK holdings have exceeded the benchmark over three months (+0.2%), twelve months (+2.1%), three years (+0.8% per annum) and five years (+1.3% per annum).

UK property outlook

Schroders forecast that the UK economy will grow by 1.5-1.7% p.a. through 2018-19. Exporters are benefiting from the acceleration in world trade and the drop in sterling following the EU referendum and the conditional agreement on a post-Brexit transition period should help business confidence and investment. In addition, the squeeze on real incomes and consumer spending should ease, as inflation slows to around 2.2% by the end of 2018.

Profits in the retail sector are being squeezed by a combination of higher import prices, the increase in the national minimum wage and intense competition from online retailers. Several retailers fell into administration in the first quarter of 2018 and others deliberately entered into CVAs in order to cut their rents. In general demand for retail space is weak and many town centres are suffering from rising vacancy rates, higher business rates and falling rents. The exceptions are certain dominant shopping centres which offer a mix of retail and leisure experiences and convenience stores, as the big four grocery chains, Aldi and Lidl open more smaller format supermarkets.

The City of London has seen a bigger fall in prime office rents over the last two years (-7%) than the West End (-4%), according to PMA. Prime office rents in King's Cross, Shoreditch and the South Bank have been flat. Looking ahead, we expect that the City will continue to be the weakest sub-market over the next couple of years, while the West End should be more resilient thanks to a wider range of occupiers and limited new building. Areas like Farringdon, Stratford and Whitechapel will gain from the start of Crossrail services in December 2018. Outside London, we expect that office rents will generally be stable through 2018-2020, reflecting the bigger role played by government and local occupiers and lower reliance on international finance, modest levels of new building and the recent conversion of older offices to residential, particularly in southern England.

In the industrial sector, take-up of big logistics warehouses was lower in 2017 than 2016 (source: Gerald Eve), mainly because Amazon had a quiet year by its standards. The most active occupiers were manufacturing companies and discount supermarkets Aldi and Lidl, who took additional space to support their store expansion. While rental growth in the industrial sector will probably slow through 2018-2019, it is likely to remain positive at 1-3%, given the growth in online shopping and assuming developers continue taking a measured approach.

Based on our forecast for base rates, Schroders expects the yield on 10 year gilts to rise from 1.4% at the end of March 2018 to 3% by mid-2020. While the all property initial yield is also likely to rise over the same period, we expect the increase to be much smaller – from 4.7% to 5.1% – for three reasons. First, the current gap between the all property initial yield and 10 year gilts is well above its long-term average of 2%. Second, real estate is not a fixed income asset and yields are also influenced by investors' rental growth expectations. While we expect retail rents and office rents in central London to fall over the next couple of years, we expect office rents across the rest of the country and industrial rents to be stable, or even rise slightly. Third, there is a large amount of international capital which is targeting UK and European real estate.

After good absolute performance in 2017 with all property total returns of 10%, we expect total returns in 2018 to be lower with capital value falls in parts of the market, including retail and City offices, which together account for almost half the index by value. For diversified portfolios our main focus is on industrial / logistics serving large population centres, offices in winning cities and certain alternative sectors and strategies which should be less correlated with the main commercial markets.

Continental European property outlook

Schroders forecast that eurozone GDP will grow by 2-2.5% through 2018-2019, its best performance since 2007. This reflects our view that the eurozone has achieved "take-off velocity" and is benefiting from a virtuous circle of higher investment, falling unemployment and rising consumer spending. While stronger growth will feed through to higher inflation, Schroders expects inflation to remain at around 1.5% p.a. over the next couple of years, with the result that the European Central Bank (ECB) is unlikely to raise interest rates before 2019. The main downside risk is a trade war which would hurt export-orientated economies like Germany and Sweden, although so far the EU has sidestepped the dispute between China and the US.

In most European cities, office take-up is now back to the high levels of 2006-2007. The main driver is the growth in employment in professional services, media and technology, although serviced office providers are also becoming more active, notably in Amsterdam and Madrid. While office developers are starting to respond, new regulations on bank lending have helped to curb speculative schemes and vacancy rates in most cities have continued to decline. Consequently, we are now seeing a widespread increase in office rents and in several cities the fastest rental growth is outside the central core in tech districts (Amsterdam, Berlin), or in areas benefiting from major new investment, or transport (e.g. Hamburg, Stockholm).

In many respects the industrial sector resembles the office market. Logistics take up in continental Europe hit a new record in 2017, reflecting the cyclical recovery in demand from manufacturers and third party logistics firms (3PLs) and the rapid structural growth in online retail. Although development is increasing, the vast majority of schemes are being built on a pre-let "build to suit" basis and vacancy in most locations remains low. Prime logistics rents increased by 3% on average last year according to CBRE.

European retail markets present a more mixed picture. In the food sector the main change is the switch in format, away from big hypermarkets to smaller supermarkets and organic food stores. The internet typically only accounts for 2-3% of food sales, except in France where it has reached 6% due to the popularity of click & collect "drive" outlets. By contrast, the main disrupter in the fashion sector is the internet, which now accounts for 20% of clothing and footwear sales in northern Europe. Several smaller chains have fallen into insolvency and major retailers such as H&M and Inditex are closing stores and investing heavily in their websites and logistics. The luxury sector is also in flux, partly because of the internet, but also because certain chains over-expanded and rents on some prime pitches have risen to very high levels.

Retail was the one sector where liquidity declined last year. The value of retail investment deals in continental Europe was 16% lower in 2017 than 2016 according to Real Capital Analytics. Conversely, office and industrial deals increased and there were €15 billion of hotel transactions. Looking forward, the investment market is likely to remain highly competitive in 2018. While the gap between prime real estate and government bond yields has narrowed since 2015 to around 3.0-3.25%, it still looks attractive given the favourable outlook for rental and income growth in most sectors. Domestic institutions continue to allocate new capital to real estate and there is also a large amount of Asian and US capital targeting continental Europe.

We forecast total returns of 5-6% p.a. on average investment grade European real estate between end-2017 and end-2022. The main component will be an income return of 4%, while rental value growth should provide capital appreciation.

Strategy

The revised allocation to the Schroder managed portfolio has been confirmed as 13% of the Dyfed Pension Fund. Based on a pension scheme value of circa £2.5 billion this equates to a Schroder portfolio of circa £325 million. As at 31st December 2017 the value of the Schroder portfolio was circa £202.8 million, so Schroders should expect a further cash allocation of circa £122.2 million.

The underweight position in central London offices (8% below benchmark) has contributed positively to returns. Central London offices are showing signs of rental value falls and performance from this sector over Q1 was generally anaemic. We would like to add to regional office and alternative sectors to bring the portfolio sector structure more in-line with our House View.

Market returns in 2017 were stronger than expected. Q1 2018 provided a benchmark return of 1.9%, suggesting that there continues to be weak capital growth in the UK property market. Near term performance is expected to be driven by the correct sector calls, income and more defensive style assets.

Schroders made a first investment into real estate debt for many clients at the end of the first quarter. The Income Plus Real Estate Debt Fund, exclusive to SRECaP clients, is expected to deliver attractive risk adjusted returns and performance of 6-7% per annum over the fund's life. Investments into real estate debt offer low entry costs compared to acquiring newly created units in property funds. £24.4 million was committed to this strategy with the cash being held by the client.

At quarter end there was circa £5.4 million of cash on account, representing 2.6% of portfolio value. All the cash on account was used early in Q1 for further purchases. £10 million of the revised allocation to the portfolio was called and invested shortly after quarter end.

Summary

Performance is now above benchmark over one, three and five years, despite the negative impact 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 and 2017, reducing exposure to central London offices and weaker balanced holdings and re-investing into favoured sectors such as regional offices, industrials and non-mainstream sectors. We are confident that the portfolio is now well positioned to deliver above benchmark returns in the years ahead.

The theme of the 2017/2018 report, "Investment strategy: Building on firm foundations" is particularly appropriate for the Schroder real estate portfolio given the recently increased allocation to the mandate and the above benchmark portfolio performance over one, three and five year periods. We will strive to build on our strong performance to date to deliver above benchmark returns in the future. In the near term, returns may be negatively impacted by transaction costs, but the right sector positioning and good stock selection should provide the foundations to underpin good long term performance.

Graeme Rutter
Head of Schroder Real Estate Capital Partners

Partners Group

Passion for Private Markets

Current market overview

The real estate market continues to exhibit high levels of liquidity. Global real estate transaction volumes have maintained their positive momentum and further increased in H2 2017, mainly driven by activity in Europe and the Asia-Pacific region. In Europe, investment activity rose for the first time after having fallen for the past six quarters. Although transaction volumes are still significantly lower than pre-Brexit levels, the UK was one of the main beneficiaries of the slight increase, as a number of Asian investors have started to acquire office space in central London, benefiting from falling prices. UK institutional investors, by contrast, are opting to buy in continental Europe instead of their domestic market.

In terms of property types, retail cap rates continue to be under pressure due to the growth of e-commerce. We see cap rate expansion for fashion-anchored shopping centres, particularly in the US and UK, for instance. On the other hand, we believe demand for regionally dominant, fresh food-anchored shopping centres with a strong leisure component remains in better shape. This type of retail tends to be more resilient throughout economic cycles and is less prone to pressure from internet retail. Recently, we have looked at different portfolios of this type, especially in Asia-Pacific and Europe, as we believe opportunities in this space can be attractively priced.

Leaving the retail segment aside, we still maintain that the current environment offers a reasonable variety of investment opportunities in the office and residential segments. New office supply is generally under control, with many office market vacancy rates still trending down. Similarly, we see a supply and demand imbalance across many European cities where new housing demand exceeds supply.

The global real estate banking industry continues to remain disciplined in light of regulatory scrutiny. The share of equity deployed in real estate transactions across the globe is trending upwards, signalling that banks continue to exercise caution. Indeed, banks are limiting their loan-to-value ratios to around 50%, implying debt serviceability is high.

Generally, both the occupier and capital market seem stable, with institutional investors incrementally raising their target allocations to real estate, supported by the spreads between long-term government bond yields and cap rates. This leads us to conclude that the real estate market is currently fully priced but not consistently overpriced.

Opportunities in the current market

From a relative value perspective, we continue to prefer properties and locations benefiting from social and demographic trends, thus we focus on value-added office properties in major tier 1 cities and economically vibrant tier 2 cities across all regions. For logistics, we favour centralized and 'last mile' distribution properties that support demand from e-commerce. In the residential sector, we pursue opportunities in markets with strong population and employment growth where we seek to develop affordable Class A apartments and upgrade Class B apartments, catering to the need for affordable alternatives to traditional Class A apartments.

As markets are flush with capital, we feel that competitive processes should be avoided as a means of sourcing such opportunities. Instead, we are further emphasizing our focus on special situations, which we define as situations that require bespoke solutions and that offer the potential to unlock hidden value. Our strategy is to provide investment and liquidity solutions to operating or general partners that do not have the appetite, tenure or means to support asset-level business plans.

For these off-market situations, we typically seek the following characteristics: a bespoke structure (such as opportunities that others are dissuaded from pursuing given their global and complex nature); a trigger event (including opportunities that are unlocked by events such as investor fatigue and/ or discord); a unique angle (i.e. opportunities that are sourced off-market in an exclusive manner); and uplift potential (i.e. opportunities with clear value-added potential to generate outperformance).

With our focus on these special situations, we seek to unlock hidden potential and generate attractive risk-adjusted returns in today's competitive market environment. We believe that implementing specific value creation initiatives, such as projects focused on capex and rental growth, is as relevant as 'buying smart'. Over the past decade, our integrated investment approach has enabled us to develop a strong network of asset owners, general partners and operators, which, next to our disciplined global relative value approach, is becoming increasingly valuable as a means of identifying these situations. In terms of specific investment themes, we focus on assets benefiting from the two main trends that are shaping the real estate market: technological improvements generating demand for logistics space and new urbanization generating demand for modern offices and apartments.

Office: targeting pockets of growth

Major cities in Europe, Asia-Pacific and the US are exhibiting economic and population growth, often aligned with growth in the technology industry. The top global cities for venture capital investments include San Francisco and New York in the US, with a global share of around 20%, London and Berlin in Europe, with a global share of around 3%, and Beijing and Shanghai in Asia-Pacific, with a global share of around 3% as well.

These cities are among the most appealing for millennials, as they have adapted to combine life, work and play. Berlin, for instance, has embraced this combination and has, in our opinion, become an attractive market from both a short- and long-term perspective. In the short term, its real estate fundamentals are currently among the most attractive of any European capital city. Vacancy rates are below 2.5%, its development pipeline seems limited and despite strong historic growth, rents are still low for Europe and are forecast to continue to grow at 4% per annum for the next few years on the back of strong tenant demand. In the long term, Berlin's population is expected to continue to grow at around 0.5% per annum until 2030. There are also substantial infrastructure developments underway to improve the city's international connectivity. In light of these positive trends, we have entered into a programmatic joint venture targeting office buildings across Berlin which can be refurbished and/or repositioned. We are looking at out-of-centre locations that benefit from good public transport links and where rents can be less than half those of prime central locations. With this joint venture partnership, we aim to create a diversified portfolio of assets with equity investments of around EUR 10-40 million per property and a mixture of income durations, locations and tenant usage. We believe this segment of the market is too complex for private buyers but individually too small for institutional buyers, giving us a unique angle.

Residential: developing affordable housing

In 2016, an estimated 55% of the world's population lived in urban areas. By 2030, this is expected to rise to 60%. While urbanization is nothing new for major cities across Asia, more and more young people are flocking to growing cities across Europe as well. Major cities like Berlin, Copenhagen and Stockholm are experiencing high regional migration, consisting mainly of millennials in search of affordable and convenient living in 'desirable' cities with high employment growth. Stockholm, for instance, is one of Europe's fastest-growing cities in terms of population. Net migration is forecast to grow at an average rate of 2% per annum until 2020, which would take the population from 2.2 to 2.4 million.

We believe that building affordable micro housing is one way of addressing the needs of young urban inhabitants. Micro housing diverges greatly from traditional European housing but has been popular in Asian cities for many years. Micro houses have a typical floor space of less than 60 square meters with a very efficient layout. This type of housing is aimed at a generation of flexible and mostly young people who spend most of their time outside of their apartments.

In August 2017, we agreed to develop over 1,700 residential apartments in the Greater Stockholm area in a joint venture with SSM, a leading Stockholm-based residential developer. The total value of the completed properties is expected to be in excess of EUR 700 million. The project comprises three separate residential developments, Tellus Towers, Järla Station and Metronomen, all located within a 15-minute train ride from central Stockholm. The developments seek to provide small, but fully functional residential units at a modest price where the need for affordable housing is significant. Tellus Towers will be the largest of the three projects and will include two high-rise residential towers, a hotel, retail space and a preschool over a total floor area of 57,000 square meters. At 78 stories, the taller of the two towers is expected to be among the highest residential buildings in Northern Europe. The buildings, which also include a seven-story multi-dwelling unit, have been designed by prize-winning architect Gert Wingårdh and modelled on architect Gary Chang's concept of using and maximizing smaller spaces. In addition to stores, cafés and grocery stores, the skyscrapers will offer a restaurant, sky bar, spa and rooftop swimming pools. Completion of the three developments, which were sourced proprietarily through an existing secondary relationship, is anticipated between 2020 and 2023. However, development will not commence until material pre-sale thresholds have been met.

Relative value analysis

From a sector perspective, office properties are a relative overweight in all regions. Given that leasing fundamentals remain strong, there are good opportunities to acquire partially vacant secondary office properties in amenity-rich city centre locations that benefit from population and job growth. The logistics sector benefits from the ongoing increase in e-commerce across all regions. This creates resilient demand for both XXL fulfilment centres and 'last mile' distribution facilities, although investor demand has pushed up capital values to all-time highs in many markets. On the other hand, retail remains challenging. With increases in both e-commerce penetration and competition from discounters, the segment continues to be an underweight. The residential sector offers interesting repositioning opportunities in fundamentally strong locations that benefit from urban renewal and population growth, especially in the US and Europe. Given that return expectations in the sector are decreasing, we are more willing to take select development exposure, as highlighted by our investment in a development project in Stockholm.

From a regional perspective, we underweight the UK as Brexit uncertainty remains. In contrast, key real estate markets in tier 1 and select tier 2 cities in developed countries across all regions have remained remarkably resilient to external shocks thus far. These markets continue to benefit from positive economic indicators such as low unemployment rates, high consumer spending and enough liquidity in the market. Finally, due to our continued shift in focus towards special situations, we have a strategic overweight towards non-traditional secondary assets across all regions. These assets can often benefit from more time and capital, offering opportunities for recapitalizations and reduced duration risk.

How we realize relative value potential in private real estate

We focus on providing solutions to operating or general partners that do not have the appetite, tenure or means to support asset-level business plans for their existing assets or portfolios. We continue to prefer asset strategies that fall into one or more of the following sub-strategies:

Buy below replacement cost

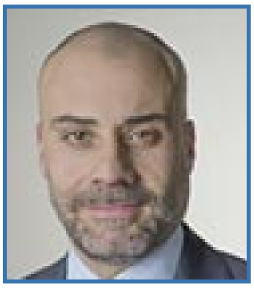
We target assets with low valuations located in rebounding markets that can be repositioned and then leased-up by under-cutting market rents.

Buy, fix, and sell

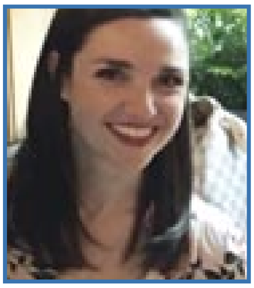
We seek older buildings in great locations that are in need of owner-oriented asset management initiatives.

Develop core

We target markets with strong long-term fundamentals and trends that support additional absorption to selectively develop properties through ground-up construction.



Sergio Jovele
Partner,
Client Solutions Europe



Courtney Bensen
Client Solutions Europe

Economic and Market Background – 1 April 2017 to 31 March 2018

We are delighted to be able to report another good year of returns in absolute as well as relative terms. More importantly over the longer term – in the four years since we were appointed – we have achieved our target of outperforming the benchmark by 2 – 3% p.a. We hope to be able to build on these firm foundations to deliver further superior returns long into the future.

As we look back over any particular period it tends to be heavily affected by biases towards the most recent and most headline-grabbing events; the period in question is no different. Since the year end, markets have been spooked by the spectre of rising rates, the integrity with which technology platforms use data and a move towards protectionist tariffs. Yet the under-reported good news is that a continued acceleration in the global economy has delivered excellent fundamental progress for the companies we invest in.

Economies around the world are experiencing the strongest synchronised upturn in growth since 2010, with all 35 developed countries that belong to the OECD growing and most of them enjoying an accelerating expansion. Japan's economy has recorded eight consecutive quarters of economic growth - its longest streak for 28 years. At the company level, a vast majority of the holdings in the portfolio are performing well.

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

We continue to believe in the growth potential of online platform businesses which are capital light and can support very high rates of growth over long periods. We added another such platform to the portfolio in 58.com, a Chinese online classified advertising business. The company operates principally in the jobs and housing sectors and the structural growth opportunity lies in the migration of workers from rural areas to Chinese cities. A recent merger with its main competitor strengthens the potential for future growth and higher returns.

A good deal of our focus recently has been on a key portfolio theme, that of diversification. As a result, there have also been a number of other names added to the portfolio. Banco Bradesco is a Brazilian bank which stands to benefit from retrenching state banks. We have also added Philips Lighting, which specialises in commercial LED lighting solutions, to A.P. Moller Maersk, the global shipping container business, and Sberbank, the Russian bank. Maersk is well positioned to benefit from a combination of supply side consolidation and counter cyclical capital allocation which should allow it to generate structurally higher returns. Russia has political risks, but remains an underbanked economy and we believe the foundations of a cyclical recovery are in place. Sberbank remains the largest player in a consolidating market which is likely to support attractive returns going forward.

We have also spent considerable time reappraising the upside potential for the portfolio's holdings over the period, in particular for those holdings where share prices had materially risen. We have taken action where required, reducing or exiting positions where share prices have outstripped fundamental progress, and we will continue to do this.

As we reflect on a year of strong equity returns, we remain confident in the current positioning of the portfolio and the long-term growth potential of the companies therein. Looking forward, we remain excited by the broad array of investment opportunities that we see. Indeed, the recent period has been punctuated by investment research trips to India, Russia and Japan. As we mull over our findings in these markets, we continue to believe that our bottom-up, stock picking approach leaves us well placed to identify companies all over the world which will grow their earnings and cash flows at above average rates over the long term.

Portfolio Valuation

	31-Mar-17 GBP	31-Mar-18 GBP
Baillie Gifford Global Alpha Growth Fund C Acc	0	306,577,138
Baillie Gifford Global Alpha PF S Class	270,933,120	0
Total	**270,933,120**	**306,577,138**

Distribution of Assets

	31-Mar-17	31-Mar-18
Equities	%	%
UK	4.4	3.7
North America	48.8	43.7
Europe (ex UK)	17.8	18.6
Developed Asia Pacific	9.8	11
Emerging Markets	17.6	21.2
Total Equities	**98.5**	**98.2**
Total Cash and Deposits	**1.5**	**1.8**
Total	**100**	**100**

Performance Objective

To outperform the MSCI AC World Index by 2.0 - 3.0% per annum (gross) over rolling five year periods.

	Fund (Gross)	Benchmark
Since Inception* (Cumulative)	81.5	60.6
Since Inception* (p.a.)	16.1	12.6
One Year	13.3	2.9

*04 April 2014
Source: StatPro, MSCI

Tom Wright
Director

COLUMBIA THREADNEEDLE INVESTMENTS

Investment Objective

The investment objective of the Global Equity Income Fund is to achieve a high and growing income over the long term combined with prospects for capital growth.

Value as at 31 March 2018

Theme	Units Held	Unit Price (£)	Valuation (£)
Global Equity Income Fund	167,310,428.96	1.44	240,408,355.38

Performance to 31 March 2018

	1 year %		3 years %*		5 years %*	
	Fund	B/Mark	Fund	B/Mark	Fund	B/Mark
Global Equity Income Fund	(1.95)	2.90	9.27	10.78	8.94	11.54

Performance figures are total returns in sterling terms with fund prices calculated from month-end global close valuations, gross of fees.
*Annualised returns for 3 and 5 year figures.

Performance

Over the year to 31 March 2018, the Global Equity Income Fund underperformed its benchmark in a challenging period for high dividend stocks. A particularly strong year for the technology sector saw our structural underweight to the space detract. The appreciation of the 'FAMGA' stocks (Facebook, Amazon, Microsoft, Google – now Alphabet, and Amazon) was central to this trend. These are examples of names which pay low, or no dividends, and therefore do not satisfy our quality income approach. The strong performance of these names also signalled a period of particularly narrow market leadership, in which the returns from the technology sector materially exceeded those of all others. Two key holdings within this space – Taiwan Semiconductor and Cisco Systems – comprised the fund's strongest performers over the period.

Later on, wage-driven inflationary expectations prompted a rise in bond yields and a further rotation out of high dividend paying stocks. The fund performed much more closely in-line with its factor reference benchmark, the MSCI ACWI High Dividend Yield Index, over the period, indicating that many of the challenges faced over the period were style-related. While conditions have indeed been unfavourable for income, the fund continues to outperform both its factor reference benchmark, and the MSCI ACWI, since its inception. We believe this evidences the strength of our quality income approach: investing in names with robust balance sheets, the ability to grow earnings over time, and high, growing and sustainable dividends.

Key purchases over the year included those of Coca-Cola and Manulife Financial. We believe Coca-Cola can benefit from shifting its focus from volume to value in the US. Coupled with the realignment of its bottling operations, we think this can boost returns. We feel that Canadian insurer Manulife is well placed to increase its core return on equity in the coming years – and that this can drive the stock's re-rating. Other additions of note included European digital publishing house Axel Springer, toll road network developer Transurban, and semiconductor equipment manufacturer Tokyo Electron. In our view, the latter can utilise its competitive advantage in etching precision to expand its business opportunities. Both its earnings and dividend growth prospects look strong relative to peers.

These purchases were funded by sales including European mass media company ProSiebenSat.1 Media, which we exited on declining expectations for the German TV advertising market. We also closed positions in global chemical company DowDuPont, fragrance manufacturer Givaudan, and pharmaceutical company AbbVie – all of which had experienced strong runs of performance. AbbVie had performed particularly well in the early stages of September when its eczema treatment, upadacitinib, met its primary endpoint in its second Phase 3 study. 2017 also saw the completion of BAT's acquisition of Reynolds American – previously a key portfolio holding.

Market background

Global equities performed positively for much of the year, before a slump in early 2018 saw most major indices retract somewhat. Over the 12 months, the MSCI All Country World returned 15.4% in dollar terms and 11.8% in local-currency terms, but currency moves resulted in sterling returns of 2.9%.

In local-currency terms the S&P 500 gained 14.0% during the period, consistently hitting record highs and climbing in every month apart from February and March 2018. The Federal Reserve raised interest rates by 25 basis points in June, maintaining its forecast for another hike in 2017 (which ultimately materialised in December) and three in 2018. US equities received further support from anticipation that Congress would approve President Trump's flagship tax-cutting bill. The bill, which was eventually passed on 20 December, features a permanent cut in corporation tax from 35% to 21% and smaller temporary reductions in income taxes. But volatility returned to equity markets in the first quarter of 2018 and equities fell sharply at the start of March when Trump announced steep US import tariffs on steel and aluminium, and later, when he ordered levies on $60bn of unspecified Chinese goods.

The FTSE All-Share index gained 1.25% over the 12 months to 31 March 2018. The period started positively, and global equities rose strongly, supported by global economic data and improving corporate results. The end of 2017 saw UK and European officials conclude the first stage of the Brexit negotiations, with agreement on some key sticking points, including the so-called "divorce settlement".

It was also a positive period for European equities, with the MSCI Europe gaining 2.6%. The eurozone economy gathered momentum – 2017 was the best year for GDP growth in a decade, unemployment reached a nine-year low and the purchasing managers' index reached its highest level in almost 12 years, before cooling slightly. Corporate earnings also provided grounds for optimism. The eurozone's economy strengthened sufficiently for the European Central Bank to start scaling back bond purchases.

The MSCI AC Asia Pacific ex Japan index performed strongly over the reporting period, gaining 19.1% and outperforming developed markets. But Asian markets experienced a bout of volatility in early 2018, when investors were unsettled by stronger-than-expected wage growth in the US, which fueled fears of higher inflation and a steeper trajectory for US interest-rate hikes. This volatility continued towards the end of the reporting period, led by concerns over US-China trade tensions.

The Topix performed strongly in the 12 months to 31 March, rising 15.9% in local-currency terms as the landslide victory of Abe's Liberal-Democratic Party in the snap general elections in October bolstered confidence that his policies would continue to be implemented.

Emerging markets (EM) equities had a very strong year, rising 22.4% during the period under review and outperforming developed markets. The region is significantly leveraged to the synchronized global economic recovery, while a weak dollar also benefitted exporters.

Moira Gorman
Client Director

Performance and Risk

Market Background 1 April 2017 – 31 March 2018

Over the last twelve months the average Local Authority pension fund has returned 4.5%. This return is below the 30-year average of 8.9% p.a. but broadly in line with actuarial assumptions.

Asset returns were relatively tightly grouped with bonds, equities and alternatives returning 1%, 4%, and 6% respectively for the year. Strategic asset allocation therefore had less of an impact than usual – the range of individual fund returns was about half that seen in the year previous with almost all funds returning between 2% and 6% for the year. Property was the best performing of the major asset classes, returning 10% for the year. Most funds now have some exposure to this asset which enhanced overall returns.

There were bigger differences within asset groups than between asset groups. Emerging market equities returned an average of 9% whilst UK equities delivered 1%. Likewise, within alternatives, funds achieved an average return of 9% from private equity and only 2% from absolute return investments. The range of results within alternatives was particularly marked with returns ranging from 1% to 24%.

Funds had another strong year compared to their own benchmarks – this year a large part of the outperformance can be attributed to the strong returns achieved by active equity managers, most of whom outperformed their benchmarks, and some of whom outperformed by a significant margin.

The year saw the largest year on year fall in equity allocation with the average exposure falling from 62% to 55%. Within that allocation the long-established trend away from domestic to international equities continued. UK equities now comprise only just over a quarter of total equity exposure.

Funds instead increased exposure to bonds and alternatives.

Longer Term

Performance has been extremely strong over the medium and longer-term, the average fund returning 9%p.a. over the last 30 years. There have been only five years of negative performance over the same period – at the start of the millennium (the bursting of the dot-com bubble) and the global financial crisis of 2008/9. These periods have been followed by double-digit returns. The equity ‘shocks’ that investors are so concerned about mitigating have been infrequent and the reward for holding equities substantial.

Fund Performance 1 April 2017 – 31 March 2018

The Fund posted a return of 4.6%, marginally ahead of the Universe ‘asset weighted’ return of 4.5%. In the latest year, as over the longer-term, the largest funds have outperformed their smaller peers. Compared to the ‘unweighted’ Universe return, the Fund ranked 27th i.e. just outside the top quartile.

The Fund has an asset mix profile quite different to the average LGPS having a higher equity exposure (Fund 70%, Universe 55%) and no exposure to alternative assets. This strategy in the latest year had little bearing on relative performance.

Longer Term

The Fund has delivered excellent returns over the medium and longer-terms as can be seen in the table overleaf:

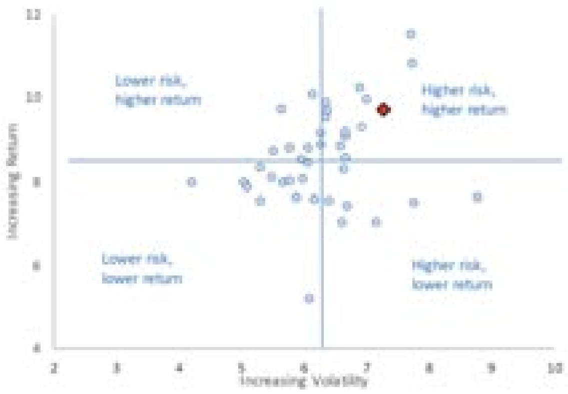
	3 Years	5 Years	10 Years	20 Years
Dyfed	9.1% p.a.	9.7% p.a.	8.6% p.a.	7.1% p.a.
LA Universe	8.3% p.a.	8.8% p.a.	7.7% p.a.	6.5% p.a.
Ranking	12th	15th	13th	6th

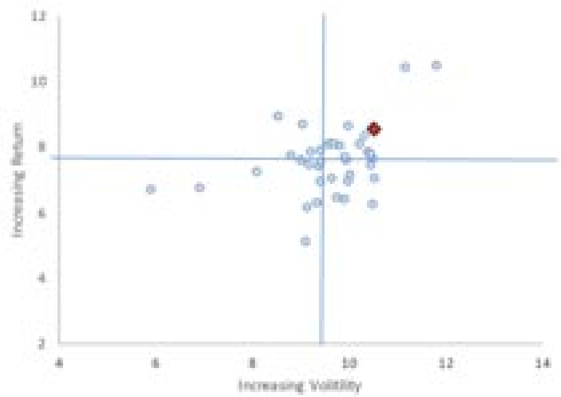
Consistency of top quartile (and better) performance is extremely rare and very valuable.

The Dyfed Pension Fund has benefitted over time from a stable and clear strategy coupled with an adherence to its core beliefs. Equally importantly, the Fund has avoided fads and fashions and the costly 'churning' of asset managers.

We look beyond the single dimension of return and look also at volatility or risk i.e. how these returns have been delivered.

In the charts below, we look at risk and return over five and ten years. Each circle is an individual fund and the diamond the Dyfed Pension Fund.





Over both periods, funds have been rewarded for taking on risk (the dotted arrow trending bottom left to top right illustrates this).

Over the same periods the Dyfed Pension Fund has generated more risk but been substantially rewarded with a much better return – a most satisfactory outcome.

Moving Forward

Many challenges face the LGPS – impending negative cash-flow, equity markets at many-year highs, funding gaps closing too slowly, pooling of funds' assets etc.

The Dyfed Pension Fund is well placed to address these challenges. It is well governed - the Officers, Members, Advisors and Pension Board understand these challenges and believe the Fund to be in good health.

David Cullinan
Local Authority Pension
Performance Analytics (PIRC)

Independent Investment Adviser

As I trailed in my last year's report, the main, and by far the most significant, activity during the fiscal year 17/18 was the development - followed by the Committee agreement - of a revised investment strategy for the Fund. This certainly dominated my 14th consecutive year as IIA to the Fund.

The Fund's investment strategy is formally reviewed at least every 3 years, normally following a triennial actuarial valuation (31 March 2016) when the Fund's latest liability profile, funding level and financing is known. As has been reported elsewhere the Dyfed Pension Fund enjoys a relatively high level of funding (97%) and so the review was conducted from a position of relative strength. Solid foundations, laid in place over many decades, have allowed the Fund to build its strong position. The significance of strategy – a sound foundation - is often overlooked and easily underestimated as it is the implementation of the strategy which typically absorbs the lion's share of the Fund's resources, especially time and cost.

The investment background for many years has also disguised the significance of differentiated strategy as the returns from most of the major assets (equities, real estate and bonds) have been somewhat similar. In such an environment differences in strategy have not necessarily resulted in significantly different investment profiles: returns and risk. As an extreme example, if the returns from all the available assets were the same, it would not matter what strategy was pursued, ignoring – conveniently - the possible difference in risk meaning the volatility of these returns. In academic investment literature strategy is estimated to account for the vast majority (over 90%) of the fund return and risk. An appropriate strategy is vital. Without the right foundation little of consequence can be built which will last the test of time.

There are a great many fund-specific factors to consider when reviewing and revising strategy but this short report – thankfully - cannot detail. However for the Dyfed Pension Fund this time round the dominant feature was cash flow. By cash flow I refer to the fact that, both currently and in the foreseeable future, the Fund is regularly paying out more in benefits, primarily pensions, than it receives in (employer and employee) contributions. Such a position, increasingly common in Local Authority pension funds, is termed negative cash flow.

In the extreme, as is the case in many private sector pension funds, the shortfall has to be balanced by eroding the fund, effectively selling down the assets. In the Dyfed Pension Fund we can cover the shortfall with investment income, generated by the Fund's investments. However not all investment income is 'equal' in this context as the majority of the investment income generated by the Fund is equity dividends and these are best reinvested rather than harvested. In fact much of the strong equity returns, in the long term, come from this reinvestment of the dividends – the so-called 'compounding' effect. The most useful investment income for meeting any negative cash flow comes from non-equity investments such as real estate and bonds. As I have already mentioned the abnormally strong returns from bonds has meant, as a direct consequence (remembering yield is inverse to price for bonds), the income from all bond investments is very low and from long index-linked gilts (ILGs) in particular is almost trivial. The Fund's legacy benchmark had a 10% exposure to long ILGs.

So much of the strategy revision was finding a way to increase the usable investment income generated – and efficiently harvestable – without damaging the Fund's prospective returns and/or increasing the risk.

After great consideration the Committee agreed to a revision which increased our real estate exposure by 5%, from the current 10% to 15%, by disinvesting the same amount from our long ILG portfolio. Over the next year or so the Fund also intends to invest 5% in a suitable 'income asset', again funded from the Fund's ILG portfolio. We believe these two changes will more than balance any negative cash flow for the next few years at least. Longer term if infrastructure becomes available, possibly through the Fund's involvement with the Wales Pension Partnership (WPP), the Fund stated a desire for an initial exposure of 5%, funded from our equity exposure.

The review analysis demonstrated that, subject to modelling error, in addition to solving the negative cash flow the revised strategy is also likely to generate at least the level of the current strategy return at similar risk. The Committee have approved this revised strategy and the Fund is now implementing the revision. I am sure this will be reported on next year.

The Dyfed Pension Fund has a long and proud history of successful strategy and we hope – and believe – the current revision will be equally successful. One feature I know, which should give everyone confidence, is that not only does the Dyfed Pension Fund – like the vast majority of its peers – believe in the long term in principle but – unlike the vast majority of funds (to their detriment) – actually practices this as well. It always pays to have solid foundations to any structure.

As this is likely to be the last report I contribute to the Dyfed Pension Fund's annual report I am taking this valedictory opportunity to say what a great experience it has been working with the Fund for so many years. Of course the Fund is inanimate so it is the people connected to the Fund over all the years that have made the experience so wonderful. The Dyfed Pension Fund and its people have – and will always have – a special place in my long working career. I wish the Fund and everyone connected to it the very best for the long future. Thank you.

Eric Lambert
Independent Investment Adviser

FUND ADMINISTRATION REPORT

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

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

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.

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 3% from 9 April 2018 and represents the increase in the consumer price index for the 12 month period to 30 September 2017. 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 2018-2019 are as follows:

27 April 2018	31 August 2018	21 December 2018
31 May 2018	28 September 2018	31 January 2019
29 June 2018	27 October 2018	28 February 2019
27 July 2018	30 November 2018	29 March 2019

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

Legislative update

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

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

Employee Contribution Rates

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

The earnings bands and contribution rates applicable from April 2018 are as follows:

Band	Actual pensionable pay for an employment (£)	Contribution rate for that employment (%)	
		Main section	50/50 section
1	Up to 14,100	5.5	2.75
2	14,101 - 22,000	5.8	2.90
3	22,001 - 35,700	6.5	3.25
4	35,701 - 45,200	6.8	3.40
5	45,201 - 63,100	8.5	4.25
6	63,101 - 89,400	9.9	4.95
7	89,401 - 105,200	10.5	5.25
8	105,201 - 157,800	11.4	5.70
9	157,801 or more	12.5	6.25

Statutory Underpin protections

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

The underpin applies to you if you were:

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

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

The Rule of 85

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

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

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

Tax Changes

From April 2016, the Lifetime Allowance (LTA) for tax-privileged pensions saving decreased from £1.25 million to £1 million. As with previous changes to the LTA there are two new forms of protection and these will work in a similar way to previous protections, the new protections are Fixed Protection 2016 and Individual Protection 2016. In the Autumn 2017 Budget, the Government announce that the LTA for 2018/19 will increase to £1.03m. This is the total value of all pension benefits you are able to build without triggering an excess benefits tax charge. Upon retirement you are required to declare all non LGPS pension benefits in payment, or due to come into payment, so that your LTA can be assessed. Further information on how these changes may impact upon you is detailed on the HMRC website.

You will recall from April 2014 the Annual Allowance limit reduced to £40,000 and this limit continues. To calculate the value of any annual increase in the LGPS you need to work out the difference in the total value of any accrued pension benefits between two 'pension input periods', usually April to March. This is done by multiplying the value of the increase in pension by 16 and adding the increased value of any lump sum and AVC fund. Your 2018 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 staff cannot give financial or personal taxation advice.

Councillor Pensions

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

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

Communications Policy Statement

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

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

The policy document 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.

Your Pension Section:

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

- Redeveloped the Pension fund website.
- 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 their internal staff training programme. Alongside its training for participating Fund Employers, this investment is viewed as key for the effective delivery of pension administration services in an ever changing regulation environment and increasing stakeholder expectations.
- Continued with the production and issue of Annual Benefit Statements (ABS) for Deferred (individuals who have left the Scheme with a future entitlement to pension benefits) and Active (contributing) Scheme members. 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.
- Ensured model fund data was received by the Government Actuary's Department
- Through the IAS19 exercise ensured that each employer who had to comply with these pension accounting requirements received their results and disclosure needs by their required account closure timescales.
- Continued 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 Ceredigion County Council and Careers Wales to facilitate the direct transfer of data from employer payroll systems directly into the pensions system.

Looking Forward

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

- Redeveloped the 'My Pension on-line' facility to further enhance scheme member experience and meet increasing expectation.
- 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 in line with the statutory deadline of 31st December 2018.
- Continue to work with all scheme employers to ensure that clean and accurate data is provided.
- Undertake data quality checks in accordance with The Pensions Regulator's Code of Practice 14 requirements and report findings to both the Pension Committee and The Pensions Regulator.
- Implement i-connect for further employers which facilitates the direct transfer of data from employer payroll systems directly into the pensions system.
- Undertake preparatory work with scheme employers to ensure that the scheme Actuary is provided with clean and accurate data for the 2016 Fund Valuation.

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

I would like to take the opportunity to record my sincere thanks to all staff involved 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.

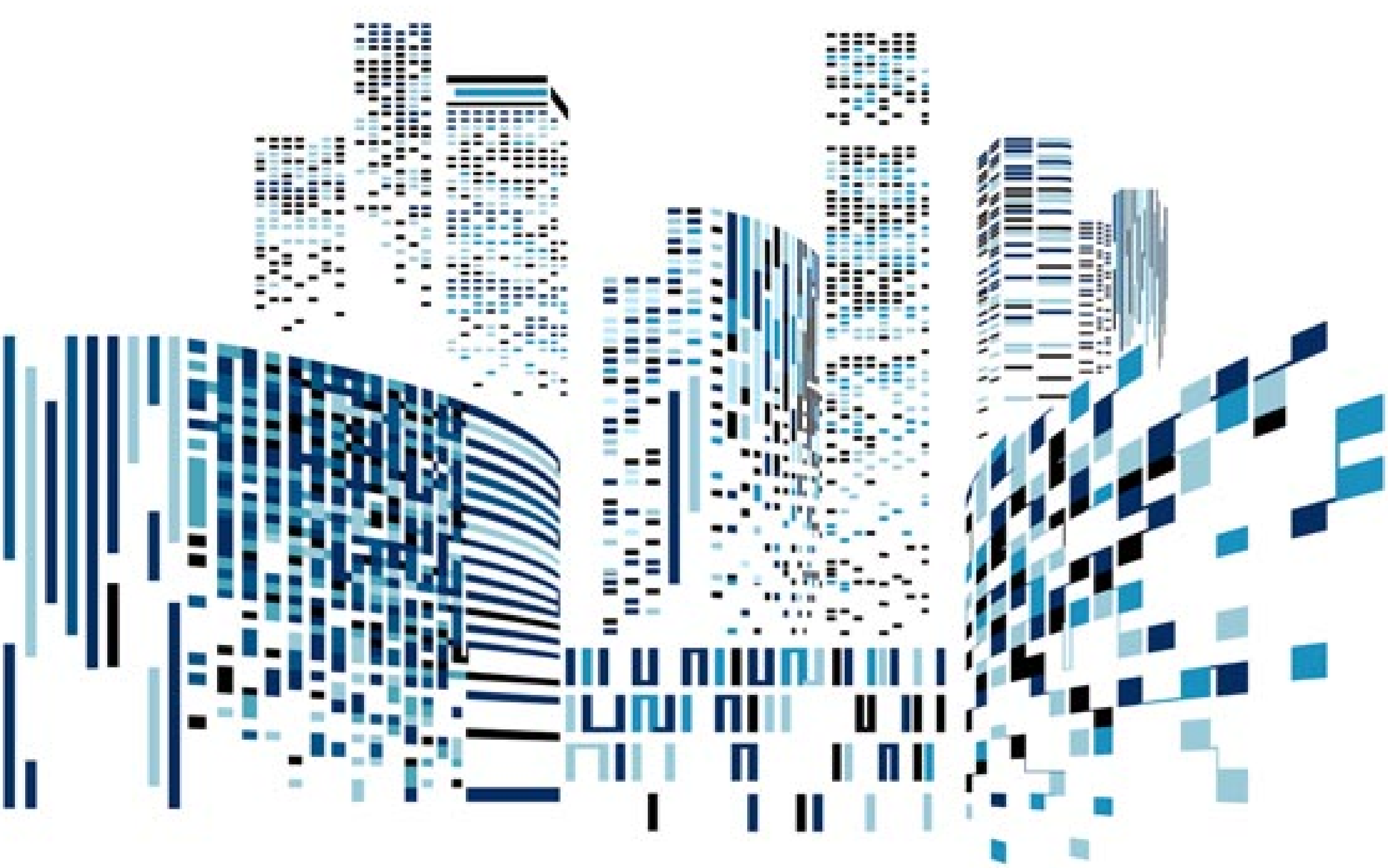
If you're a pensioner, you will be able to view your pension details, submit any change of bank or building society account details or change of address, view your payment history and tax code, your payment dates, payment advice slips, P60 statements and pension increase statements.

How do I register for My Pension On-line?

It couldn't be easier, all you need to do is contact the Dyfed Pension Fund by either telephoning **01267 224909** or by e-mailing: **pensions@carmarthenshire.gov.uk**

to request an activation key. Your activation key will be emailed to you or it can also be sent to your home address and you will be required to log in to the 'My Pension Online' area via the Fund website: **www.dyfedpensionfund.org.uk**

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



ACTUARIAL REPORT

All LGPS Pension Funds are required to commission and publish a valuation of the Fund on a specified date every three years. The last valuation of the Dyfed Pension Fund took place as at March 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

Brexit, life expectancy continuing to rise, lower real yields on investments. On the face of it, it all sounds like more bad news for pension funds, and in particular more difficulty for the members and employers in meeting the cost of the benefits. But let's take a closer look.

Like it or not, in the last two years since the referendum vote Brexit has dominated the political and financial headlines in the UK. It is a subject on which virtually everyone has strong opinions, and if the doomsayers are right and the UK economy takes a battering (particularly in the event of a "hard Brexit") then surely this can't be good for the Fund? But in actual fact the Fund's investments are less reliant than you might think on the UK economy, and even those companies which might be thought of as UK-based almost always have substantial overseas interests. Moreover, investment values measured in £s have risen materially since the referendum vote, albeit part of this rise is due to the decline in the pound against other currencies. So as far as the Dyfed Pension Fund is concerned, maybe Brexit won't be as much of a cliff-edge as had been predicted.

It's true, life expectancy is still increasing. Obviously this is good news for members and former members, who can look forward to their pension benefits being paid for longer, but the other side of that coin is that these benefits have to be financed, either by members or employers via additional contributions or higher returns on investments. However, increasing life expectancy is a well-established trend, and whilst the latest statistics continue to show an improvement they also show it to be increasing more slowly than had previously been the case. The latest studies are therefore predicting life expectancy to be higher than they are at the moment, but a little less than the levels which had previously been anticipated. So this might even turn out to be good news for employers (in terms of their financing requirements having to be slightly less as a result) and for members (who are still seeing life expectancies continuing to increase).

Lower real yields on investments (as evidenced by falling yields on gilts, index-linked gilts and corporate debt) is certainly an issue which the Fund needs to keep under constant consideration, as lower future returns potentially means higher costs. However, the Fund has benefited from the rise in capital values of investments which are the flip-side of lower yields. And by keeping a diversified approach to its investment holdings the Fund is avoiding most of the "locking-in" of these lower yields.

Overall, the Fund continues to perform well. Its funding position has improved significantly since the last actuarial valuation in 2016. Its 2016 actuarial valuation is currently being reviewed by the Government Actuary's Department as part of its overall "Section 13" review of LGPS Funds, and we do not expect any material issues to arise. All in all, the Fund is still well-placed to meet the challenges which lie ahead.

John Livesey
Actuary, Mercer Limited

GOVERNANCE

Pension Board Annual Report

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

The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair. This is in line with the regulations requiring equal employee and employer representation. Details of the members of the Board are available online at **www.dyfedpensionfund.org.uk.** The Board is not a decision making body and can only provide advice and comment on the management of the LGPS by the Council. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way.

The Board met on 3 occasions during 2017/18 in July and October 2017 and January 2018. There have been full agendas for the meetings and the issues discussed during the year included:

- The development of an annual work plan for the Board
- Briefings and discussion on the performance of the pension administration service
- Briefing and discussion on the Investment performance of the Fund
- Consideration of the Pensions Regulator's governance report
- Review and discussion of the decisions of the Pension Fund Committee
- Review of compliance with the Pensions Regulator's Code of Practice
- Consideration of developments affecting the LGPS including progress with the Wales Pension Partnership and implementing MIFID 2.
- Audit and risk management issues affecting the Fund
- Consideration and discussion on the updated Investment Strategy and Funding Strategy Statements of the Fund.

There was some turnover of membership of the Board during the year as members approached the end of the initial 3 year term of office. Consequently, attendance over the 3 meetings fell to 57% compared with 86% in the previous year. Nonetheless, the Board continued to focus on the key issues affecting the Fund and its beneficiaries. The Board agrees a forward work plan at the start of the year to ensure that it is best placed to support the Council in the delivery of the LGPS in Dyfed.

During the year two members Cllr Anthony Jones and Janet Wyer stood down from the Board. Cllr Jones was replaced by Cllr Philip Hughes following the local elections in May 2017. A replacement for Janet Wyer will be nominated by the trade unions. Also, Catherine Davies stood down from the Board at the end of March 2018 following a change of career out of local government, and Mark Miles has agreed to continue until a replacement is appointed. I would like to thank them for their positive and helpful contributions during their time as Members from the inception of the Board and wish them well for the future. The process of filling these Board vacancies has therefore either been completed or has commenced and I am optimistic that the Board will soon be at full strength for 2018/19.

At the end of March 2018, the Dyfed Pension Fund had total assets of £2.4 billion and a membership of 46,514, comprising pensioners, deferred pensioners and current contributors.

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:

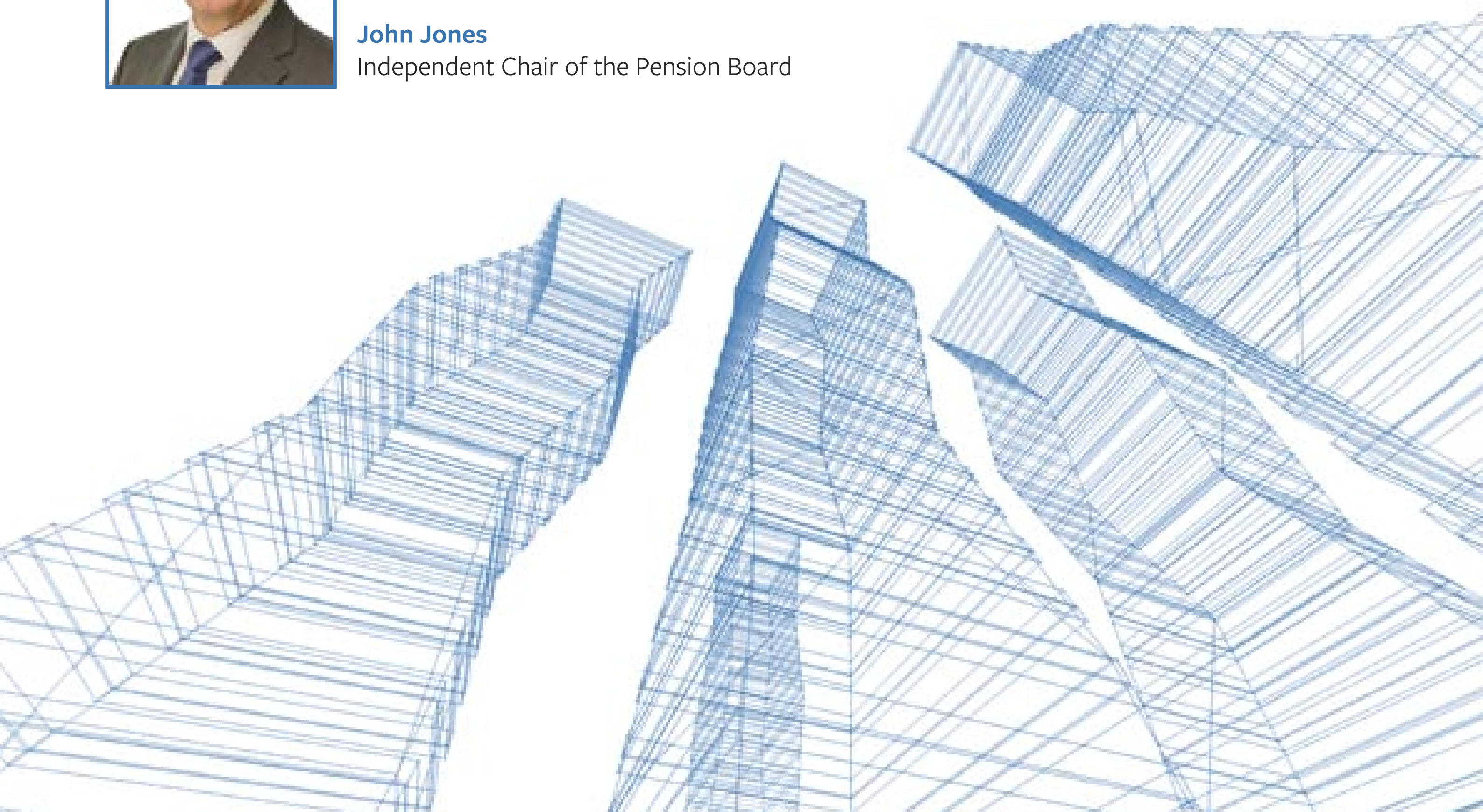
- A presentation and discussion on the new Investment Strategy of the Dyfed Pension Fund.
- A presentation on the Wales Pension Partnership on progress in implementing the new pooling arrangements.
- A CIPFA training event on progress in establishing Pension Boards across local government.

Training and development for Members of the Pension Committee and Board is an essential support to good governance. I am pleased to report that regular training sessions are arranged and incorporated as part of Board meetings. This is an area of attention from the Pensions Regulator as part of their role in promoting high standards of corporate governance in Pension Funds.

The LGPS nationally is currently going through major change and upheaval. Across England and Wales eight asset pools have been set up to manage the investment of local authority pension funds. The rationale behind pooling is to reduce costs and provide the scale to access illiquid asset classes to help diversification and improve investment returns. The Wales Pension Partnership has been established for this purpose and in future the majority of 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 Wales Pension Partnership, and the Pension Board have been updated on developments at each meeting including the future governance and investment arrangements. We will continue to monitor this process and work alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

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 pension committee must be set up for the Dyfed Pension Fund to:

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

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

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

To collect employee and employer contributions from participating employers

- To make payments in respect of scheme benefits
- To collect and make pension transfer payments as elected by scheme members
- To determine non policy related discretions as an Employing / Administering Pension Authority
- To undertake Stage 1 determinations on disputes arising from the Local Government Pensions Scheme or related legislation
- To update and maintain the Fund's website **www.dyfedpensionfund.org.uk**

- Maintenance and update of membership records
- The calculation and authorisation of benefit payments
- Provision of membership data for actuarial valuation purposes
- Preparation and maintenance of the Communication Policy Statement and the Pensions Administration Strategy Statement.

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

The Pension Committee

Terms of Reference

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

Membership

The Committee comprises of:

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

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

- preparation and maintenance of the accounts of the Dyfed Pension Fund including preparation of the Dyfed Pension Fund Annual Report
- preparation and distribution of the annual Dyfed Pension Fund Newsletter

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

Committee Meetings

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

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

The Annual Consultative Meeting (ACM)

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

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

Local Pension Board

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

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

Governance Compliance Statement

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

This Governance Policy will be updated when necessary and reviewed at least annually. The last review was in 2018.

GOVERNANCE COMPLIANCE STATEMENT

The purpose of the guidance is:

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

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

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

Best Practice Principle A: Structure

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

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

Compliance Statement: Not Fully Compliant

Justification:

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

There is no secondary committee for the Dyfed Pension Fund.

Best Practice Principle B: Representation

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

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

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

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

Compliance Statement: Not Fully Compliant

Justification:

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

Best Practice Principle C: Selection

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

Compliance Statement: Fully Compliant

Justification:

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

Best Practice Principle D: Voting

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

Compliance Statement: Fully Compliant

Justification:

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

Best Practice Principle E: Training, facility time and expenses

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

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

Compliance Statement: Fully Compliant

Justification:

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

Best Practice Principle F: Meetings (frequency / quorum)

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

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

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

Compliance Statement: Fully Compliant

Justification:

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

Best Practice Principle G: Access

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

Justification:

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

Best Practice Principle H: Scope

That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. **Compliance Statement: Fully Compliant**

Justification:

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

Best Practice Principle I: Publicity

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

Justification:

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

Summary

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

STATEMENT OF ACCOUNTS

Narrative Report

The Dyfed Pension Fund accounts are set out on the following pages and provide information about the financial position, performance and financial adaptability of the Fund for the year 2017-18. 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 2017-18 (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 2017-2018, reference should be made to the Annual Report and Accounts 2017-18 (when published). The main accounts and reports contained within this Statement of Accounts are as follows:

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

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

The Director of Corporate Services' Responsibilities

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

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

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Dyfed Pension Fund at 31st March 2018, and its income and expenditure for the year ended 31st March 2018.

Chris Moore FCCA, Director of Corporate Services **Dated:** 19 September 2018

Fund Account for the Year Ended 31 March 2018

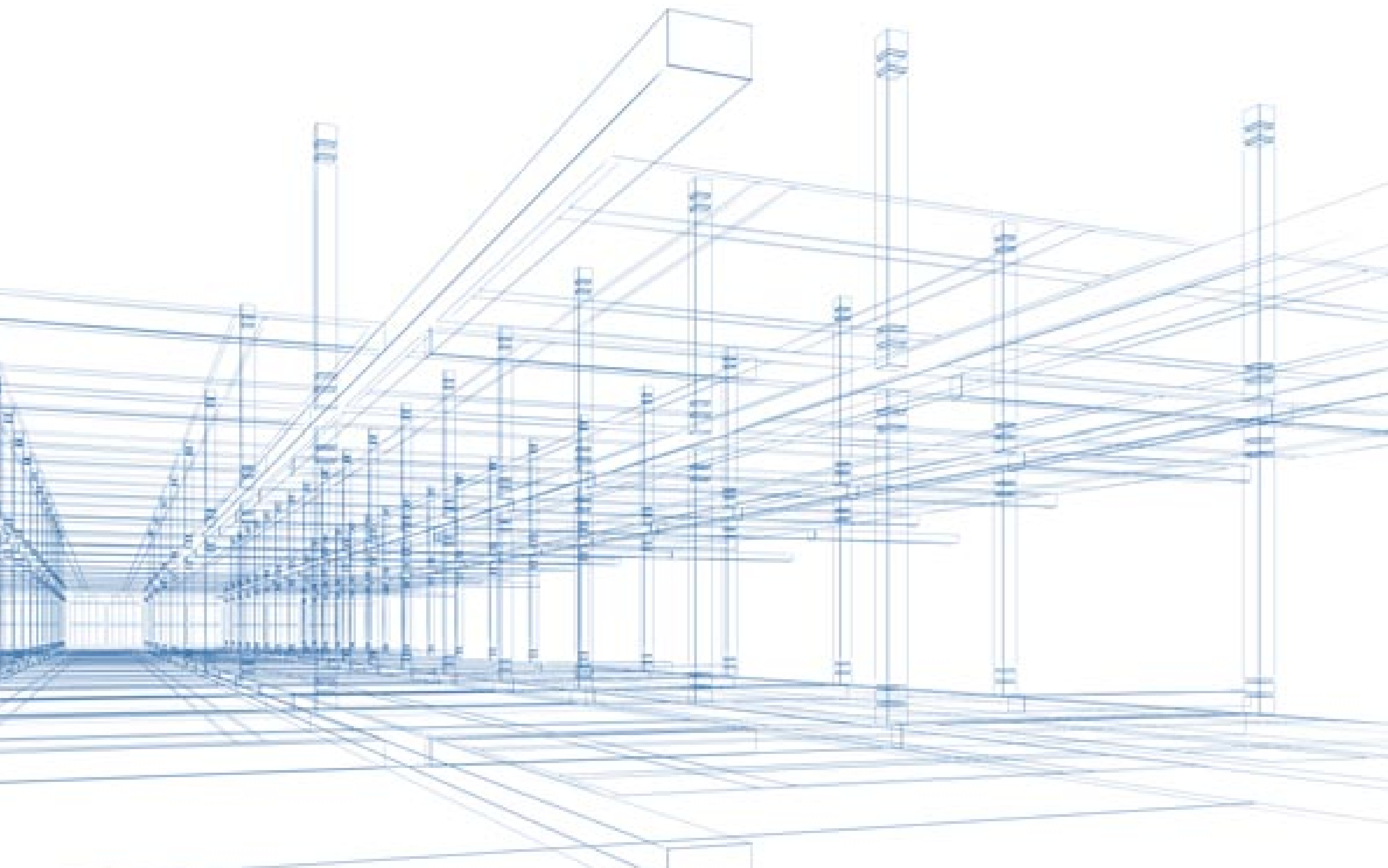
2016-17			Note	2017-18
£'000				£'000
		Dealings with members, employers and others directly involved in the Fund		
		Contributions		
		Employer		
36,980		Normal		42,417
7,125		Augmentation		7,475
7,951		Past Service Deficit		3,549
		Member		
17,739		Normal		18,077
76		Additional voluntary		152
1,889		Transfers in from other pension funds	6	1,699
71,760				**73,369**
		Benefits payable		
(61,761)		Pensions payable		(64,232)
(13,099)		Commutation and lump sum retirement benefits		(14,161)
(1,834)		Lump sum death benefits		(1,807)
(3,452)		Payments to and on account of leavers	7	(2,304)
(80,146)				**(82,504)**
(8,386)		**Net Additions (Withdrawals) from dealings with Members**		**(9,135)**
(7,371)		Management Expenses	8	(11,216)
(15,757)		**Net Additions (Withdrawals) including fund management expenses**		**(20,351)**
		Returns on Investments		
31,508		Investment Income	9	19,086
(47)		Taxes on Income (Irrecoverable Withholding Tax)	10	(138)
		Changes in the market value of investments		
374,710		Unrealised	11.2	(162,391)
52,245		Realised	11.3	260,838
458,416		**Net Return on Investments**		**117,395**
442,659		**Net Increase (Decrease) in the net assets available for benefits during the year**		**97,044**
1,900,409		Opening Net Assets of Scheme		2,343,068
2,343,068		**Closing Net Assets of Scheme**		**2,440,112**

Net Assets Statement

31/03/2017			Note	31/03/2018
£'000				£'000
2,330,544		Investment Assets		2,428,563
4,880		Cash deposits		6,587
(246)		Investment liabilities		0
2,335,178			**11.1**	**2,435,150**
11,164		Current assets	16	9,563
(3,274)		Current liabilities	17	(4,600)
7,890		**Net Current Assets/(Liabilities)**		**4,963**
2,343,068		**Total Net Assets**		**2,440,112**

Reconciliation of the movement in Fund Net Assets

2016-17			2017-18
£'000			£'000
1,900,409		Opening Net Assets	2,343,068
15,704		Net New Money Invested	(1,403)
426,955		Profit and losses on disposal of investments and changes in the market value of investments	98,447
2,343,068		**Closing Net Assets of Fund**	**2,440,112**



Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2018

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 2017-2018 (when published) and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

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

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

1.2 Membership

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

Organisations participating in the Dyfed Pension Fund include:

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

There are 65 employer organisations within the Dyfed Pension Fund as at 31 March 2018 and these are detailed in Note 21.

The membership details of these organisations are summarised below:

31/03/2017			31/03/2018
19,052		Number of active contributors in the Fund	18,575
12,003		Number of pensioners	12,585
14,904		Number of deferred pensioners	15,354
45,959		**Total membership**	**46,514**
51		Number of employers with active members	51

These figures reflect the recorded position as at 31 March 2018 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 2018. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuation as at 31 March 2016. Currently, employer contribution rates range from 7.4% to 27.7% 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 31 March 2008 - 31st March 2014
Pension	Each year is worth 1/80 x final pensionable salary.	Each year is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. There are a range of other benefits provided under the scheme including early retirement, 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 2017-2018 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-2018 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed in the Statement by the Consulting Actuary.

3. Summary of significant accounting policies

Fund Account – revenue recognition

3.1 Contributions

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

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

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

3.2 Transfers to and from other schemes

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

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

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

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

3.3 Investment income

3.3.1 Interest income

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

Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

3.3.2 Dividend income

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

3.3.3 Distributions from pooled funds

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

3.3.4 Movement in the net market value of investments

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

3.4 Benefits payable

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

3.5 Taxation

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

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

3.6 Management Expenses

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

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

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

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

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

An element of one of the Investment Managers' fees is performance related. The performance related fee was £0.58m in 2017-2018 (2016-2017: Fee was £0.18m).

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 2017-2018, no fees are based on such estimates (2016-2017: £0.2m).

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 deposits and includes amounts held by the fund's external managers.

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

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

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

3.10 Financial liabilities

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

3.11 Actuarial present value of promised retirement benefits

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

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

3.12 Additional voluntary contributions (AVC)

Occupational Pension Schemes are required by Statute to provide in-house AVC arrangements. The Fund has joint providers: Prudential, Standard Life and 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 2018 was £44.0m (31 March 2017: £37.1m).

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

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 2018 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. However, the assumptions interact in complex ways.
Property – Limited Partnership investments	The Limited Partnership property investments are valued in line with widely used industry guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Limited Partnership property investments are £44.0m. There is a risk that this investment may be under or overstated in the accounts.

6. Transfers in from other pension funds

2016-17			2017-18
£'000			£'000
1,889		Individual transfers	1,699
1,889			**1,699**

7. Payments to and on account of Leavers

2016-17			2017-18
£'000			£'000
(138)		Refunds to members leaving service	(150)
(1)		Payments for members joining state scheme	(12)
(3,313)		Individual transfers	(2,142)
(3,452)			**(2,304)**

8. Management Expenses

2016-17			2017-18
£'000			£'000
(942)		Administrative costs	(1,053)
(5,941)		Investment management expenses (Note 13)	(9,710)
(488)		Oversight and governance costs	(453)
(7,371)			**(11,216)**

2017-18 Audit fees of £28,054 included within Oversight and governance costs. (2016-17 £28,858)

9. Investment Income

2016-17			2017-18
£'000			£'000
21,921		Income from equities	10,189
9,597		Pooled property investments	8,879
(10)		Interest on cash deposits	18
31,508			**19,086**

10. Taxation

2016-17			2017-18
£'000			£'000
(47)		Withholding tax - equities	(138)
(47)			**(138)**

11. Investments

11.1 Net Investment Assets

Fair value 31/03/2017 £'000		Investment assets	Fair value 31/03/2018 £'000
		Bonds	
		UK Corporate Bonds	
221,350		- BlackRock	240,907
		Indexed Linked Securities	
219,346		- BlackRock	248,675
		Equities	
		UK Quoted Equities	
568,252		- BlackRock	480,061
		Pooled Investments	
		Overseas equities	
578,845		- BlackRock	673,513
		Global equities	
270,933		- Baillie Gifford	306,577
249,594		- Columbia Threadneedle	240,409
		Pooled property investments	
183,045		- Schroders	196,129
29,373		- Partners Group	35,745
		Property	
1,144		- Schroders	343
4,822		- Partners Group	5,714
		Cash deposits	
1,705		- BlackRock	258
275		- Schroders	3,829
2,900		- Partners Group	2,500
		Investment income due	
3,126		- BlackRock	0
45		- Schroders	265
		Tax reclaims due	
312		- BlackRock	132
99		- Schroders	93
		Amounts receivable for sales	
258		- BlackRock	0
2,335,424		**Total investment assets**	**2,435,150**

		Investment liabilities	
		Amounts payable for purchases	
(246)		- BlackRock	0
(246)		**Total investment liabilities**	**0**
2,335,178		**Net investment assets**	**2,435,150**

11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £1,042m whilst sales totalled £778m. The sales realised a net gain of £264m. Acquisition costs are included in the purchase price of the investment.

	Fair value 31/03/2017 £'000	Purchases at Cost £'000	Sales at Cost £'000	Cash movement £'000	Change in unrealised gains/(losses) £'000	Fair value 31/03/2018 £'000
Bonds	440,696	40,488	(33)	0	8,431	489,582
Equities	568,252	573,159	(549,510)	0	(111,840)	480,061
Pooled investments	1,099,372	400,431	(207,119)	0	(72,185)	1,220,499
Pooled property investments	212,418	28,308	(20,504)	0	11,652	231,874
Property	5,966	25	(1,266)	0	1,332	6,057
	2,326,704	**1,042,411**	**(778,432)**	**0**	**(162,610)**	**2,428,073**
Other investment balances						
Cash deposits	4,880	0	0	1,707	0	6,587
Amount receivable for sales investments	258	0	0	(258)	0	0
Investment income due	3,171	0	0	(3,126)	220	265
Tax reclaims due	411	0	0	(186)	0	225
Amounts payable for purchases investments	(246)	0	0	246	0	0
	2,335,178	**1,042,411**	**(778,432)**	**(1,617)**	**(162,390)**	**2,435,150**

	Fair value 31/03/2016 £'000	Purchases at Cost £'000	Sales at Cost £'000	Cash movement £'000	Change in unrealised gains/(losses) £'000	Fair value 31/03/2017 £'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**

11.3 Realised gains and losses

2016-17		2017-18
£'000		£'000
2,796	Bonds	1
9,683	Equities	111,116
35,128	Pooled Investments	143,909
4,508	Pooled property investments	6,337
130	Property	(525)
52,245		**260,838**

11.4 Geographical analysis of investments

Fair value 31/03/2017 £'000	Geographical analysis	Fair value 31/03/2018 £'000
1,260,994	UK	1,237,439
124,203	Europe (excl UK)	137,572
483,243	North America	487,562
84,628	Japan	95,899
125,034	Pacific Rim	113,639
255,575	Emerging Markets	281,405
1,501	International pooled funds	81,634
2,335,178		**2,435,150**

11.5 Fund manager analysis

Fair value 31/03/2017 £'000	Fund manager analysis	Fair value 31/03/2018 £'000
1,592,948	BlackRock	1,643,546
184,608	Schroders	200,659
37,095	Partners Group	43,959
270,933	Baillie Gifford	306,577
249,594	Columbia Threadneedle	240,409
2,335,178		**2,435,150**

12. Concentration of Investments

The following investments represent more than 5% of the Fund's total net assets as at 31 March 2018:

	Value as at 31/03/2018 £'000	Proportion of Investment Portfolio %
BlackRock Aquila Life UK Equity index Fund	480,057	19.71
Baillie Gifford Global Alpha Growth Fund	306,577	12.59
BlackRock Aquila Life over 5yr UK index linked	248,675	10.21
BlackRock Active Selection Fund UK	240,907	9.89
Columbia Threadneedle Global Equity Fund	240,408	9.87
BlackRock Ascent Life US Equity Fund	240,054	9.86
BlackRock Active Selection Fund - Emerging Market Index Fund	153,888	6.32

13. Investment Management Expenses

2016-17		2017-18
£'000		£'000
(3,813)	Management fees	(4,190)
(180)	Performance related fees	(577)
(50)	Custody fees	(29)
(1,898)	Transaction costs	(4,914)
(5,941)		**(9,710)**

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.

2016-17					2017-18			
Designated at fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000	Financial assets	Designated at fair value through profit and loss £'000	Loans and receivables	Financial liabilities at amortised cost £'000	Total £'000
440,696	0	0	440,696	Bonds	489,582	0	0	489,582
568,252	0	0	568,252	Equities	480,061	0	0	480,061
1,099,372	0	0	1,099,372	Pooled investments	1,220,499	0	0	1,220,499
212,418	0	0	212,418	Pooled property investments	231,874	0	0	231,874
5,966	0	0	5,966	Property	6,057	0	0	6,057
0	9,768	0	9,768	Cash	0	11,494	0	11,494
3,840	0	0	3,840	Other investment balances	490	0	0	490
0	6,276	0	6,276	Debtors	0	4,655	0	4,655
2,330,544	**16,044**	**0**	**2,346,588**		**2,428,563**	**16,149**	**0**	**2,444,712**
				Financial liabilities				
(246)	0	0	(246)	Other investment balances	0	0	0	0
0	0	(3,274)	(3,274)	Creditors	0	0	(4,600)	(4,600)
(246)	**0**	**(3,274)**	**(3,520)**		**0**	**0**	**(4,600)**	**(4,600)**
2,330,298	**16,044**	**(3,274)**	**2,343,068**	**Total**	**2,428,563**	**16,149**	**(4,600)**	**2,440,112**

14.2 Net gains and losses on financial instruments

2016-17 £'000			2017-18 £'000
		Financial assets	
426,955		Fair value through profit and loss	98,447
426,955		**Total financial assets**	**98,447**
		Financial liabilities	
0		Fair value through profit and loss	0
0		**Total financial liabilities**	**0**
426,955		**Total**	**98,447**

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 31/03/17 £'000	Fair value 31/03/17 £'000		Carrying value 31/03/18 £'000	Fair value 31/03/18 £'000
		Financial assets		
1,541,819	2,330,544	Fair value through profit and loss	1,802,228	2,428,562
16,044	16,044	Loans and receivables	16,151	16,151
1,557,863	**2,346,588**	**Total financial assets**	**1,818,378**	**2,444,713**
		Financial liabilities		
(246)	(246)	Fair value through profit and loss	0	0
(3,274)	(3,274)	Financial liabilities at amortised cost	(4,600)	(4,600)
(3,520)	**(3,520)**	**Total financial liabilities**	**(4,600)**	**(4,600)**
1,554,343	**2,343,068**	**Total**	**1,813,778**	**2,440,112**

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.

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

Fair values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total
Financial assets				
Financial assets at fair value through profit and loss	1,125,306	1,066,610	236,646	2,428,562
Loans and receivables	16,151	0	0	16,151
Total financial assets	**1,141,457**	**1,066,610**	**236,646**	**2,444,713**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(4,600)	0	0	(4,600)
Total financial liabilities	**(4,600)**	**0**	**0**	**(4,600)**
Net financial assets	**1,136,857**	**1,066,610**	**236,646**	**2,440,112**

Fair values at 31 March 2017 (re-stated)	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total
Financial assets				
Financial assets at fair value through profit and loss	1,151,975	961,881	216,689	2,330,545
Loans and receivables	16,044	0	0	16,044
Total financial assets	**1,168,019**	**961,881**	**216,689**	**2,346,589**
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	**1,164,499**	**961,881**	**216,689**	**2,343,069**

14.5 Fair value – Basis of valuation

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

14.6 Reconciliation of fair value measurements within level 3

Asset Type	Market Value 1 April 2017	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised Gains / (Losses)	Realised Gains / (Losses)	Market Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equities - Unquoted overseas equity	6,218	0	0	0	(6,138)	(2,868)	2,788	0
Property	210,470	0	0	28,596	(21,217)	12,146	6,651	236,646
Total	**216,688**	**0**	**0**	**28,596**	**(27,355)**	**9,278**	**9,438**	**236,646**

14.7 Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2017-18.

15. Nature and extent of risks arising from financial Instruments

15.1 Risk and risk management

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

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

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

15.2 Market risk

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

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

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

The Fund manages these risks in three ways:

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

15.3 Other price risk

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

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

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

15.4 Other price risk – sensitivity analysis

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

Asset Type	Potential market movements (+/-)
Cash	1.60%
UK Equities	9.90%
Overseas Equities	12.20%
Global Pooled Equities inc UK	9.80%
UK Corporate Bonds	7.20%
Index Linked Securities	12.50%
Property	4.70%

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 2018	Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash	6,587	1.60	6,692	6,481
UK Equities	480,061	9.90	527,586	432,534
Overseas Equities	673,513	12.20	755,681	591,344
Global Pooled Equities inc UK	546,986	9.80	600,590	493,381
UK Corporate Bonds	240,907	7.20	258,252	223,561
Index Linked Gilts	248,675	12.50	279,760	217,591
Property	237,931	4.70	249,114	226,749
Sales receivable	(0)	0.00	(0)	(0)
Purchases payable	(0)	0.00	(0)	(0)
Income receivables	490	0.00	491	491
Total Assets	**2,435,150**		**2,678,166**	**2,192,132**

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**

15.4.1 Sensitivity of assets valued at level 3

Asset Type	Value as at 31 March 2018 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Equities - Unquoted overseas	0	12.20	0	0
Property	236,646	4.70	247,769	225,524
Total	**236,646**		**247,769**	**225,524**

15.5 Interest rate risk

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

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2018 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

31/03/2017	Asset type	31/03/2018
£'000		£'000
4,880	Cash and cash equivalents	6,586
4,888	Cash held at CCC	4,908
440,696	Bonds	489,582
450,464	**Total**	**501,076**

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 31/03/18	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	6,586	66	(66)
Cash held at CCC	4,908	49	(49)
Bonds	489,582	4,896	(4,896)
Total change in available assets	**501,076**	**5,011**	**(5,011)**

Asset type	Value as at 31/03/17	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)**

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 31/03/17	Asset type	Fair value 31/03/18
1,039,211	Overseas Equities	1,163,608
34,973	Property	34,101
0	Cash	0
1,074,184	**Total**	**1,197,709**

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

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at 31 March 2018:

15.9 Currency risk sensitivity analysis

The aggregate currency exposure within the Fund as at 31 March 2018 was 9.00% (2016-17: 8.30%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 9.00% 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 31/03/18	Change in year in the net assets available to pay benefits	
		+9.00%	-9.00%
	£'000	£'000	£'000
Overseas equities	1,163,608	104,725	(104,725)
Property	34,101	3,069	(3,069)
Cash	0	0	(0)
Total change in available assets	**1,197,709**	**107,794**	**(107,794)**

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)**

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

31/03/17		31/03/18
£'000		£'000
	Contributions due from employer	
4,468	- Employer	2,592
1,456	- Employee	1,539
4,888	Cash Balances	4,908
352	Debtors	524
11,164		**9,563**

16.1 Analysis of Current assets

31/03/17		31/03/18
£'000		£'000
1	HMRC	5
9,906	Other local authorities	8,247
1	NHS bodies	1
1	Public corporations and trading funds	4
1,255	Other entities and individuals	1,306
11,164		**9,563**

17. Current liabilities

31/03/17		31/03/18
£'000		£'000
(1,823)	Unpaid benefits	(2,585)
(1,451)	Creditors	(2,015)
(3,274)		**(4,600)**

17.1 Analysis of Current liabilities

31/03/17		31/03/18
£'000		£'000
(609)	HMRC	(599)
(67)	Other local authorities	(16)
(417)	Public corporations and trading funds	(1,023)
(2,181)	Other entities and individuals	(2,962)
(3,274)		**(4,600)**

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 31/03/17	Contributions	Expenditure	Change in Market Value	Value as at 31/03/18
AVC Provider	**£ '000**	**£ '000**	**£ '000**	**£ '000**	**£ '000**
Prudential	3,767	1,294	(612)	143	4,592
Equitable Life	549	21	(47)	7	530
Standard Life	3,691	487	(652)	84	3,610
Total	**8,007**	**1,802**	**(1,311)**	**234**	**8,732**

19. Funding arrangements

In line with Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contributions rates for the forthcoming triennial period. The valuation that these financial statements are based on took place as at 31 March 2016. The last such valuation took place as at 31 March 2013 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 2017-18.

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 £0.956 million (2016-2017: £0.929 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 £32.013 million to the Fund in 2017-2018 (2016-2017: £31.756 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 2018, the Fund had an average investment balance of £12.45 million (2016-2017: £6.58 million) earning interest of £45,888 (2016-2017: £26,558).

20.1 Governance

Pension Committee

There are three members and one substitute member of the Pension Committee. During 2017-18 these were Councillor Elwyn Williams, Councillor John Prosser (active member), Councillor Jim Jones (active member) and the substitute was Councillor Dai Thomas (active member).

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

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

Pension Board

A 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 2017-18.

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:

31/03/17		31/03/18
£'000		£'000
13	Short-term benefits	14
3	Post-employment benefits	3
16		**17**

21. Employing bodies contribution rates, contributions receivable and benefits payable

2016-17					2017-18			
Contri-bution rate	Deficit Contri-bution	Contri-butions	Benefits payable		Contri-bution rate	Deficit Contri-bution	Contri-butions	Benefits payable
%	£'000	£'000	£'000	**Scheduled bodies**	%	£'000	£'000	£'000
12.9	5,019	26,753	32,822	Carmarthenshire County Council	15.1	2,529	29,484	34,037
13.5	1,152	14,103	16,322	Pembrokeshire County Council	15.6	270	15,687	17,364
13.6	760	9,949	9,927	Ceredigion County Council	15.3	90	10,934	10,915
11.6	405	3,643	2,066	Office for the Police & Crime Commissioner for Dyfed-Powys	13.5	86	4,467	2,398
13.5	138	1,389	1,139	Mid & West Wales Fire Authority	14.1	71	1,341	1,434
15.2	(1)	281	340	Coleg Ceredigion	15.2	(2)	311	366
14.3	144	1,211	836	Coleg Sir Gar	14.3	150	1,304	802
15.1	(25)	591	821	Pembrokeshire Coast National Park Authority	15.1	(26)	605	968
12.8	57	847	281	Pembrokeshire College	12.8	59	899	297
	7,649	**58,767**	**64,554**			**3,227**	**65,032**	**68,581**
				Designated (Resolution) bodies				
20.0	2	4	13	Aberystwyth Town Council	20.0	0	8	12
12.6	0	1	0	Aberaeron Town Council	12.6	0	1	0
18.6	14	72	95	Carmarthen Town Council	18.6	14	78	74
18.7	0	14	0	Cwmamman Town Council	18.7	0	21	0
0.0	0	7	0	Llanedi Community Council	21.7	0	11	0
27.7	1	5	4	Gorslas Community Council	27.7	1	5	4
24.4	0	11	30	Haverfordwest Town Council	-	0	11	30
27.6	7	13	12	Kidwelly Town Council	27.6	8	15	12
17.3	0	2	1	Llanbadarn Fawr Community Council	17.3	0	2	1
21.2	0	1	1	Llanarthne Community Council	21.2	0	1	1
14.6	12	185	200	Llanelli Rural Council	15.0	10	164	146
17.8	8	100	76	Llanelli Town Council	17.8	9	50	82
12.8	0	6	0	Llangennech Community Council	12.8	0	6	0
18.2	4	23	7	Llannon Community Council	18.2	4	23	15
23.5	3	30	7	Pembrey & Burry Port Town Council	23.5	3	41	7
13.0	(1)	6	12	Tenby Town Council	13.0	(1)	8	12
12.0	0	10	1	Pembroke Town Council	12.0	0	11	0
8.5	0	7	0	Pembroke Dock Town Council	8.5	0	7	0
	50	**497**	**459**			**48**	**463**	**396**

2016-17					2017-18			
Contri-bution rate	Deficit Contri-bution	Contri-butions	Benefits payable		Contri-bution rate	Deficit Contri-bution	Contri-butions	Benefits payable
%	£'000	£'000	£'000	**Admission bodies** **Community Admission Body (CAB)**	%	£'000	£'000	£'000
13.2	13	32	19	CAVO	13.2	14	32	17
13.3	42	811	891	Careers Wales	13.3	43	811	982
11.7	6	31	46	CAVS	11.7	7	24	32
26.5	(5)	9	0	Carms YFCs	26.5	(5)	11	0
17.9	0	16	39	Iaith Cyf	17.9	0	13	39
20.0	5	3	16	Leonard Cheshire Disability	20.0	5	2	15
18.1	5	29	49	Llanelli Burial Board	18.1	3	9	34
7.8	3	55	27	Menter Bro Dinefwr	7.8	4	56	10
11.5	16	33	31	Menter Cwm Gwendraeth	11.5	17	34	49
7.4	0	16	0	Menter Gorllewin Sir Gar	7.4	0	18	0
23.7	1	21	10	Menter Iaith Castell-Nedd Port Talbot	23.7	1	24	10
16.0	2	9	2	Narb. & Dist. Comm & Sports Assoc.	16.0	2	9	2
14.5	4	63	23	PAVS	14.5	4	62	103
12.6	7	45	33	PLANED	12.6	8	55	33
14.2	(42)	265	320	Tai Ceredigion	14.2	(44)	260	226
16.5	105	607	563	University of Wales-Trinity St David	16.5	109	555	511
22.5	77	11	228	Aberystwyth University	22.5	80	11	214
15.1	22	222	371	Welsh Books Council	15.1	23	220	351
13.8	6	34	40	West Wales Action for Mental Health	13.8	7	26	40
17.8	1	52	44	Valuation Tribunal Wales	17.8	1	136	188
13.5	0	7	0	Swim Narberth	13.5	0	8	0
	268	**2,371**	**2,752**			**279**	**2,376**	**2,856**
				Transferee Admission Body (TAB)				
19.3	(4)	17	36	Grwp Gwalia	19.3	(4)	16	36
21.5	0	15	6	DANFO	21.5	0	10	6
20.3	0	175	198	Human Support Group (HSG)	20.3	0	144	117
	(4)	**207**	**240**			**(4)**	**170**	**159**
				Bodies with no pensionable employees				
0	0	5	6	DVLA	0	0	5	6
26.1	(12)	0	14	Cardigan Swimming Pool	0	0	0	12
13.4	0	0	73	PRISM	0	0	0	23
0	0	51	325	Dyfed Powys Magistrates Courts	0	0	51	300
0	0	1	5	Carmarthen Family Centre	0	0	1	6
0	0	1	2	Milford Haven Town Council	0	0	1	3
0	0	0	2	Mencap	0	0	0	2
0	0	0	8,198	Dyfed County Council	0	0	0	7,796
0	0	0	2	Dyfed AVS	0	0	0	2
0	0	6	7	NHS	0	0	6	7
0	0	13	42	Welsh Water	0	0	11	35
0	0	0	7	Cwm Environmental	0	0	0	7
0	0	0	5	Cartrefi Cymru	0	0	0	5
0	0	1	1	Rent Officer Service	0	0	1	1
	(12)	**78**	**8,689**			**0**	**76**	**8,205**
	7,951	**61,918**	**76,694**	**Total**		**3,550**	**68,117**	**80,197**

21.1 Bodies with No Pensionable Employees

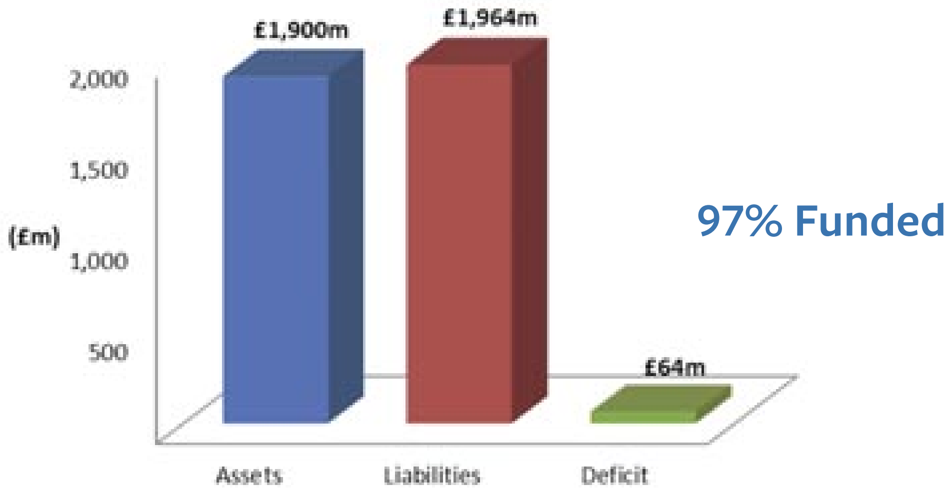
It has been assumed that for the following bodies, the proportion of pension increases stated below will continue to be recharged.

	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 with effect from 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 Primary contribution rate of 15.2% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the 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 2018/19 is approximately £4.6 million per annum (which also includes allowance for some employers to phase in any increases and to prepay contributions). 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) 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 Primary rate of contribution 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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 17	31 March 18
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.3% per annum	2.1% per annum
Rate of pay increases *	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) Deferred revaluation	2.3% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal 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 rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,997 million. Interest over the year increased the liabilities by c£75 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£46 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £125 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, 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 2018 is therefore £2,993 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries Mercer Limited
June 2018

23. Events after the balance sheet date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

24. Accounting Standards that have been issued but have not yet been adopted.

Where a new Standard has been published but has not yet been adopted by the Code, the Pension Fund is required to disclose information relating to the impact of the accounting change. The changes that are introduced in the 2018/19 Code are:

- IFRS 15 - Revenue from contracts with customers, effective 2018-19, introduces a new comprehensive framework for revenue recognition which is a principles-based five-step model for recognising revenue arising from contracts with customers. It replaces IAS 18 Revenue and IAS 11 Construction Contracts and is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services.
- IFRS 9 - Financial Instruments, replaces IAS39 and has been implemented in the 2018-19 Code of Practice. A new approach is introduced for the classification and measurement of financial assets. The second main change will be the introduction of an expected credit loss model for particular asset types, rather than an impairment of the asset resulting from a specific incident.

It is not anticipated that the above amendments will have a material impact on the information provided in the Fund's financial statements. The transitional reporting requirements for IFRS 9 and IFRS 15 have been adopted such that the preceding year is not restated so any changes will impact on 2018-19 transactions and balances.

25. Wales Pension Investments Pooling (Wales Pension Partnership (WPP))

The Third Party Pool Operator (Link Fund Solutions) in partnership with Russell Investments was appointed in December 2017 to manage the investments and the reduction of investment management expenses for all 8 Wales funds. The Joint Governance Committee has met on several occasions in 2017-18 and has approved an FCA prospectus submission for two Global Equity sub funds. These funds will launch in autumn 2018.

Carmarthenshire County Council has continued to act as the Host Authority providing administrative and secretarial support and implementing the decisions made by the Joint Governance Committee.

INDEPENDENT AUDITOR'S STATEMENT

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

I have examined the pension fund accounts and related notes contained in the 2017-18 Annual Report of Dyfed Pension Fund to establish whether they are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by Dyfed Pension Fund for the year ended 31 March 2018 which were authorised for issue on 28 September 2018. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Dyfed Pension Fund are consistent, in all material respects, with the pension fund accounts and related notes included in the Statement of Accounts produced by Dyfed Pension Fund for the year ended 31 March 2018 which were authorised for issue on 28 September 2018 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 pension fund's Statement of Accounts, 28 September 2018 and the date of this statement.

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

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

Anthony J Barrett
For and on behalf of the Auditor General for Wales

24 Cathedral Road
Cardiff
CF11 9LJ

4 December 2018

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:** **http://www.dyfedpensionfund.org.uk/local-government-pension-scheme/investments-fund-info/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 Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS

The Administering Authority should:

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

The Individual Employer should:

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

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:
    - the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the Secondary rate: a schedule of lump sum monetary amounts 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	20.00	10.00 - 30.00
Pan European Property	10.00	5.00 - 15.00
Bonds	20.00	18.50 - 21.50
Cash	0.00	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 Committee 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 Committee 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

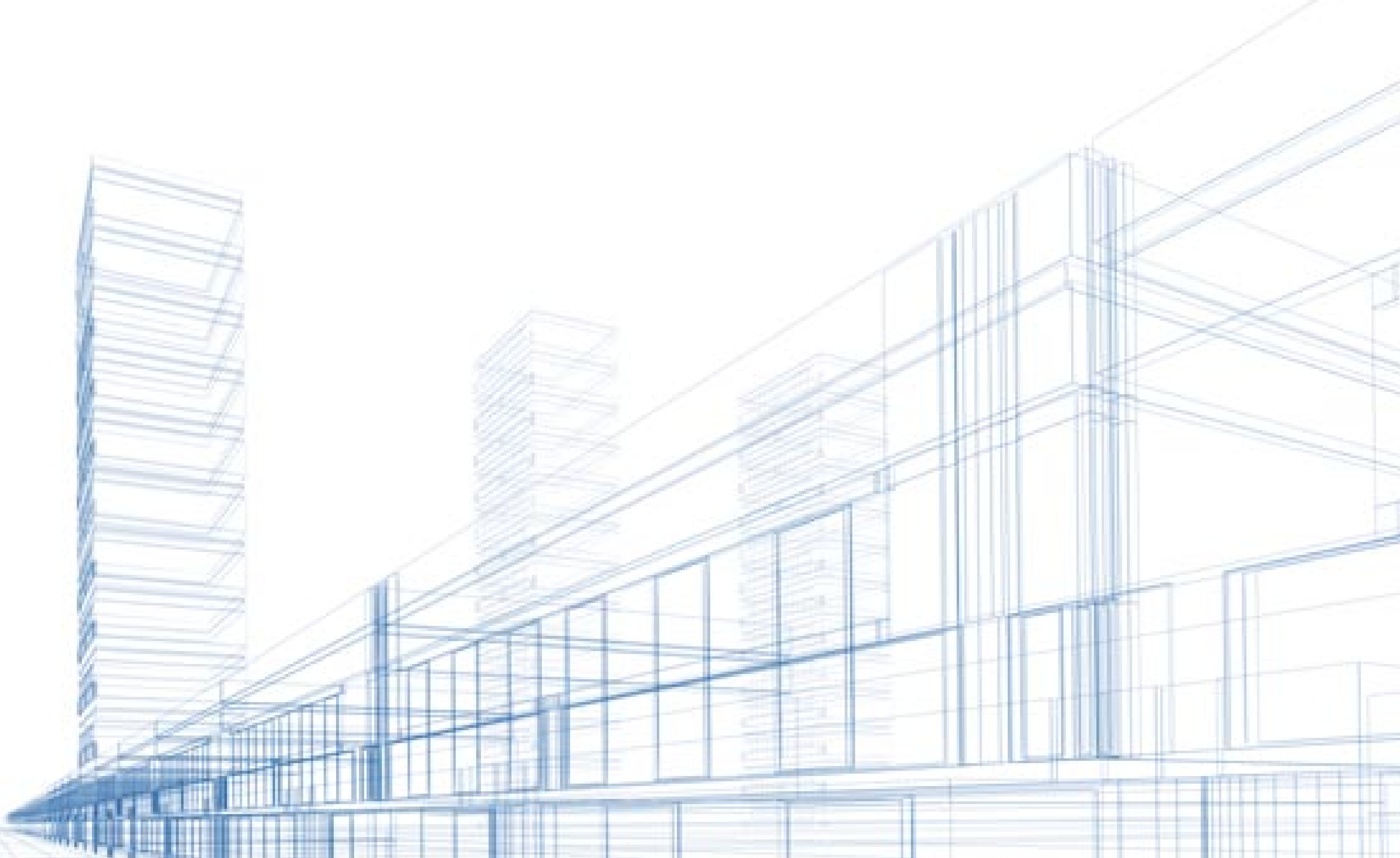
The Administering Authority has taken advice from the Fund Actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

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.



INVESTMENT STRATEGY STATEMENT 2018

Introduction

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

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

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

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

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

Investment Objectives and Beliefs

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

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

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

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

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

Investment Strategy

Asset Classes

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

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

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

The Pension Committee, following an asset liability study, has set a benchmark mix of asset types and ranges within which the investment managers may operate with discretion. This is shown in Appendix A. The Committee believes that this mix of assets will fulfil the assumptions within the valuation undertaken in March 2016, as well as taking account of the liability profile of the Fund. This mix will also help to control the risks outlined below.

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

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

Managers

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

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

Risk measurement and management

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

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

These risks are summarised as follows:

Asset Risks

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

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

Funding Risks

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

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

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

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

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

Operational risk

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

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

Governance Risk

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

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

Approach to asset pooling

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

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

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

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

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

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

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

Structure and governance arrangements of the WPP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Fund's core principles of responsible investment are:

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

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

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

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

Voting rights

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

Stewardship

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

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

Myners Principles

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

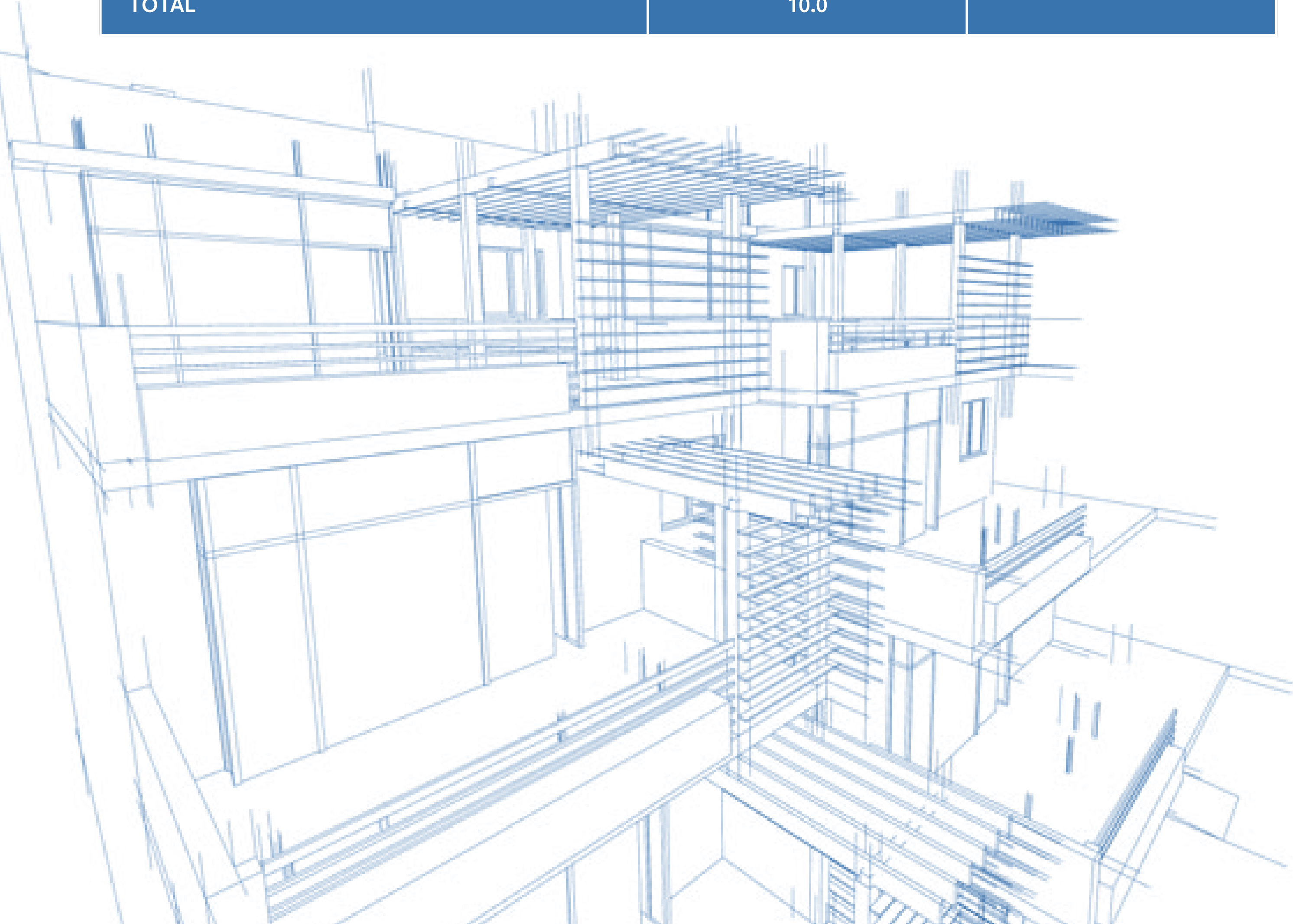
Advice taken

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

	Benchmark (%)	Range (%)
UK Equities	25.0	23.5 - 26.5
Overseas Equities	30.0	28.5 - 31.5
Global Equities	20.0	10.0 - 30.0
Pan European Property	15.0	10.0 - 20.0
Fixed Income	10.0	5.0 - 15.0
TOTAL	**100.0**	

	Benchmark (%)	Range (%)
North America	13.0	10.0 - 20.0
Japan	3.5	0.0 – 10.0
Developed Pacific (excl. Japan)	3.5	0.0 – 10.0
Emerging Markets	10.0	5.0 – 15.0
TOTAL	**30.0**	

Fixed Income	Benchmark (%)	Range (%)
UK Corporate Bonds	10.0	5.0 - 15.0
TOTAL	**10.0**	



Myners 6 Principles and Compliance Checklist

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

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

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

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

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

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

COMMUNICATIONS POLICY STATEMENT

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

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

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

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

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

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

Scheme Members

Fund Website

The Fund has established an extensive website which sets outs Scheme provisions in a simple and concise manner. Information updates and news items are quickly added to notify members of any Scheme developments. Electronic copies of Fund literature, policies and reports are also readily available to download. The site allows Scheme members to calculate and project their benefits, as well as providing external links to related websites.

My Pension Online

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

Annual Report and Accounts

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

Annual Newsletter(s)

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

Annual Benefit Statements

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.

mypension ONLINE

Website

The Fund Website sets outs 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 Investment Strategy Statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONTACTING THE FUND

Pension Investments

Anthony Parnell
Treasury & Pension Investments Manager
01267 224180
AParnell@carmarthenshire.gov.uk

Paul James
Pension Investments Officer
01267 224136
SPJames@carmarthenshire.gov.uk

Tracey Williams
Assistant Accountant
01267 224129
TLWilliams@carmarthenshire.gov.uk

Tina Leigh
Accounting Technician
01267 224106
TLeigh@carmarthenshire.gov.uk

Pensions Administration

Kevin Gerard
Pensions Manager
01267 224157
KGerard@carmarthenshire.gov.uk

Martin Morgan
Deputy Pensions Manager
01267 224452
MMorgan@carmarthenshire.gov.uk

Mathew James
Communications & Training Officer
01267 224043
MaJames@carmarthenshire.gov.uk

or alternatively
pensions@carmarthenshire.gov.uk

Membership & Benefits Queries

Surname A-G 01267 224903

Surname H-O 01267 224896

Surname P-Z 01267 224644