



Dyfed Pension Fund

Annual Report & Accounts 2018-2019

Supporting

responsible

investing



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CHAIRMAN'S FOREWORD

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

This year's theme of "Supporting Responsible Investing" was chosen because economic, social and governance factors have now become one of the key considerations when making investment decisions in the LGPS. As I mentioned in last year's annual report we approved an investment of 5% of the Fund in an alternatives income generating asset. I can now confirm that your fund has investments in the BlackRock UK Strategic Alternative Income Fund where some of the core strategies are in the renewable energy sector and a number of different sectors that have a direct impact on local communities including healthcare and social housing. During 2019 - 20 we will also be considering an investment in a low carbon fund with one of our current managers. So 'watch this space'!

The year to 31 March 2019 has seen continued strong investment performance for the Fund's assets which delivered returns of 6.5%. This has taken the value of the assets to £2.6bn at the end of the year. We are far from complacent about this performance, as there are uncertain times ahead so the Pension Committee continues to closely monitor the investment portfolios.

We have continued to work with the other seven Welsh funds as part of the Wales Pension Partnership (WPP). We will eventually be pooling the majority of our investment assets together with the other funds in order to achieve fee savings from the investment managers. This year marked the first portfolios to be moved into the WPP. We transitioned our Columbia Threadneedle and Baillie Gifford global equity investments (circa £590m) into the Global Growth Fund. This first stage has realised savings for our fund of approximately £1m per annum over the long term. Both myself and officers are heavily involved in monitoring the performance of the pool and in keeping track of savings and costs as Carmarthenshire County Council is the host authority for the WPP and I am a member of the Joint Governance Committee.

We are now beginning the important work of the triennial actuarial valuation, which will set the employers' contribution rates for the next few years. We continue to work with our actuary, Mercer, and I will report back on the results of the valuation in next year's annual report.

My Pension Online continues to be an essential tool for our members to change their personal details, see the pension accrued to date and forecast what pension they could receive at a future date.

There are now 48 active employers within the Dyfed Pension Fund with 47,250 members (18,344 current employees, 13,187 pensioners and 15,719 deferred members).

In the wider LGPS world, there are a number of challenges and opportunities on the horizon which the committee and officers are monitoring. These include consultations on Exit Payments, Fair Deal and Quadrennial Valuations and also the McCloud case and its potential impact on adjustments to the Scheme as part of the Cost Cap mechanism. The Fund is taking an active role in responding and engaging with these matters and awaits with interest to see the different outcomes.

During the year up to March 2019 there has been one change to the membership of the Pension Committee. We welcomed Councillor Rob Evans to the Committee in February 2019. Councillor John Prosser left the Committee during the year and we thank him for his contribution and wish him well for the future.

Once again this year I'd like to thank the members of the Pension Committee who 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.



I can assure you that the Fund recognises that the LGPS continues to be a high quality and highly valued defined benefit pension scheme for public sector workers. There are challenges in relation to the costs, affordability and sustainability of the scheme but we are as well placed as other funds to meet these challenges.

Councillor Elwyn Williams

Chairman of the Pension Committee



INTRODUCTION

The pension committee, advisor and officers engage with our investment managers regularly to monitor their performance and to receive information on their governance and sustainability measures. The reports they present include how they invest and engage with companies and how they govern themselves.

We are all aware of our obligations to responsible investing and the risks associated with environmental factors including climate change. Consequently, as the Chairman mentioned in his foreword, we are reviewing our investments with our managers and considering low carbon options. I will report back on progress in next year's annual report.

This year has seen increasing governance and reporting requirements across the Fund whilst at the same time the drive for improved cost efficiencies and transparency has continued via increased performance reporting and the collective investment pooling arrangements.

As the Chairman mentioned, overall membership of the Fund has increased during the year by 1.5% to 47,250. What is noticeable is that active membership has declined whilst non actives (pensioners and deferred members) have increased by 3.5%. The net effect is that active contributors have now fallen to 39% of the total fund membership with 28% of the total membership drawing pension benefits and a further 33% having deferred benefits.

Workloads have therefore, not surprisingly, continued to increase in most areas with over 23,000 cases being considered during the year. More detail can be found in Section 3 – Fund Administration Report.

The Administration team has redeveloped the 'My Pension Online' facility to further enhance scheme member experience. Over 20,000 scheme members have taken advantage of this facility. Active, deferred or pensioner members of the Scheme can view and update their basic details, access relevant forms and receive all publications immediately, including their annual benefit statement, newsletters and factsheets. Additional functionality for active members enables them to perform benefit calculations at their convenience so that they can actively plan for their retirement. A pensioner will be able to view their pension details, submit any change of bank or building society account details or change of address, view their payment history and tax code, their payment dates, payment advice slips, P60 statements and pension increase statements. I advise all members to take advantage of this valuable resource.

The Joint Governance Committee (JGC) and Officer Working Group (OWG) meetings of the Wales Pension Partnership (WPP) continued during 2018-19. We continue to work as a collegiate group with over £6.5bn now invested in passive equities and global equities. A work plan is in place and a Responsible Investment Policy will be approved by the JGC in September 2019. A website will be fully functional by this date and work has commenced on a Governance Policy. Recently, I met with a senior official from the Ministry of Housing, Communities & Local Government (MHCLG) in my role as an officer for the host authority. She was suitably impressed by the work the WPP had accomplished to date and praised us for our collaborative working and our ability to come to a consensus on decision making. We will be expected to provide a progress update to the MHCLG in autumn 2019 on the savings we have made to date and expectations in the future as a result of pooling.

The Fund continues to provide excellent investment returns at 3 (11.5%), 5 (9.8%) and 10 (11.6%) years. Not only are these excellent returns in absolute terms but they have also far outstripped inflation (whether earnings and/or prices) over these periods. This is important as the liabilities which the Fund has to pay are the benefits due to members and they are typically up-rated by price (CPI) inflation for pensioners and deferred members and earnings inflation for active members. More detail can be found in Section 2 – Investment Policy and Performance Reports.

Finally I would like to acknowledge the efforts the staff and Committee are continuing to make to maintain the success of the Fund in a constantly challenging environment, and of course the role of the advisers and investment managers in achieving this success. A special thank you this year to Mr Eric Lambert, whose tenure has come to an end, after 15 years, as the Fund's Independent Adviser. Eric has travelled regularly from his Scottish home to London and Carmarthenshire to assist us in our management of the Fund. His exceptional knowledge and understanding of the pension environment has supported the officers and Committee in making informed decisions and has contributed greatly to our achievements ensuring your fund is one of the most reputable funds in the LGPS.



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 2018-2019 the Committee members were:

Councillor Elwyn Williams	- Chairman of the Committee
Councillor John Prosser	- Committee Member (up to 20 Feb 2019)
Councillor Rob Evans	- Committee Member (from 21 Feb 2019)
Councillor Jim Jones	- Committee Member
Councillor Dai Thomas	- Substitute Committee Member

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

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

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

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

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

The Pension Committee



Councillor Elwyn Williams -
Chairman of the Committee



Councillor John Prosser -
Committee Member
(up to 20 Feb 2019)



Councillor Rob Evans -
Committee Member
(from 21 Feb 2019)



Councillor Jim Jones -
Committee Member



Councillor Dai Thomas -
Substitute Committee
Member



Meeting attendance and training events 2018-2019	Cllr. Elwyn Williams	Cllr. John Prosser	Cllr. Rob Evans	Cllr. Jim Jones	Cllr. Dai Thomas
Voting rights	✓	✓	✓	✓	
2018-19 Meeting attendance:					
Committee Meeting 4 May 2018	✓	✓	NOT IN POST	✓	✓
Committee Meeting 20 June 2018	✓	✓	NOT IN POST	✓	
Committee Meeting 18 September 2018	✓	✓	NOT IN POST	✓	
ACM 24 October 2018	✓	✓	NOT IN POST	✓	
Committee Meeting 21 February 2019	✓	NOT IN POST	✓	✓	
2018-19 Training events:					
LA Conference (PLSA) May 2018			NOT IN POST	✓	
Briefing Session (Baillie Gifford & Columbia Threadneedle) June 2018	✓	✓	NOT IN POST	✓	
ESG Issues & AGM (LAPFF) July 2018			NOT IN POST	✓	
Investment Summit (LGC) September 2018		✓	NOT IN POST		✓
ESG Issues (LAPFF) October 2018			NOT IN POST	✓	
Equities & Bonds Briefing Session (BlackRock) October 2018	✓	✓	NOT IN POST	✓	
Global Equities Briefing Session (Baillie Gifford & Columbia Threadneedle) October 2018	✓	✓	NOT IN POST	✓	
Property Briefing Session (Schroders & Partners Group) October 2018	✓	✓	NOT IN POST	✓	
ESG Issues (LAPFF) January 2019			NOT IN POST	✓	
Investment Manager Briefings (BlackRock & Schroders) February 2019	✓	NOT IN POST	✓	✓	
Investment Seminar (LGC) February/March 2019		NOT IN POST			✓

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, Wales Pension Partnership

Legal Advisers

- Eversheds

Performance Measurement Company

- Local Authority Pension Performance Analytics (PIRC)

Fund Actuary

- Mercer

Custodian

- Northern Trust

Bankers

- Barclays Bank Plc

AVC Providers

- Prudential, Standard Life and 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 2018-19 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 2017-18 £'000	Budget 2018-19 £'000	Actual 2018-19 £'000	Variance 2018-19 £'000
Income				
Employee Contributions	18,229	18,640	18,986	346
Employer Contributions	53,441	50,514	56,166	5,652
Transfers In	1,699	1,500	6,651	5,151
Investment Income	18,948	17,732	17,455	(277)
Other Income	0	0	0	0
Total Income	92,317	88,386	99,258	10,872
Expenditure				
Benefits Payable	(80,200)	(76,699)	(83,731)	(7,032)
Transfers Out	(2,304)	(2,620)	(3,853)	(1,233)
Management Expenses	(1,506)	(1,777)	(1,748)	29
Investment Management Expenses	(9,710)	(5,390)	(9,292)	(3,902)
Total Expenditure	(93,720)	(86,486)	(98,624)	(12,138)
Changes in the Market Value of Investments	98,447	-	134,940	-
Net Increase/(Decrease) in the fund value	97,044	-	135,574	-

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

Income

Total actual income was £10.8m more than budgeted mostly due to higher than expected income being received from employer contributions and transfers in from other pension funds.

Expenditure

Total actual expenditure was £12.1m more than budgeted mostly due to higher than expected benefits payable and investments management expenses.



INVESTMENT POLICY AND PERFORMANCE REPORTS

Fund Investments

Investment Policy

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

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

The ISS has been developed alongside the Fund's funding strategy on an integrated basis taking into account the risks inherent in the Fund. The ISS document can be found on our website:

<http://www.dyfedpensionfund.org.uk/local-government-pension-scheme/investments-fund-info/investment-strategy-statement/>

Responsible Investment 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

The Fund transitioned its global equity allocation (Baillie Gifford and Columbia Threadneedle) into the Global Growth sub fund within the Wales Pension Partnership during the year.



Asset Allocation

The asset allocation as at 31 March 2019 is shown below:

Mandate	Approach	Manager	Benchmark (%)	Actual (%)
UK Equities				
UK	Passive	BlackRock	25.00	19.83
Overseas Equities				
US	Active	BlackRock	8.00	8.00
Japanese	Active	BlackRock	4.00	3.30
Other Regional	Passive	BlackRock	8.00	16.07
Global Equities				
Global	Active	Wales Pension Partnership	20.00	22.84
Fixed Interest				
Index Linked Bonds	Passive	BlackRock	0.00	5.38
Corporate Bonds	Active	BlackRock	10.00	10.30
Property				
Pan European Property	Active	Schroders	13.00	11.53
Pan European Property	Active	Partners Group	2.00	1.42
Infrastructure				
Infrastructure			5.00	0.00
Other				
Alternatives	Active	BlackRock	5.00	0.58
Cash	Active	BlackRock	-	0.75
Total			100.00	100.00

The table below shows the change in fund value from the beginning of the year to the end of the year and is broken down by asset class. The value of the Fund increased by 5.6% from 2017-18 to 2018-19.

	Value as at 31/03/18 £'000	Value as at 31/03/19 £'000
Equities - UK Quoted	480,061	510,928
Index Linked	248,675	138,699
Fixed Interest (Corporate Bonds)	240,907	265,299
Pooled Funds - Global Equities & Overseas Equities	1,220,499	1,293,361
Property	6,057	6,371
Pooled Property Investments	231,874	320,616
Alternatives	-	27,626
Cash	6,587	7,052
Accrued Income	490	896
Total	2,435,150	2,570,848



Investment Performance

10 Year Returns

Periods to 31/03/19	Fund (%)	LA Universe (%)	Difference (%)
1 year	6.5	6.6	(0.1)
3 year*	11.5	10.5	+1.0
5 year*	9.8	8.8	+1.0
10 year*	11.6	10.7	+0.9

*Annualised Returns

Performance is measured on both a quarterly and an annual basis. For the year to 31 March 2019 the Fund returned 6.5% (compared with an average local authority return of 6.6%) and was ranked in the **47th percentile**. The rolling three year return for the Fund is 11.5% (compared with the average local authority fund return of 10.5%) and ranked in the **8th percentile**. The rolling 5 and 10 year returns for the Fund are ranked at **15th** and **7th** 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 2019.

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 8.7%. 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 2019. The valuation of the property portfolio is above the original cost of investment:

Portfolio investments		Partners Group Red Dragon L.P.	
Committed	£65.5m	Commitments	£97.0m
Commitment level	67.51%	Capital contributions	£53.9m
Commitment level - directs	13.73%	Capital contributions (in % of commitments)	55.53%
Commitment level - secondaries	23.54%	Unfunded commitments	£43.1m
Commitment level - primaries	30.24%	Distributions	£37.2m
Invested	£58.7m	Net asset value	£35.6m
Investment level	89.59%		

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 three and five year periods.

Performance to 31/03/19	Fund (%)	Benchmark (%)
1 year	4.80	4.80
3 year*	6.70	6.20
5 year*	9.00	9.10

*Annualised Returns

**The property portfolio was in the 12th percentile in the LA Universe
(8th out of 59 LGPS funds that invest in property (PIRC))**



BlackRock

The active Japanese Equities and UK Corporate Bonds have outperformed (+1.6% and +0.39% respectively) while the US Equities have underperformed (-2.17%) their respective indices during the year.

	Fund Return (%)	Index (%)	Difference (%)
US Equities	15.55	17.72	(2.17)
Japanese Equities	0.52	(1.08)	1.60
UK Corporate Bonds	4.07	3.68	0.39

Wales Pension Partnership

A Wales Investment Pool Operator has been appointed by the Wales Pension Partnership to manage the investments and the reduction of investment management expenses for all eight Wales pension funds. The Joint Governance Committee has met on several occasions in 2018-19 and approved an FCA prospectus submission for two Global Equity sub funds. These two sub funds were launched in January/February 2019. The Fund has placed its global equity allocation (Baillie Gifford and Columbia Threadneedle) into the Global Growth sub fund which targets a +2% excess return gross of fees. Underlying managers within this sub fund currently include: Baillie Gifford, Veritas and Pzena. This fund has yet to complete its first full quarter of operation as at 31 March 2019.

Carmarthenshire County Council is the Host Authority to provide administrative and secretarial support and implement decisions made by the Joint Governance Committee of the Wales Pension Partnership. The Director of Corporate Services is the Responsible Finance Officer of the Wales Pension Partnership. Similarly, the Council's Monitoring Officer is the Monitoring Officer of the Wales Pension Partnership.

Manager	Actual Allocation	ITD Return	ITD Index*	ITD Excess	Inception Date	31 March 2019 Value
Baillie Gifford	41%	1.88%	1.18%	0.70%	February 2019	£240,527,949
Veritas	25%	(0.52%)	1.18%	(1.70%)	February 2019	£147,980,139
Pzena	34%	(2.18%)	1.18%	(3.36%)	February 2019	£198,916,057

* MSCI/AC World Index



BLACKROCK

The period proved to be quite volatile for markets mainly due to increased geopolitical tensions throughout multiple regions. During Q4 2018, we saw negative returns in both Equities and Fixed Income for the first time in thirty years with markets rallying soon after.

- Trade tensions between the US and China dominated markets throughout the year. President Trump looked to impose tariffs on goods from China, Europe and Canada, driving investor sentiment globally.
- The ongoing Brexit negotiations affected UK equity markets throughout the year.
- The US Federal Reserve (the Fed) increased interest rates by 0.25% in the second and third quarter of 2018, culminating in shift in investor sentiment towards a more risk-off tone at the end of the year.

Figure 1: Market returns 1 April 2018 to 31 March 2019

Returns	3 Months to 31 March 19		12 Months to 31 March 19	
	Account (%)	Index (%)	Account (%)	Index (%)
Aquila UK Equity Index Fund	9.37	9.41	6.43	6.36
Aquila Life European Equity Index Fund ex UK	8.03	8.02	2.77	2.69
Aquila Life US Equity Index Fund	11.27	11.24	17.85	17.72
Aquila Life Canadian Equity Fund	12.28	12.15	13.15	12.62
Ascent Life US Equity Fund	11.56	11.24	15.55	17.72
Ascent Life Japanese Equity Fund	5.57	4.35	0.52	(1.08)
Ascent Life Pacific Rim Equity Fund	7.72	7.73	4.65	4.72
Aquila Emerging Markets Fund	7.39	7.23	0.36	0.03
iShares Emerging Market Index Sub Fund	7.49	7.43	(0.27)	(0.32)
BlackRock Ascent UK All stocks Corporate Bond Fund	4.24	4.08	4.07	3.68
Total Fund	8.24	7.97	5.41	3.89

BlackRock Performance

Over the year Dyfed Pension Fund's Main Portfolio returned 5.41% for the period compared to a composite index return of 3.89%, thereby outperforming the index by 1.52%.

The passively managed funds tracked the indices they are managed against. For the active funds, Japanese Equities outperformed the benchmark by 1.60% and US Equities outperformed by 0.13%. Corporate Bonds were ahead of the benchmark by 0.39%.

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

Market & Economic background

April – June 2018

The second quarter 2018 saw developed equity markets rebound from their previous lows and recover some of the losses experienced earlier in the year. They subsequently weakened as the political situation in Italy deteriorated and trade tensions escalated. Emerging market assets declined sharply, led by trade tensions with the US and China. Investors became concerned about the potential impact of tariffs on global economic growth. The impact of the political

uncertainty within Europe had a knock-on effect on markets more broadly. Geopolitical risks continued to intensify in June as President Trump announced that he may impose tariffs on all imports of cars assembled in the European Union (EU) whilst the previously announced US tariffs on steel and aluminium came into effect. Meanwhile, Canada announced the implementation of retaliatory tariffs on more than 100 US imports representing USD 16.6 billion; these become effective from 1 July 2018.

Within fixed income, bond yields rose sharply across the curve in peripheral European markets with Italian bond yields rising the most due to rising political uncertainty in the country. However, the selloff in Italian and Spanish bond appeared contained within the periphery as 'safe-haven' bonds namely UK, German, French all generated positive returns over the quarter. Across the pond, US Treasury returns remained relatively stable in local currency terms. Although shorter term US bond yields rose as investors priced in an interest rate hike of 25bps, announced by the Federal Reserve Bank (Fed) in June. The continuing strength of the US economy, and core inflation rising towards the Fed target, has led to an increased divergence in monetary policy between the Fed and other major central banks, particularly the ECB. Corporate bonds generated negative returns across the board in June except for US high yield bonds, which was the relative outperformer. Meanwhile, emerging market debt saw very weak returns as specific countries such as Argentina and Turkey faced renewed policy headwinds.

Commodity market returns were mixed over the quarter as the decline in prices of soft commodities and precious metals was offset by sharply rising oil prices. The demand and supply dynamics approached a more balanced position, helped by OPEC's production cuts.

July – September 2018

Throughout the third quarter, developed market equities (led by the US) continued to outperform emerging markets amidst a backdrop of rising geopolitical risks, most notably US China trade tensions, Brexit uncertainty and the political situation in Italy. In addition, uncertainty over the future of the North American Free Trade Agreement (NAFTA) underpinned geopolitical risk, particularly as the increased likelihood of a bilateral deal between Mexico and the US became evident in August. The breakdown of US/Canada relations was exacerbated in September by the US rejection of Prime Minister Trudeau's request for a one-on-one trade talk. However, on the final day of the quarter, the Canadian cabinet met to approve a deal putting an end to the uncertainty.

Within fixed income, Europe saw the announcement of the much-debated Italian budget deficit for 2019 which far exceeded the target set by newly-appointed Finance Minister Tria of below 2%. The newly formed populist coalition government announced a deficit-widening budget three times the size of that set by the former administration. The decision added to tensions between Italy and the European Commission as the rise of populism continues to weigh heavily on the unity of the European Union. Italian bond ('BTP') yields rose sharply on the back of the announcement and European Indexes, led by Italian equities, fell significantly as investors priced in more risk. In addition, low yields in German bunds adds to the pressure on BTP's as spreads widen further. In the US, the Federal Open Market Committee hiked rates by a further 0.25% in September as consumer confidence remains high, core inflation is in line and the US economy continues to expand. Japanese government bonds dipped slightly over the quarter as speculation rose that the Bank of Japan may further reduce its bond-buying programme. In the UK, Mark Carney's position as Governor of the Bank of England was extended bringing at least some sense of stability to the Monetary Policy Committee amidst the turbulent Brexit negotiations.

In commodities, Oil has been the main topic of discussion. Brent Oil climbed to its highest level since November 2014 amid uncertainty over Trump's sanctions on Iran and has now returned c.30% YTD. Elsewhere in commodities, precious and industrial metals posted weak returns in the wake of the broader weakness affecting emerging markets.

October – December 2018

The final quarter of 2018 saw a sharp correction leading to negative returns in the majority of assets across the globe. Volatility in global markets was provoked by a number of factors including increased trade tensions between the US and China, evidence of a slowdown in economic growth, the transition from quantitative easing to quantitative tightening, particularly in the US, and elevated political uncertainty. Lingering fears over a disorderly Brexit in the UK



and the partial shutdown of the US Federal Government towards the end of the year, further clouded investor sentiment in the final few weeks of the year.

Within fixed income markets, global bonds remained under pressure early in the quarter against a backdrop of rising US interest rates and the conclusion of the European Central Bank's bond-buying programme. However, as the quarter progressed, rising doubts over global economic growth and mounting expectations that the Fed may curb its monetary tightening plans triggered a rally in bonds. The rally in bonds in December, reflected the stark shift in investor sentiment towards a more risk-off tone. European bonds finished the quarter flat to slightly up albeit having witnessed some sharp moves in yields during the period. Emerging market debt remained weak during the quarter and corporate bonds also posted negative returns. Although investment grade debt recovered some losses in December returns were down for the quarter and high yield debt continued to struggle.

In commodities, gold's safe haven qualities were reflected in its price appreciation over the period. In contrast the price of Brent Crude oil dropped by over 35% given excess supply coupled with President Trump's warning to Saudi Arabia and other members of the OPEC cartel to steer clear of production cuts. OPEC did however decide to cut 1.2 million barrels per day at their meeting in December.

January – March 2019

After a volatile final quarter in 2018 where a sharp correction led to negative returns in the majority of assets across the globe, the first quarter of 2019 has seen a marked reversal of these dynamics across the board with risk assets rallying particularly strongly.

The shift in monetary policy was perhaps the main driver of the rally following the Federal Reserve Bank's ('Fed') dovish pivot. Markets have swung from pricing in two quarter-percentage-point Fed rate increases in 2019 less than six months ago to factoring in a rate cut this year. In addition, China has signalled a move to easier credit and fiscal policies to support their economy. This backdrop has ultimately been supportive of both equities and bonds globally.

Developed market equities broadly outperformed emerging markets, driven largely by the tech-heavy NASDAQ Composite Index in the US. The US outperformed the rest of the developed market regions, with UK equities lagging given the ongoing uncertainty about the progress of Brexit negotiations.

In fixed income, emerging market debt and global high yield significantly outperformed investment grade debt and government bonds, reflecting renewed investor appetite for riskier, higher income bearing assets. Emerging market debt benefitted particularly from some weakness in the US dollar following the Fed's move to a policy pause.

In commodities, oil was the standout performer for the quarter and was in fact the strongest performing asset class globally as Chinese manufacturing data and OPEC supply cuts fed into the bullish outlook for prices.

Supporting Responsible Investing

BlackRock's mission is to create better financial futures for our clients. We aspire to be an industry leader in how we incorporate sustainability into our investment processes and learning across the firm, in our stewardship of our clients' assets, in our sustainable investment solutions for clients, and in the operations of our own business.

“A company's ability to manage environmental, social, and governance matters demonstrates the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process”

- Larry Fink, 2018 Letter to CEOs



As a fiduciary investor, we work on behalf of our clients, the asset owners, engaging with companies, using our vote and promoting thought leadership. Our engagement priorities promote sound corporate governance and business practices that are consistent with sustainable long-term financial returns.

We determine our engagement priorities below based on our observation of market developments and emerging governance practices, and evolve them each year as necessary.

- **Governance:** We focus on board composition, effectiveness and accountability as a top priority. In our experience, most governance issues require board leadership and oversight. We engage to better understand how boards assess their effectiveness and performance, as well as their position on director responsibilities and commitments, turnover and succession planning, crisis management, and diversity.
- **Corporate Strategy and Capital Allocation:** We expect boards to be fully engaged with management on the development and implementation of the company's strategy. Companies should succinctly explain their long-term strategic goals, the milestones that demonstrate progress, and any obstacles anticipated or incurred.
- **Compensation that Promotes Long-Termism:** We expect executive pay policies to use performance measures that are closely linked to the company's long-term strategy and goals to ensure executives are rewarded for delivering strong and sustainable returns over the long-term, as opposed to short-term hikes in share prices.
- **Environment Risks and Opportunities:** Sound practices in relation to the material environmental factors inherent to a company's business model can be a signal of operational excellence and management quality. Environmental factors relevant to the long-term economic performance of companies are typically industry-specific, although in today's dynamic business environment, some, such as regulation and technological change, can have a broader impact. Corporate reporting should help investors and others understand the company's approach to these factors and how risks are integrated, and opportunities realized.
- **Human Capital Management:** In a talent constrained environment, we view a company's approach to human capital management as a potential competitive advantage. We expect disclosure around a company's approach to ensuring the adoption of the sound business practices likely to create an engaged and stable workforce.

Because BlackRock views stewardship as an investment function, the team is positioned for the mutual exchange of views with active portfolio management teams. In 2018, the team voted at around 17,000 shareholder meetings on approximately 160,000 proposals. The diagram on the next page illustrates the team's Engagements in the Europe, Middle East and Africa region over the first quarter of 2019.





Our global approach to stewardship gives us the local presence necessary to better understand a company's regional risks and challenges. We are positioned as an investment function because investment stewardship is core to value creation with over 40 team members across seven global offices voting in over 85 markets.

Contact over the year

Over the review period, BlackRock has met with the scheme officers and councillors twice during the year.

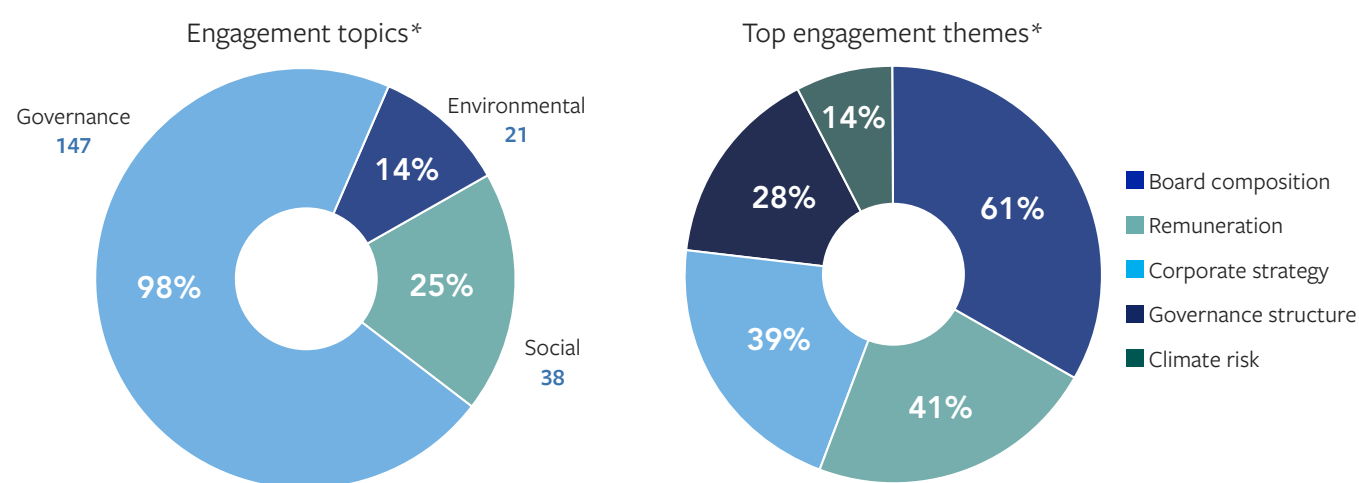






EMEA Q1 2019 Engagement Statistics

Region				
	Engagements ¹	Multiple engagements ²	Meetings voted	Proposals voted
United Kingdom (UK)	56	9%	127	1,455
EMEA ex UK	94	9%	409	5,885
EMEA including UK	150	9%	536	7,340

¹The EMEA engagement statistics are sourced from BlackRock on 5 April 2019 and are a reflection of 1 October 2019.

²Multiple engagements represents the number of multiple meetings during the same company.



EMEA statistical overview twelve months from 1 April 2018 to 31 March 2019			
			
Engagements ¹	Multiple engagements ²	Meetings voted	Proposals voted
576	22%	3,477	47,873
Global statistical overview twelve months from 1 April 2018 to 31 March 2019			
Engagements	Multiple engagements	Meetings voted	Proposals voted
2,091	19%	16,686	157,869

²Multiple engagements represents multiple meetings with the same company over this period.



Katie Jupp

Director, BlackRock



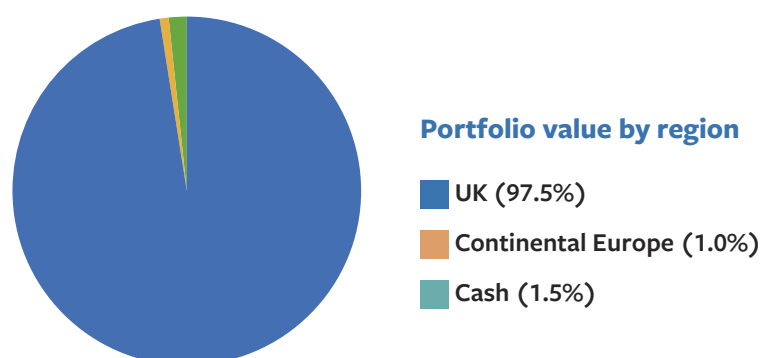
Background

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

Progress

As at 31 March 2019 the value of the property portfolio stood at circa £306 million, approximately £100 million higher than twelve months previously. Since the inception of the mandate we have created circa £100 million of value above the equity committed, i.e. approximately £10 million per annum. At the financial year end 97.5% by value was invested in the UK, 1.0% was invested in continental Europe and 1.5% was held in cash.

Over the twelve month period there was net investment of circa £96.3 million and £27.6 million of the recently committed equity remains to be drawn.



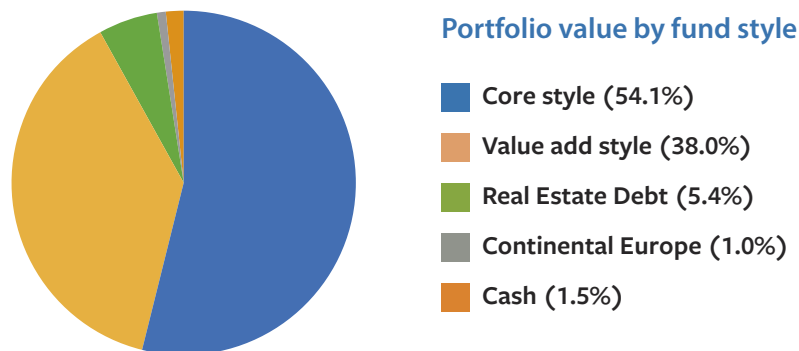
We expect all of the remaining committed equity to be invested in the UK.

Exposure to continental Europe has reduced from circa 7% of portfolio value as at 31 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 is closely aligned to our preferred weightings, i.e. underweight to retail and central London offices compared to the benchmark and overweight to industrials, regional offices and alternatives i.e. non-mainstream sectors. The House View has changed over the last twelve months to become more negative towards the retail sector and more positive towards regional offices and alternatives. We would look to increase exposure to regional offices and alternatives with the uncommitted cash that is available.

By fund style, approximately 54.1% of the portfolio by value is invested in UK core style strategies. Core funds are typically lowly geared and open-ended in structure, with underlying exposure across all sectors. 38.0% by portfolio value is invested in value add funds, these are typically sector focussed funds, may have an exposure to leverage and are generally closed-ended. 5.4% of portfolio value is invested in real estate debt.





The continental European portfolio (1.0% of portfolio value) consists of four individual investments.

Performance

Performance was marginally above the benchmark (+0.1%) over the three months to end March 2019, but portfolio returns matched the benchmark over a twelve month period despite the -0.9% of transaction costs that were incurred over the period. The mandate outperformed over three years (+0.5% per annum) even with the -0.6% impact of transactions. Five year performance was narrowly below the benchmark (-0.1% per annum), mainly due to the -0.5% of transaction costs. The UK industrial sector was again the strongest near term driver of performance, with the UK retail sector the main drag. 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 (+0.5%), three years (+0.9% per annum) and five years (+1.0% per annum).

UK property outlook

While it is clear that the UK Parliament wishes to avoid a no-deal Brexit, there is little consensus about what form a future arrangement with the EU should take. If there is a deal and then a transition period, Schrodgers forecasts that the UK economy will grow by 1.25-1.5% p.a. through 2019-2020. Rising real wages should lift consumer spending and the government can afford to increase spending following the turnaround in its finances. In this scenario, inflation is forecast to be around 2% p.a., while the Bank of England is likely to raise its base rate to 1.5% by the end of next year. However, if there were no deal then the economy could stall, as real wages would be squeezed by a drop in sterling and faster inflation, and as trade and investment are disrupted. The next move in base rates would probably be down, not up.

Uncertainty over Brexit held back occupier demand in the first quarter of 2019. According to CBRE, total office take-up in central London was below one million sq ft in the first two months of the year, the quietest start to a year since 2013. Likewise, industrial demand was subdued and while manufacturers and retailers built stocks ahead of Brexit, they typically crammed more goods into their existing warehouses, rather than committing to additional space.

Regardless of Brexit, we expect that the most resilient sectors will be multi-let industrial estates and offices in dynamic, 'winning cities' such as Brighton, Bristol, Cambridge, Leeds, Manchester, Milton Keynes, Oxford and Reading. These sectors have seen low levels of new building in recent years and have lost space to residential re-development, with the result that there is little risk of oversupply and rents should be stable. Over 35 million sq ft of office space has been converted to residential since 2013, particularly in southern England where house prices are relatively high (source: ONS, Schrodgers). Multi-let industrials are also gaining from the growth in online retail sales and last mile logistics. Parcel volumes grew by 6% p.a. in 2018 according to the Royal Mail.

Certain niche sectors should be more defensive, particularly where demand is less tied to the economy and where there is a shortage of modern, good quality accommodation. Demographic trends are increasing the demand for doctors' surgeries, retirement villages and social supported housing. These sectors improve people's quality of life and, from

the government's perspective, they are more cost-effective than hospital care. These sectors also satisfy increasing demand for real estate types and strategies delivering positive social impact as well as attractive risk-adjusted total returns.

By contrast, retail rents are likely to fall significantly, as online sales grow at the expense of stores. While there have been fewer retailer insolvencies in recent months, a number of multiples are likely to enter into company voluntary arrangements (CVA) later this year. Moreover, many successful retailers are planning to close stores and Next plc revealed that it had secured an average rent cut of 29% when it decided to keep a store open, rather than close at lease expiry. The most defensive sub-sectors are likely to be convenience stores and retail warehouses with affordable rents and a low exposure to fashion occupiers. A no-deal Brexit could help tourist destinations if sterling depreciated.

We are also cautious of central London offices, at least in the short term. On the plus side, life science and tech companies seem relatively unaffected by Brexit and employment in those sectors should continue to grow. On the downside, there is a risk that London-based financial services will lose access to the EU single market and we are nervous about the rapid growth of serviced offices, which accounted for 15-20% of central London take-up in 2018. In addition, the upturn in development in the City is likely to lead to an increase in empty second-hand space, as occupiers move from old to new offices. We expect central London office rents to fall by 5-10% over the next two years, led by the City, before starting to recover in 2021 or 2022.

The slowdown in the investment market which began in late 2018 has continued into this year. The total value of transactions in the first quarter of 2019 was around one-third lower than in the first quarter of last year. To a large extent this can be explained by investors taking a wait-and-see approach to Brexit and by the structural challenges facing the retail sector. Local authorities' treasury departments have also bought less, following criticism about their borrowings from the Public Works Loan Board. We expect to see some distressed sales of shopping centres.

We forecast all property total returns will be slightly negative in 2019, but the average will mask a huge variation across different types of real estate. For example, secondary shopping centre values could fall by 15% or more this year, whereas industrial and regional office capital values should hold steady, assuming an orderly Brexit process. Our main focus for diversified portfolios is on industrial / logistics serving large population centres and offices in winning cities. We are also investing in certain niche types and strategies (e.g. real estate debt, residential land), which ought to be less correlated with the main commercial markets. We are exploring new opportunities in retirement living and social supported housing.

Continental European property outlook

Schroders forecasts that eurozone economic growth will slow from 1.8% in 2018 to 1.25-1.5% p.a. through 2019-2020. The main weak spot will be manufacturing, reflecting sluggish exports to China and the UK, and slowing growth in the US. Germany, which has a relatively big manufacturing sector, is likely to experience a sharper slowdown than most countries. By contrast, consumer spending should be stable, supported by rising employment, higher pay awards, low inflation of around 1.5% p.a. and some softening in austerity measures. The benign outlook for inflation means that the European Central Bank (ECB) is likely to wait until 2020 before raising the refinancing interest rate to 0.5%. The main upside risk is that consumer spending is stronger than forecast. The main downside risks are a disruptive Brexit and / or the US deciding to impose tariffs on EU car exports.

Almost every major European city saw a rise in office rents over the year to March 2019. This widespread upswing reflects the sustained increase in employment in media, tech and professional services over the last five years, and falling vacancy. Vacancy rates in Amsterdam, Brussels, the major German cities, Paris and Stockholm are at their lowest level in fifteen years and there is a particular shortage of prime office space. While developers are starting to respond, the reluctance of banks to lend on speculative schemes and a strong increase in construction costs is restraining new building. Consequently, while rental growth will probably slow, we expect the increase in office rents to continue through 2019-2020.

The industrial and logistics sector is also seeing strong demand and rising rents, driven by the cyclical improvement in the economy and by the structural growth in online retailing. However, the increase in rents is less ubiquitous than in the office market and big cities (e.g. Berlin, Madrid, Munich, Paris) are generally seeing faster rental growth than ports or other distribution hubs. The difference is largely due to the greater availability of land for new building in the main



logistics hubs of Benelux and the Ruhr, but development in big cities is also being held back by low unemployment and a shortage of warehouse staff. This is encouraging greater automation and, combined with the transition to electric vehicles, means that warehouses increasingly need to have a good power supply.

Despite the growth in consumer spending, demand for retail space in continental Europe is in structural decline. The key challenge is the switch to online retail, but the market is also being disrupted by discount retailers who are taking market share from midmarket retailers and are unwilling to pay the same level of rent. The average vacancy rate in shopping centres has risen to 8% and shopping centre rents fell in most countries in 2018, except Spain and Portugal (source: PMA). We believe that the most defensive retail types will be shops in big city centres and tourist destinations, convenience stores, mid-sized supermarkets and out-of-town retail warehouses selling bulky goods. We expect that department stores, shopping centres with a heavy reliance on clothing and footwear, shops in smaller cities and hypermarkets will suffer a sustained fall in rents.

Although the value of investment transactions in continental Europe has fallen by 10-15% from its peak in 2017 (source: RCA), there are no signs except in the retail sector that investor sentiment is cooling. While the slowdown in the economy means that prospects for office and industrial rental growth have dimmed slightly, the gap between real estate and bond yields has widened since the start of this year. As the timing of the ECB's first rise in interest rates has receded, and bond yields have fallen, we expect that the office and industrial yields will be stable over the next 18 months, before rising by 0.25-0.40% through 2021. Conversely, shopping centre yields will probably increase by 0.5-1.0% in 2019-2020 as investors price in lower rents.

In the office market we currently see most value in either redevelopment projects in central business districts, or in stabilised assets in adjacent areas where yields are higher. In the industrial market we favour multi-let estates and smaller distribution warehouses where it is still possible to buy good assets on yields of 5%, or higher. We also see value in hotels with management agreements. We are cautious about most retail assets, because we do not believe that current yields reflect the risks of higher vacancy and falling rents.

Strategy

Real estate returns are generally beginning to moderate, but the range of returns between individual sectors is very polarized. In general, industrials, regional offices and alternatives are performing well but the retail sector is in the doldrums and is enduring a period of significant structural change.

Convenience retail appears to have been immune to the malaise in the retail sector thus far. Dyfed's holding in this sub-market was one of the strongest performing portfolio holdings over the Q1 2019, benefiting from affordable rents, being less impacted by the growth of online retail and boosted by a trading format that is seeing relatively strong levels of occupier demand and expansion.

Investments in alternative sectors, such as student accommodation and care homes, have also contributed positively in Q1 2019 and may benefit from macro trends such as demographics, rather than being undermined by economic and political uncertainty.

Look through portfolio sector structure is accretive to performance. The portfolio is underweight relative to benchmark in retail and London offices and is overweight to industrials, regional offices and alternatives. We would look to add further to regional offices and new alternative strategies with committed cash, accumulating income and the proceeds of sales.

As at 31 March 2019, there was circa £4.6 million of cash on account, representing circa 1.5% of current portfolio value. There were undrawn commitments of circa £11.1 million (3.6% of portfolio value) to the real estate debt strategy and to the regional office sector. We intend to invest further in regional offices and to make new investments in retirement villages and social supported housing.

£27.6 million of the new £122.2 million allocation of equity remains to be called.



Summary

Performance matches the benchmark over one year, is ahead over three years (+0.5% per annum) and is marginally below over five years (-0.1% per annum). Recent performance has been diluted by the impact of transaction costs. UK holdings have outperformed over all time periods.

Returns were stronger than expected in 2018, but we do anticipate that they will moderate in the coming years reflecting political uncertainty and weak economic growth. The polarisation of returns between sectors is likely to be quite marked, with the retail sector experiencing structural changes and the threat from online sales whilst other sectors such as industrial, regional offices and forms of residential are experiencing good occupier demand and limited new supply.

The portfolio sector structure is well positioned for the next phase of the real estate cycle. We expect to outperform the market, but absolute returns will be lower than we have experienced over the last five years. The investment in real estate debt should offer attractive risk adjusted returns during this period.

The theme of the 2018/2019 report, **“Supporting Responsible Investing”** is very relevant given that two of our anticipated investment strategies i.e. retirement living and social supported both have strong social impact characteristics. As investors in real estate we have a strong interest in the impact that the buildings we invest in have on the environment and their local communities. We regularly request information from our underlying managers about their behaviours to ensure best practice and good governance.

In early April, Schroder Real Estate hosted its annual Global Real Estate Conference. This year's theme was 'positive impact' investing, in particular, how can thoughtful real estate investment support people, business, cities and communities as well as help to drive better financial returns?

Sustainability is integral to all stages of our real estate investment process and we have recently updated our Sustainability Policy to incorporate 'positive impact' investing alongside wider environmental, social and governance (ESG) considerations. Within the Schroder Real Estate Capital Partners (SRECaP) Team, we have applied the following four dimensions to our sustainable investment philosophy:

1. To manage, protect and enhance the value of investments on behalf of our clients through active engagement with managers and voting;
2. To understand each managers approach to sustainability and the profile of fund assets; where required we will encourage improvement both for management and implementation;
3. To identify structural shifts driven by social, environmental and economic changes and their impact on growth in new markets, technologies and assets;
4. To provide investment solutions aligned with our clients' core values and beliefs and which respond to our view that real estate, a long-term real asset, must respond to and contribute to societal responsibilities.

At Schroders responsible investment is at the core of our management philosophy and we will continue to seek to improve the actions of our underlying managers to the benefit of the Fund.



Graeme Rutter

Head of Schroder Real Estate Capital Partners





Partners Group

Passion for Private Markets

Partners Group is pleased to contribute to Dyfed Pension Fund's annual report for the 2018-2019 year end and included below are our thoughts on the current market environment, where we continue to find opportunities, and an overview on how we approach Responsible Investing on behalf of the Dyfed Pension Fund European property portfolio. At Partners Group, we're excited to continuously develop and enhance our long-standing approach to Responsible Investing and we're thrilled to be well aligned with Dyfed Pension Fund on making this a focus of our investment strategy.

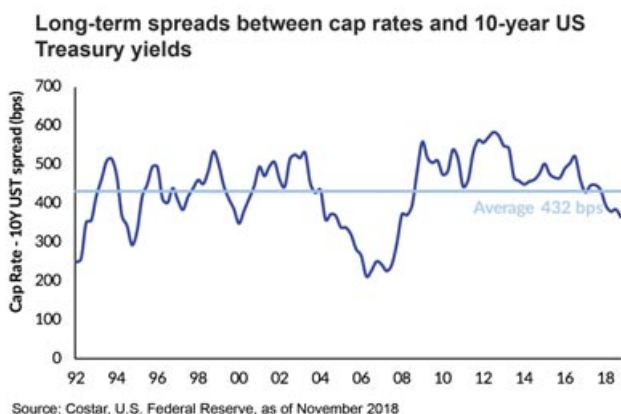
Market overview

Global real estate transaction activity has further increased in the US and Asia-Pacific compared to last year, supported by high amounts of available capital. In contrast, European volumes are experiencing a marked slowdown and have fallen across most sectors, driven by lower levels of investment activity in the UK, Germany and Spain.

Since the Global Financial Crisis, low interest rates have supported real estate prices by lowering both borrowing costs and discount rates on future operating income. With the growth of real estate asset values, yields have compressed and are now at the lower end of their historical ranges across many markets. In parallel, global capital values have risen by around 30% since their low point in the cycle in 2009. Looking ahead, the potential impact of rising interest rates on the asset class warrants close attention.

The potential impact of rising rates on real estate

With rising rates in the US and further rate increases expected to come, we are more cautious on the mid-term outlook for US real estate as the spread between cap rates and 10-year US Treasury yields continues to narrow and is now below the long-term average of around 430bps. Historically, cap rate spreads have acted as a buffer to absorb rate increases without cap rates increasing in lock step. If yields continue to rise – as we expect them to – there will be a reduced capacity to absorb rate increases without upward movements in cap rates. This especially holds true if net operating income (NOI) growth is not able to offset the rate increases. Our broad estimate suggests that 5% of NOI growth can offset around 25bps in cap rate increase. NOI growth, however, while still above the long-term average of 3.2%, is slowing, as highlighted in the following charts.



Our prudent underwriting standards take into consideration the impact of rising rates. We currently allow for a 50-100bps cap rate increase over our hold period. In addition, in this competitive environment and against the backdrop of rising rates, our continued focus on investments that have a value-add component provides us with the opportunity to actively drive NOI growth. In terms of property types, office, logistics/industrial and residential assets with tangible value creation potential or limited development risk still offer attractive opportunities in many parts of the globe, especially if sourced outside of competitive auction processes. For our older vintage investments, we are seeking exit options to lock in favourable market conditions and strong returns.

Our current investment themes

In spite of the near-record pricing for all main property types globally, we continue to focus on properties and cities benefiting from the transformative trends that will have a lasting impact on traditional real estate and enable superior growth. These include increased urbanization and the resulting demographic shifts generating demand for office and residential space as well as a growing e-commerce sector creating demand for logistics space. In the residential sector, we like affordable built-to-let properties in expanding cities that attract diverse communities and suffer from a supply shortfall. In the office sector, we favour assets that require a capital injection for upgrades in cities with competitive rents and high-quality public transportation systems. For office developments, which we pursue very selectively, we like established office hubs outside of the main CBD areas and buildings that have a certain degree of preleasing secured. For industrial assets, we see relative value in XXL warehouses, “last mile” distribution facilities and hybrid office-industrial assets. Demand for these types of assets is increasing on the back of a growing e-commerce sector requiring large storage and distribution facilities. In addition, investments in technological improvements in logistics and distribution centres that allow tenants to enhance their supply chain, product chain and distribution channels are generating further demand for these segments. Meanwhile, the retail segment is generally outside of our focus given the pressure on the sector from e-commerce.

As markets remain liquid, we prefer to avoid competitive processes as a means of sourcing opportunities in order to avoid crowded segments with low upside potential. Instead, we are further emphasizing our focus on special situations. Often, this means pursuing investment opportunities that are inherently complex or that require a global footprint. In order to source, access and capitalize on these special situations, we make use of our network of over 350 general partners and operators, identifying opportunities to provide bespoke solutions in non-intermediated transactions.

We typically seek the following characteristics for these situations: a **bespoke structure**, i.e. opportunities that others are discouraged from pursuing given their global and complex nature (in a portfolio of assets context); a **trigger event**, i.e. opportunities that are unlocked by a special situation such as investor fatigue and/or discord; a **sourcing angle**, i.e. opportunities that can be secured off-market in an exclusive manner; and **outperformance potential**, i.e. opportunities with clear value-added potential to generate outperformance.

Residential: targeting affordable residential to let

A number of major cities in the US, Asia-Pacific and Europe are benefiting from strong underlying demographics, often aligned with growth in employment levels in the business services and technology industries. Examples include Austin and Phoenix in the US, Singapore and Hong Kong in Asia-Pacific and Berlin and Vienna in Europe. These cities typically have a limited long-term supply of land, which contributes to low vacancy rates and mass market appeal based on their attractive amenities and good public transportation systems. In these locations, we believe acquiring and developing flexible residential properties to let is very appealing. Vienna, for instance, has clearly benefited from these trends. Over the past ten years, Vienna has had an average population growth rate of 1.2% p.a., outperforming peer cities such as Madrid and Paris. Within the same timeframe, it has experienced a shortfall of more than 25,000 homes as the scarce land available for development has been used for competing properties, such as office and hospitality buildings. In addition, in 2018, Vienna was awarded the top spot in the Global Liveability Index,¹ further increasing its attractiveness from an investment perspective.

¹ The Economist Intelligence Unit, August 2018.



To benefit from these positive trends, we recently agreed to acquire **DC Tower 3**, a built-to-let residential development in Vienna. The property is located on Danube Island, a growing office district with over 470,000 square meters of office space and high occupancy levels at around 95% on average.² The district is home to the United Nations and to Austria's largest conference center, which hosts over 100,000 people each year. Danube Island is also a popular hotspot for leisure activities. It features the largest open-air festival in Europe, with more than 3 million visitors per year, and Copa Cagrana, a project to redevelop a 300-meter leisure area right by the waterfront. DC Tower 3 will consist of 832 units of flexible residential accommodation (238 corporate, 264 young professional and 330 student apartments), including 2,500 square meters of community space and 2,400 square meters of outdoor space, catering to students and professionals alike. Rental prices will vary between EUR 700/month for a student studio and EUR 2,200/month for a serviced double-room apartment. The transaction was sourced off-market through our bilateral relationship with the developer. The value creation plan for the property is to generate value uplift by stabilizing the asset at market-rate occupancy and earn a 5.9% running NOI yield.

Relative value analysis

Our outlook from a relative value perspective has generally remained unchanged over the past year. From a sector perspective, we continue to overweight office, logistics/industrial and residential properties in all regions. Not surprisingly, retail continues to be an underweight due to uncertainty in the sector. For office properties, we focus mainly on repositioning capex-starved assets with competitive rents in both CBD and strategic non-CBD locations that benefit from strong underlying demographics. On a more opportunistic basis, we also look into office property developments in established hubs that experience supply constraints and have good pre-leasing conditions. The logistics/industrial sector benefits from strong e-commerce sales across all regions, especially in China, the US and UK. This creates resilient demand for hybrid office-industrial properties, XXL warehouses and "last mile" distribution facilities, although investor demand has pushed up capital values to all-time highs in many markets. Finally, we overweight residential in the US and Europe and pursue affordable opportunities in expanding cities that benefit from mass-market appeal, supply shortfall and strong population growth. Meanwhile, pricing for traditional real estate secondaries has picked up further, and we are neutral to slightly underweight on the segment. We strategically overweight non-traditional secondary assets across all regions, especially in the US due to our focus on special situations. These assets often benefit from less competition given their complex nature and can offer attractive opportunities for portfolio buyouts.

Responsible Investing in Private Real Estate

The consideration of ESG factors in real estate investments are increasingly material, as highlighted in the UNEP Finance Initiative report "Global ESG Real Estate Investment Survey Results" (2019)³. Partners Group shares this belief, especially due to the wide range of ways that properties interact with the environment and society as a whole. As such, Partners Group tailors its responsible investment methodology to take account of the different "best practice" standards (such as LEED, BREEAM, CASBEE, NABERS, and EarthCheck) that have been developed in different countries across the globe. The firm actively considers ESG factors throughout the whole property investment process. The key responsible investing topics covered in our real estate due diligence and monitoring processes include:

- **Energy conservation**, including green power generation and purchasing, energy efficient design, conservation retrofitting
- **Environmental protection**: water conservation, solid waste reducing and habitat protection
- **Voluntary certifications**: green building certification (i.e. LEED, BREEAM, Energy Star and Green Star), certified sustainable wood finishes
- **Public transport-oriented developments**: transit-oriented development, walkable communities, mixed-use development
- **Urban revitalization and adaptability**: infill development, flexible interiors, brownfield development

² Greystar; Knight Frank, January 2018

³ <https://www.unepfi.org/wordpress/wp-content/uploads/2019/03/Global-ESG-Real-Estate-Investment-Survey-Results.pdf>



- **Health and safety:** site security, avoidance of natural hazards, first aid readiness
- **Worker well-being:** plazas, childcare on premises, indoor environmental quality and barrier-free design
- **Corporate citizenship:** regulatory compliance, sustainability disclosure and reporting; independent boards, adoption of voluntary codes of ethical conduct and stakeholder engagement
- **Social equity and community development:** fair labour practices, affordable/social housing, community hiring and training
- **Local citizenship:** quality design, minimum neighbourhoods impacts, considerate construction, community outreach, historical preservation, no undue influence on local governments

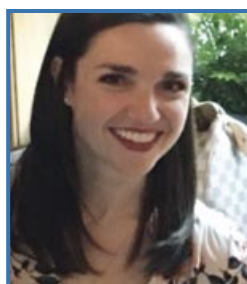
Following the evaluation of the above factors and the full due diligence process, the investment committee can choose to decline an investment should ESG factors not be properly addressed or if they are not able to be mitigated throughout the ownership period.

After an investment is made, Partners Group regularly and consistently monitors performance to assess progress against the value creation plan, including ESG matters, as well as new risks and opportunities that may arise. Partners Group maintains close contact with portfolio properties in which it invests and their managers, and this interaction facilitates ongoing portfolio and business activity analysis and resolution of potential ESG issues. If Partners Group believes that more disclosure on potential ESG matters is necessary, Partners Group brings this up with an investment manager, either informally during a phone call or at a formal meeting.



Sergio Jovele

Partner,
Client Solutions Europe



Courtney Bensen

Client Solutions Europe



PERFORMANCE AND RISK



Market Background 1 April 2018 – 31 March 2019

A year of global political uncertainty, a burgeoning trade war and no resolution to the Brexit issue. Despite this, investment returns, though volatile, were positive and the average Local Authority fund produced a return of almost 7% for the year. This was below the long term average but the return was ahead of inflation and actuarial assumptions. Asset returns were tightly grouped with bonds, property and equities returning 4%, 6% and 7% respectively for the year. Most funds failed to outperform their benchmarks this year.

Strategic asset allocation remained broadly static as funds wait for the results of this year's actuarial revaluations. There was considerable portfolio movement as active investments were transferred to Pools.

Longer Term

Long term performance of the LGPS has been excellent. The average funds delivered a positive return in 25 of the last 30 years and delivered annualised performance of 8.4% p.a. Equities have driven the strong long term performance. Alternatives have performed strongly due in a large part to the excellent returns from private equity.

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

Fund Performance 1 April 2018 – 31 March 2019

In the latest year the Fund return of 6.5% was in line with the average of 6.6% and ranked in the 47th percentile. Unusually, the Fund suffered below average returns from equities, which had a drag on performance this year.

The Fund is structured quite differently from the average. The key difference is the relatively high level of equities and lack of any investment in alternatives. Last year these differences had a minimal effect on the relative performance.

Longer Term

The Fund has performed extremely well over all periods. The upper quartile results are due to a combination of a relatively high level of equities held and good performance from the equity managers selected.

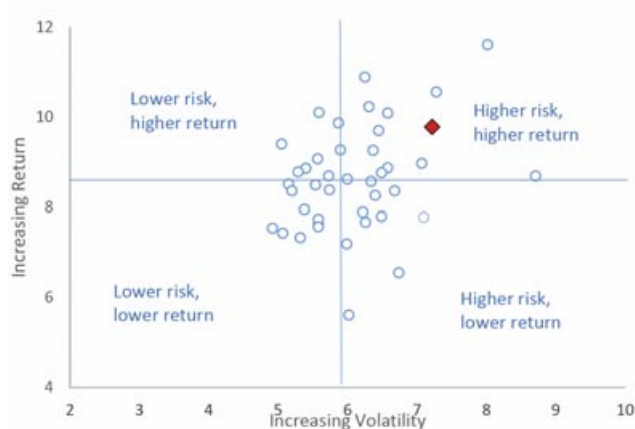
	3 Years	5 Years	10 Years	20 Years
Dyfed	11.5% p.a.	9.8% p.a.	11.6% p.a.	6.9% p.a.
Universe	10.5% p.a.	8.8% p.a.	10.7% p.a.	6.4% p.a.
Ranking	8th	15th	7th	8th

Risk and Return

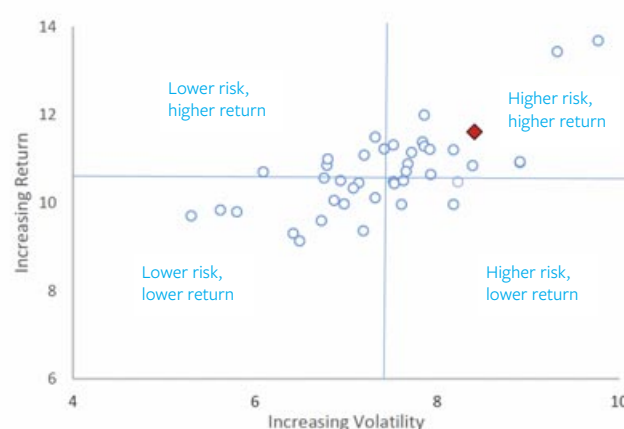
Over the last ten years the Fund has produced a return well ahead of average but has experienced a slightly higher than average level of volatility. Over the last five years the picture is very similar – the Fund has been well rewarded for the additional volatility that it has experienced.

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

Last Five Years (%p.a.)

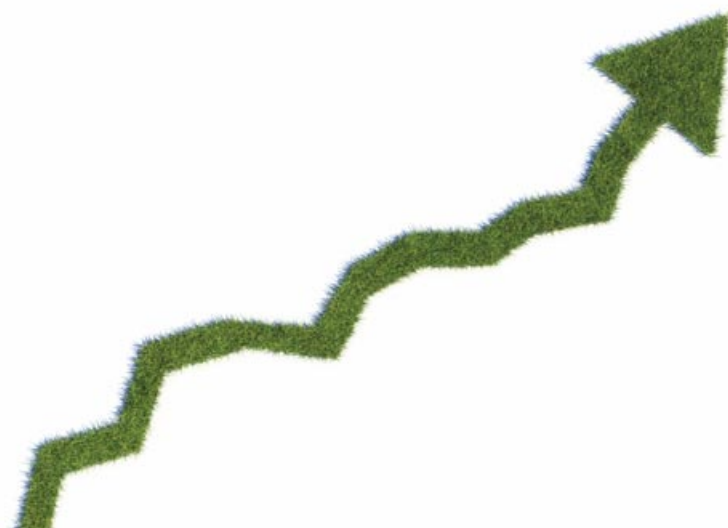


Last Ten Years (%p.a.)



Karen Thrumble

Local Authority Pension
Performance Analytics (PIRC)



Independent Investment Adviser

I believe this to be my 15th report as the Independent Investment Adviser (IIA) to the Dyfed pension fund, but more about that later.

The fiscal year being currently reported on was volatile, challenging and unique – as has almost every year I have had the honour and privilege of being IIA to the fund. Elsewhere in the Report and Accounts you will read that investment markets oscillated between total despair ('Armageddon') and 'irrational exuberance' to borrow a much quoted phrase from the former US Federal Reserve Chairman, Alan Greenspan. However despite these market gyrations, often based mainly on sentiment (with 'fake news' abundant) rather than real macro-economic and/or corporate activity, a typical Local Authority pension fund as measured by PIRC still managed a return of 6.6%. The Dyfed's fund return was very similar.

Over the three years a typical fund's return was around 10.5% pa, a very strong return relative to prices and/or earnings inflation. The Dyfed fund – as usual – did even better returning 11.5% pa. The 3 year period to end March 2019 is unusually significant as it coincides with the triennial actuarial valuation which our actuary (John Livesey) undertakes. The liabilities (i.e. the members' benefits) the actuary values increase with inflation: earnings for active members and prices for pensioners and deferred members and so – to make the pre-funding of these benefits effective – the asset returns should outpace these measures of inflation.

Otherwise it would be cheaper to pay them as they arise, the so-called PAYGO system, as practised by Government for state pensions. In fact the end March '16 valuation used an actuarial discount rate – a suitably actuarial prudent estimate of the likely future asset return of $(CPI + 2.75)\%$ pa for future service pensions and $(CPI + 2.2)\%$ pa for past service pensions. CPI typically averaged less than 3% pa over the 3 years so our fund's return of 11.5% pa handsomely exceeded this actuarial return target. Good news.

However, two other factors are not so benign and will likely have an adverse impact on the valuation: expected inflation has been creeping up and there is generally an expectation of lower future investment (asset) returns as asset prices are deemed relatively high currently. The former increases the benefits to be valued and the latter lowers the discount rate (the prudent estimate of future returns) which puts a higher value on these future benefits. Thankfully the fund has an expert actuary to make sense of these dynamic and often competing influences.

In terms of the fund's investment strategy the main activity during the year was further implementing the revised strategy agreed by the PFC following the review in 2017 after the March 2016 actuarial valuation. This has meant additional funding (5%) for our core UK property manager (Schroders) to bring their portfolio to circa 13% of total fund and implementing a new 'Secure Income' portfolio (5%) with Blackrock. Both these were funded from our long-term holdings in index-linked gilts which, while they have served the fund extremely well over several decades, we believe they currently offer few benefits. You may recall the strategy revision was mainly in response to the fund's negative cash flow as the benefits being regularly paid out are greater than the contributions regularly being paid in, and its likely worsening trend.

The other major new feature in implementing strategy is the Wales Pensions Partnership (WPP). In this calendar year the fund transferred its active global equity mandates, previously held with Baillie Gifford and Columbia Threadneedle, into the equivalent Global Equity subpool offered by WPP, which also has a significant Baillie Gifford exposure. Further transfers of assets into the WPP sub-pools will take place over the coming months and years. Although it is likely that not all Dyfed's assets will be transferred: the Partners property and Blackrock income portfolios may stay as legacy fund assets.

At the start of my report I wrote 'more later'. After a highly enjoyable 16 years formally as IIA advising the Dyfed pension fund I am stepping down, effective 30 September this year. During these years I have developed a genuine respect and admiration for the fund, its officers and the elected members (the PFC) charged with its oversight and management. I have also developed a fondness for Carmarthenshire, now my favourite part of Wales.



During my tenure – but it is not for me to attribute any direct link! – the fund has deservedly been a serial award winner, not least for its excellent investment prowess. I take great pride in having been a small part of the dedicated team that has made the Dyfed fund the best in Wales and one of the top funds in the UK on virtually all measures. When asked, I attribute the fund's success to the 'Cs': Collaboration, Consistency, Conviction (and/or Commitment) and not afraid of being Contrary. Long may these 'C' qualities be maintained by the fund.

As they say on all the TV reality shows 'it has been an amazing journey' and I have enjoyed every moment of it. The fund is in rude health and I wish it, and everyone connected with it, all the very best for the future. Thank you and hŵyl fawr.



Eric Lambert

Independent Investment Adviser



FUND ADMINISTRATION REPORT

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

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

The main provisions of the LGPS 2014 scheme are:

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

Pensions Increase

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

This year, pensions were increased by 2.4% from 8 April 2019 and represents the increase in the consumer price index for the 12 month period to the 30 September 2018. 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 2019/20 are as follows:

Please note that with effect from April 2019, pension pay dates will change to the last working day of the month except for December.

26 April 2019	30 August 2019	24 December 2019
31 May 2019	30 September 2019	31 January 2020
28 June 2019	31 October 2019	28 February 2020
31 July 2019	29 November 2019	31 March 2020

National Fraud Initiative

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

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

Legislative update

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

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



Employee Contribution Rates

The LGPS2014 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 2019 are as follows:

Band	Actual pensionable pay for an employment (£)	Contribution rate for that employment (%)	
		Main section	50/50 section
1	Up to 14,400	5.5	2.75
2	14,401 - 22,500	5.8	2.90
3	22,501 - 36,500	6.5	3.25
4	36,501 - 46,200	6.8	3.40
5	46,201 - 64,600	8.5	4.25
6	64,601 - 91,500	9.9	4.95
7	91,501 - 107,700	10.5	5.25
8	107,701 - 161,500	11.4	5.70
9	161,501 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 2019, the Lifetime Allowance (LTA) for tax-privileged pensions saving increased from £1.030 million to £1.055 million. This is the total value of all pension benefits you are able to build without triggering an excess benefits tax charge. Upon retirement you are required to declare all non LGPS pension benefits in payment, or due to come into payment, so that your LTA can be assessed. Further information on how these changes may impact upon you is detailed on the HMRC website. Please note that pensions staff cannot give financial or personal taxation advice.

You will recall from April 2014 the Annual Allowance limit reduced to £40,000 and this limit continues. To calculate the value of any annual increase in the LGPS you need to work out the difference in the total value of any accrued pension benefits between two 'pension input periods', usually April to March. This is done by multiplying the value of the increase in pension by 16 and adding the increased value of any lump sum and AVC fund. Your 2019 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.

Scheme Administration Statistics

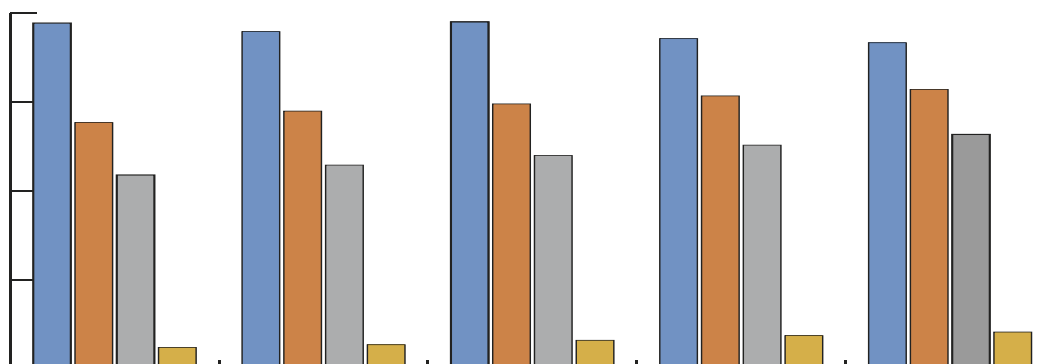
Number of Employers

A full schedule of employers (as at 31 March 2019) who either participate or have a relationship with the Dyfed Pension Fund is attached to the Statement of Accounts later in this report. The table below summaries the number of Scheduled and Admitted employers.

	Active	Ceased	Total
Scheduled	23	24	47
Admitted	25	14	39
Total	48	38	86

Scheme Membership

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



	31/03/2015	31/03/2016	31/03/2017	31/03/2018	31/03/2019
Active	19,451	18,970	19,052	18,575	18,344
Deferred	13,854	14,499	14,904	15,354	15,719
Pensioner	10,906	11,462	12,003	12,585	13,187
Undecided Leaver	1,208	1,360	1,609	1,871	2,073

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

01/04/2018 - 31/03/2019	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%

Analysis of leavers during 2018/19

Category	2018/2019
Refund of contributions	355
Transfers to other scheme	115
Death in Service	24
Ill health Retirements	88
Early / Normal Retirement	507
Redundancy Efficiency Retirements	78
Flexible Retirements	17
Late Retirements	81
Opt outs	205
Preserved Benefits	680
Other leavers	416
Number of deferred members re-entering the scheme	127
Total	2,693

Completed and Outstanding LGPS Cases	2018/2019
Number of Completed cases	21,696
Number of Outstanding cases	1,313

Data Quality Scores and Data Improvement Plan

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

A Data Quality review is undertaken annually. The improvement plan has been revised and addresses the key issues identified in the Fund's Data Quality review which took place in December 2018.

The data quality review undertaken in December 2018 again split the assessment of data held between two data categories:

- Common Data
- Scheme Specific Data

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

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

LGPS Data area	Common data	Scheme specific data	Aim
December 2018 data score	96.5%	95.8%	100%
December 2017 data score	94.5%	85.3%	100%



Administration Cost per member (SF3 costs table)

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

Year	Dyfed Pension Fund Cost per member	All Wales Average
2017/18	£22.71	£27.46
2016/17	£20.73	£28.10
2015/16	£27.45	£28.28
2014/15	£21.66	£28.36
2013/14	£20.94	£30.20

The Administration Team

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

The pension's team has 32 permanent FTE staff to administer the above pension schemes. During the year to 31 March 2019, the following staff turnover occurred; five staff left the team and eight staff joined the team. The overall size of the team did not change, however, the number of vacancies reduced.

The permanent members of staff dedicated to the LGPS is 19.2 FTE. As at 31 March 2019, there were 49511 LGPS members of the Dyfed Pension Fund which equates to 2579 scheme members per pensions administration team member. The average number of cases completed per team member during the year was 1130.



Your Pension Section:

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

- Redeveloped the 'My Pension Online' facility to further enhance scheme member experience and meet increasing expectation. This was based on customer feedback and we welcome any further feedback.
- Undertook further employer and scheme member presentations on 'My Pension Online'. This internet based application enables you to securely access and update your own pension record(s). The initiative is designed to provide statutory information and improve service delivery whilst also reducing printing & postage costs and the funds carbon footprint.
- Ensured employers formulate, publish and keep under review a policy statement in respect of their discretions under the LGPS 2014
- Continued with their internal staff training programme. Alongside its training for participating Fund Employers, this investment is viewed as key for the effective delivery of pension administration services in an ever changing regulation environment and increasing stakeholder expectations.
- Continued with the production and issue of Annual Benefit Statements (ABS) for Deferred (individuals who have left the Scheme with a future entitlement to pension benefits) and Active (contributing) Scheme members. The ABS production was undertaken on an all Wales Pension Funds basis, improving both cost and consistency with the Dyfed Pension Fund taking the lead.
- Continued with the 'Life Certificate' exercise aimed at pension payments paid by cheque in addition to also undertaking monthly mortality checks on UK based pensioners.
- Continued to utilise Western Union in order to undertake mortality checks on overseas pensioners.
- Continued with the production of a more detailed and personalised update for each pensioner outlining the increase in pensions arising from annual pension increase awards.
- Participated in the Audit Commission's - National Fraud Initiative exercise as outlined above.
- Continued to engage with colleague LGPS Fund authorities in Wales to examine available partnership opportunities and share best practice in Scheme administration.
- Ensured model fund data was received by the Government Actuary's Department
- Through the IAS19 exercise ensured that each employer who had to comply with these pension accounting requirements received their results and disclosure needs by their required account closure timescales.
- Continued with the GMP Reconciliation exercise which had to be undertaken in respect of all scheme members to ensure HMRC do not have incorrect information on their records. However, HMRC have outstanding data queries which have yet to be returned to the Dyfed Pension Fund.
- Implemented i-connect for Tai Ceredigion County, Welsh Books Council, Llanelli Town Council, Pembroke Dock Town Council and Pembroke Town Council to facilitate the direct transfer of data from employer payroll systems directly into the pensions system.
- Undertook a Data Quality exercise for the Local Government, Police and Firefighter Pension Scheme in accordance with The Pensions Regulator's Code of Practice 14 requirements and reported findings to both the Pension Committee and The Pensions Regulator. A Data Improvement Plan was created to address issues identified.
- Undertaken preparatory work with scheme employers to ensure that the scheme Actuary is provided with clean and accurate data for the 2019 Fund Valuation.
- Undertaken a review of the performance of each fund and investment options chosen by scheme members who contribute to AVC's.
- Ensured that the Fund complied with the General Data Protection Regulation (GDPR) which was introduced from May 2018 and required a radical review of what and how information is held within pension scheme records as well as many changes to existing communications with scheme members and other parties. This involved communicating changes to scheme members and ensuring that there are memorandums of understanding with each scheme employer which specifies the responsibility of each party when dealing with member data.



Looking Forward

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

- Increase the number of registered 'My Pension Online' users by conducting further promotional events with each employing authority to actively encourage scheme member take up by increasing the number of desktop visits.
- Respond to consultations on scheme arrangements and implement changed structures as a result of amending legislation.
- Continue to liaise with all scheme employers to ensure appropriate processes and procedures are in place in order to comply with auto enrolment requirements.
- Continue to undertake data validation and integrity checks for data which is issued by HMRC in respect of the GMP Reconciliation exercise in order that the correct state benefits are recorded and paid.
- Continue to work with all scheme employers to ensure that clean and accurate data is consistently provided.
- Undertake a data quality exercise in accordance with The Pensions Regulator's Code of Practice 14 requirements and report findings to both the Pension Committee and The Pensions Regulator. Update and review the Data Improvement Plan.
- Implement i-connect for further employers which facilitates the direct transfer of data from employer payroll systems directly into the pensions system.
- Ensure that the scheme Actuary is provided with clean and accurate data by set timescales for the 2019 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 Online

What will My Pension Online allow me to do?

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

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

How do I register for My Pension Online?

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

As actuarial adviser to the Fund, should I really care about whether the Fund is investing responsibly? After all, its primary duty is to be able to meet the benefits which eventually become payable to members, former members and their dependants. So as long as contributions keep coming in and investment returns are healthy, does it really matter whether those returns are coming from companies which have a responsible outlook or not?

My brother works for a large well-known firm who build jet engines for aircraft. Unsurprisingly, health and safety is a key issue which goes right through their business. If anyone queries why so much resource is devoted to this issue then the response is straightforward – “good health and safety is good business”. It’s essentially the same issue with Responsible Investment. Surely those companies which take unnecessary risks within their businesses are likely to have worse long-term investment potential than those which take a more rounded approach to the management of risks. This is entirely the issue which Responsible Investment seeks to address, albeit the risks that his approach is seeking to address are often much wider than a simple consideration of a company’s operations.

The issue has even been picked up by the Financial Reporting Council (FRC), which is expected to finalise its UK Stewardship Code (the Code) in the second half of 2019. The key aim of the proposed Code is to create demand and market in effective stewardship by setting substantially higher expectations for investor policies and practice. It focuses on how stewardship delivers outcomes against set objectives – essentially the effectiveness of stewardship activities. It also raises the quality of stewardship across the investor community. The proposed Code incorporates environmental, social and governance (ESG) factors for the first time and in line with the recent DWP intervention – asks eventual signatories to take material ESG issues, including climate change, into account.

For the LGPS, of which the Dyfed Fund is a part, the Code further drives Funds to consider how stewardship delivers sustainable value - not only for beneficiaries, but the economy and society at large. Each Fund will need to form a view on whether becoming a Code signatory is an action it wants to pursue to ultimately support the overall effectiveness of the proposed Code.

The proposed main changes to the Code include:

- **Purpose, values and culture.** Investors must report how their purpose, values and culture enable them to meet their obligations to clients and beneficiaries. This aligns the Code with the UK Corporate Governance Code and encourages embedding behaviour conducive to effective stewardship in the investor community.
- **Recognising the importance of ESG factors.** The proposed Code now refers to environmental, social and governance (ESG) factors. Signatories are expected to take material ESG issues into account when fulfilling their stewardship responsibilities.
- **Stewardship beyond listed equity.** It now expects investors to exercise stewardship across a wider range of assets where they have influence and rights, in the UK and globally.

If LGPS Funds as a whole can sign up to and implement the Code then it will surely benefit them all. It may even help us save the planet!



John Livesey
Actuary, Mercer Limited



GOVERNANCE

Pension Board Annual Report

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

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

The Board met on four occasions during 2018/19 in April, July and October 2018 and March 2019. This cycle of meetings follows the timetable for the Pension Committee and helps strengthen the overall governance of the Fund. The Board continues to focus on the key issues affecting the Fund and its beneficiaries, and agrees a forward work plan at the start of the year to ensure that it best placed to support the Council in the delivery of the LGPS in Dyfed. For example, this included regular monitoring of the risk register; monitoring and review of the performance of the pensions administration service; and a review of the annual accounts.

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

- The development of an annual work plan for the Board.
- Briefings and discussion on the performance of the pension administration service. Data quality is an area of focus for the Pensions Regulator.
- Briefing and discussion on the Investment performance of the Fund.
- Consideration of the Dyfed Pension Fund Business Plan.
- Review and discussion of the decisions of the Pension 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 Funding Strategy Statement.

During 2018/19 there were some changes of members, with two members standing down and two new members joining the Board. Catherine Davies left at the end of March 2018 following a change of post out of local government, and Mark Miles left during the year after having agreed to continue until a replacement was appointed. Recently a further change took place in July 2019 when Ian Eynon stood down as a member following his retirement from local government. I would like to thank them all for their positive and helpful contributions during their time as Members from the inception of the Board in April 2015 and wish them well for the future.

During the year Gwyn Jones and Tommy Bowler joined the Board and more recently Cllr. Gareth Lloyd and Paul Ashley-Jones. The process of filling Board vacancies is now complete and the Board is at full strength for 2019/20. Despite this turnover of membership and the effect of vacancies, there was an improvement in attendance over the 4 meetings to 64% compared with 57% in the previous year.

At the end of March 2019, the Dyfed Pension Fund had total assets of £2.576 billion and a membership of 47,250, comprising pensioners, deferred pensioners and current contributors. Pension Fund investment and administration is becoming ever more complex so training and development for Members of the Pension Committee and Board is an essential support to good governance. A structured programme of training and development is essential for individual members and the Board collectively to discharge its responsibilities.

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

- A presentation on the Wales Pension Partnership on progress in implementing the new pooling arrangements.
- A CIPFA training event on progress in establishing Pension Boards across local government.
- A structured training programme for new Board members organised by the LGA.
- A seminar on Responsible Investment for the Wales Pension Funds.

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

Together with pension board chairs from the other Welsh Funds, I attended a briefing on progress in establishing the All Wales Pool with presentations from the host authority (Carmarthenshire County Council) and their partners Link and Russell Investments. This was an opportunity for Chairs to ask questions and scrutinise progress in establishing the new investment pool. This proved to be a successful engagement and it has been agreed to hold similar meetings on a 6 monthly basis in future. This new forum will help build good working relationships between Boards and the Pool, and strengthen overall governance of the Welsh pension funds.

Assets are now being moved into the Wales Pension Partnership, and the Pension Board have been updated on developments at each meeting. We will continue to monitor this process and work alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

Appendix - Members of the Dyfed Pension Board 2018-19

John Jones	Independent Chair
Ian Eynon	Employer Member Representative
Mike Rogers	Pensioner Member Representative
Catherine Davies	Member Representative resigned April 2018
Cllr. Philip Hughes	Employer Member Representative joined May 2018
Gwyn Jones	Member Representative joined October 2018
Mark Miles	Employer Member Representative resigned March 2019
Tommy Bowler	Union Representative joined March 2019

Changes since April 2019

Ian Eynon	Employer Member Representative resigned July 2019
Cllr Gareth Lloyd	Employer Member Representative joined July 2019
Paul Ashley-Jones	Employer Member Representative joined July 2019



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 three scheme member and three employer representatives and an independent member who is also the Chair of the Board.



Governance Compliance Statement

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

This Governance Policy will be updated when necessary and reviewed at least annually. The last review was in 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 | F. Meetings (frequency / quorum) |
| B. Representation | G. Access |
| C. Selection | H. Scope |
| D. Voting | I. Publicity |
| E. Training, facility time and expenses | |

Best Practice Principle A: Structure

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

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

Compliance Statement: Not Fully Compliant

Justification:

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

There is no secondary committee for the Dyfed Pension Fund.

Best Practice Principle B: Representation

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

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

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

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

Compliance Statement: Not Fully Compliant

Justification:

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

Best Practice Principle C: Selection

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

Compliance Statement: Fully Compliant

Justification:

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



Best Practice Principle D: Voting

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

Compliance Statement: Fully Compliant

Justification:

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

Best Practice Principle E: Training, facility time and expenses

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

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

Compliance Statement: Fully Compliant

Justification:

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

Best Practice Principle F: Meetings (frequency / quorum)

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

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

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

Compliance Statement: Fully Compliant

Justification:

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

Best Practice Principle G: Access

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

Justification:

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

Best Practice Principle H: Scope

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

Justification:

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

Best Practice Principle I: Publicity

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

Justification:

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

Summary

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



STATEMENT OF ACCOUNTS

Narrative Report

The Dyfed Pension Fund accounts are set out on the following pages and provide information about the financial position, performance and financial adaptability of the Fund for the year 2018-19. 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 2018-19 (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 2018-2019, reference should be made to the Annual Report and Accounts 2018-19 (when published). The main accounts and reports contained within this Statement of Accounts are as follows:

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

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

The Director of Corporate Services' Responsibilities

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

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

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Dyfed Pension Fund at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

Chris Moore FCCA, Director of Corporate Services

Dated: 13 September 2019

Audit Committee Approval

Approval of Dyfed Pension Fund Statement of Accounts post audit

Chair of Audit Committee

Dated: 13 September 2019



Fund Account for the Year Ended 31 March 2019

2017-18			Note	2018-19
£'000				£'000
		Dealings with members, employers and others directly involved in the Fund		
		Contributions		
		Employer		
42,417		Normal		45,164
7,475		Augmentation		6,895
3,549		Past Service Deficit		4,107
		Member		
18,077		Normal		18,883
152		Additional voluntary		103
1,699		Transfers in from other pension funds	6	6,651
73,369				81,803
		Benefits payable		
(64,232)		Pensions payable		(68,875)
(14,161)		Commutation and lump sum retirement benefits		(12,933)
(1,807)		Lump sum death benefits		(1,923)
(2,304)		Payments to and on account of leavers	7	(3,853)
(82,504)				(87,584)
(9,135)		Net Additions (Withdrawals) from dealings with Members		(5,781)
(11,216)		Management Expenses	8	(11,040)
(20,351)		Net Additions (Withdrawals) including fund management expenses		(16,821)
		Returns on Investments		
19,086		Investment Income	9	15,255
0		Other Income		0
(138)		Taxes on Income (Irrecoverable Withholding Tax)	10	(56)
		Changes in the market value of investments		
(162,391)		Unrealised	11.2	(31,490)
260,838		Realised	11.3	168,686
117,395		Net Return on Investments		152,395
97,044		Net Increase (Decrease) in the net assets available for benefits during the year		135,574
2,343,068		Opening Net Assets of Scheme		2,440,112
2,440,112		Closing Net Assets of Scheme		2,575,686

Net Assets Statement

31/03/18			Note	31/03/2019
£'000				£'000
2,428,563		Investment Assets		2,563,796
6,587		Cash deposits		7,052
0		Investment liabilities		0
2,435,150			11.1	2,570,848
9,563		Current assets	16	9,245
(4,600)		Current liabilities	17	(4,407)
4,963		Net Current Assets/(Liabilities)		4,838
2,440,112		Total Net Assets		2,575,686

Reconciliation of the movement in Fund Net Assets

2017-18			2018-19
£'000			£'000
2,343,068		Opening Net Assets	2,440,112
(1,403)		Net New Money Invested	(1,622)
98,447		Profit and losses on disposal of investments and changes in the market value of investments	137,196
2,440,112		Closing Net Assets of Fund	2,575,686



Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2019

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 2018-2019 (when published) and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

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

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

1.2 Membership

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

Organisations participating in the Dyfed Pension Fund include:

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

There are 66 employer organisations within the Dyfed Pension Fund as at 31 March 2019 and these are detailed in Note 21.

The membership details of these organisations are summarised below:

31/03/2018		31/03/2019
18,575	Number of active contributors in the Fund	18,344
12,585	Number of pensioners	13,187
15,354	Number of deferred pensioners	15,719
46,514	Total membership	47,250
51	Number of employers with active members	48

These figures reflect the recorded position as at 31 March 2019 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 2019. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuation as at 31 March 2016. Currently, employer contribution rates range from 7.4% to 27.6% of pensionable pay as detailed in Note 21.

1.4 Benefits

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

	Service pre 1 April 2008	Service 31 March 2008 - 31 March 2014
Pension	Each year is worth $1/80 \times$ final pensionable salary.	Each year is worth $1/60 \times$ final pensionable salary.
Lump Sum	Automatic lump sum of $3 \times$ salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of $1/49$ th. Accrued pension is uprated annually in line with the Consumer Price Index. There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits.

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

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2018-2019 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018-2019 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 £0.67m in 2018-2019 (2017-2018: Fee was £0.58m).

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 2018-2019, no fees are based on such estimates (2017-2018: £0).

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

management is also charged to the fund. The Council charged the Pension Fund an amount of £1.0m (£0.9m in 2017/18) in respect of administration and support during 2018-19.



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 2019 was £36.0m (31 March 2018: £44.0m).



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 2019 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 £36.0m. There is a risk that this investment may be under or overstated in the accounts.

6. Transfers in from other pension funds

2017-18		2018-19
£'000		£'000
0	Group transfers in from other schemes and scheme mergers	0
1,699	Individual transfers	6,651
1,699		6,651

7. Payments to and on account of Leavers

2017-18		2018-19
£'000		£'000
(150)	Refunds to members leaving service	(144)
(12)	Payments for members joining state scheme	(5)
0	Group transfers	0
(2,142)	Individual transfers	(3,704)
(2,304)		(3,853)

8. Management Expenses

2017-18			2018-19
£'000			£'000
(1,053)		Administrative costs	(1,188)
(9,710)		Investment management expenses	(9,292)
(453)		Oversight and governance costs	(560)
(11,216)			(11,040)

2018-19 Audit fees of £28,322 included within Oversight and governance costs. (2017-18 £28,054).

9. Investment Income

2017-18			2018-19
£'000			£'000
10,189		Equity dividends	6,117
8,879		Pooled property investments	9,067
18		Interest on cash deposits	55
0		Other	16
19,086			15,255

10. Taxation

2017-18			2018-19
£'000			£'000
0		Withholding tax - bonds	0
(138)		Withholding tax - equities	(56)
0		Withholding tax - pooled	0
(138)			(56)



11. Investments

11.1 Net investment assets

Fair value 31/03/2018 £'000		Investment assets	Fair value 31/03/2019 £'000
		Bonds	
		UK Corporate Bonds	
240,907		- BlackRock	265,299
		Indexed Linked Securities	
248,675		- BlackRock	138,699
		Equities	
		UK Quoted Equities	
480,061		- BlackRock	510,928
		Alternatives	
0		- BlackRock UK SAIF	27,626
		Pooled Investments	
		Overseas equities	
673,513		- BlackRock	704,690
		Global equities	
306,577		- Baillie Gifford	0
240,409		- Columbia Threadneedle	0
0		- Wales Pension Partnership	588,671
		Pooled property investments	
196,129		- Schroders	293,605
35,745		- Partners Group	27,011
		Property	
343		- Schroders	327
5,714		- Partners Group	6,044
		Cash deposits	
258		- BlackRock	259
3,829		- Schroders	4,293
2,500		- Partners Group	2,500
		Investment income due	
265		- Schroders	689
		Tax reclaims due	
132		- BlackRock	85
93		- Schroders	122
0		Amounts receivable for sales	0
2,435,150		Total investment assets	2,570,848
		Investment liabilities	
0		Amounts payable for purchases	0
0		Total investment liabilities	0
2,435,150		Net investment assets	2,570,848

11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £958m whilst sales totalled £789m. The sales realised a net gain of £169m. Acquisition costs are included in the purchase price of the investment.

	Fair value 31/03/2018 £'000	Purchases at Cost £'000	Sales at Cost £'000	Fees included in NAV £'000	Cash movement £'000	Change in unrealised gains/(losses) £'000	Fair value 31/03/2019 £'000
Bonds	489,582	243,490	(280,773)	0	0	(48,301)	403,998
Equities	480,061	0	(170)	0	0	31,037	510,928
Pooled investments	1,220,499	588,983	(500,092)	(2,256)	0	(13,773)	1,293,361
Pooled property investments	231,874	97,771	(7,544)	0	0	(1,485)	320,616
Property	6,057	0	0	0	0	314	6,371
Alternatives	0	27,332	0	0	0	294	27,626
	2,428,073	957,576	(788,579)	(2,256)	0	(31,914)	2,562,900
Other investment balances							
Cash deposits	6,587	0	0	0	465	0	7,052
Amount receivable for sales investments	0	0	0	0	0	0	0
Investment income due	265	0	0	0	0	424	689
Tax reclaims due	225	0	0	0	(18)	0	207
Amounts payable for purchases investments	0	0	0	0	0	0	0
	2,435,150	957,576	(788,579)	(2,256)	447	(31,490)	2,570,848

	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



11.3 Realised gains and losses

2017-18		2018-19
£'000		£'000
1	Bonds	64,649
111,116	Equities	0
143,909	Pooled Investments	101,488
6,337	Pooled property investments	2,549
(525)	Property	0
260,838		168,686

11.4 Geographical analysis of investments

Fair value 31/03/2018 £'000	Geographical analysis	Fair value 31/03/2019 £'000
1,237,439	UK	1,329,108
202,582	Europe (excl UK)	198,650
487,562	North America	623,301
95,899	Japan	117,561
113,639	Pacific Rim	57,013
281,405	Emerging Markets	230,322
16,624	International pooled funds	14,893
2,435,150		2,570,848

11.5 Fund manager analysis

Fair value 31/03/2018 £'000	Fund manager analysis	Fair value 31/03/2019 £'000
1,643,546	BlackRock	1,647,585
200,659	Schroders	299,036
43,959	Partners Group	35,556
306,577	Baillie Gifford	0
240,409	Columbia Threadneedle	0
0	Wales Pension Partnership	588,671
2,435,150		2,570,848

11.6 Wales Pension Partnership (WPP)

Wales Pension Partnership costs included in the Dyfed Pension Fund accounts for 2018-19 and 2017-18 are below:

31/03/18 £'000	Fund manager analysis	31/03/19 £'000
	WPP oversight and governance costs	
16	Host Authority costs	20
0	Operator and Other Services fees	91
	WPP Investment Management expenses	
0	Fund Manager fees	365
16		476

A Wales Investment Pool Operator has been appointed by the Wales Pension Partnership to manage the investments and the reduction of investment management expenses for all eight Wales pension funds. The Joint Governance Committee has met on several occasions in 2018-19 and has approved an FCA prospectus submission for two Global Equity sub funds. These two sub funds for global equities were launched in January 2019. The Fund has placed its global equity allocation (Baillie Gifford and Columbia Threadneedle) into the global growth sub fund which targets a +2% excess return gross of fees. Underlying managers within this sub fund currently include: Baillie Gifford, Veritas and Pzena. This fund has yet to complete its first full quarter of operation as at 31 March 2019. Carmarthenshire County Council is the Host Authority to provide administrative and secretarial support and implement decisions made by the Joint Governance Committee of the Wales Pension Partnership. The Director of Corporate Services is the Responsible Finance Officer of the Wales Pension Partnership. Similarly, the Council's Monitoring Officer is the Monitoring Officer of the Wales Pension Partnership.

12. Concentration of Investments

The following investments represent more than 5% of the Fund's total net assets as at 31 March 2019:

	Value as at 31/03/2019 £'000	Proportion of Investment Portfolio %
Wales Pension Partnership (Global Growth Fund)	588,671	22.90
BlackRock Aquila Life UK Equity Fund	510,925	19.87
BlackRock Ascent Life US Equity Fund	277,376	10.79
BlackRock Active Selection UK Fund	265,299	10.32
BlackRock Active Selection Fund - Emerging Market	224,847	8.75
BlackRock Aquila Life over 5yr UK Index Linked Fund	138,699	5.40

13. Investment Management Expenses

2017-18		2018-19
£'000		£'000
(4,190)	Management fees	(4,513)
(577)	Performance related fees	(671)
(29)	Custody fees	(29)
(4,914)	Transaction costs	(4,079)
(9,710)		(9,292)



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.

2017-18					2018-19			
Designated at fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000	Financial assets	Designated at fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000
489,582	0	0	489,582	Bonds	403,998	0	0	403,998
480,061	0	0	480,061	Equities	510,928	0	0	510,928
0	0	0	0	Alternatives	27,626	0	0	27,626
1,220,499	0	0	1,220,499	Pooled investments	1,293,361	0	0	1,293,361
231,874	0	0	231,874	Pooled property investments	320,616	0	0	320,616
6,057	0	0	6,057	Property	6,371	0	0	6,371
0	11,494	0	11,494	Cash	0	12,259	0	12,259
490	0	0	490	Other investment balances	896	0	0	896
0	4,655	0	4,655	Debtors	0	4,038	0	4,038
2,428,563	16,149	0	2,444,712		2,563,796	16,297	0	2,580,093
				Financial liabilities				
0	0	0	0	Other investment balances	0	0	0	0
0	0	(4,600)	(4,600)	Creditors	0	0	(4,407)	(4,407)
0	0	(4,600)	(4,600)		0	0	(4,407)	(4,407)
2,428,563	16,149	(4,600)	2,440,112	Total	2,563,796	16,297	(4,407)	2,575,686

14.2 Net gains and losses on financial instruments

2017-18 £'000	Financial assets	2018-19 £'000
98,447	Fair value through profit and loss	137,196
98,447	Total financial assets	137,196
	Financial liabilities	
0	Fair value through profit and loss	0
0	Total financial liabilities	0
98,447	Total	137,196

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 31/03/18 £'000	Fair value 31/03/18 £'000	Financial assets	Carrying value 31/03/19 £'000	Fair value 31/03/19 £'000
1,802,227	2,428,561	Fair value through profit and loss	1,971,208	2,563,796
16,151	16,151	Loans and receivables	16,297	16,297
1,818,378	2,444,712	Total financial assets	1,987,505	2,580,093
		Financial liabilities		
0	0	Fair value through profit and loss	0	0
(4,600)	(4,600)	Financial liabilities at amortised cost	(4,407)	(4,407)
(4,600)	(4,600)	Total financial liabilities	(4,407)	(4,407)
1,813,778	2,440,112	Total	1,983,098	2,575,686



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 2019	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	1,105,917	1,131,163	326,716	2,563,796
Loans and receivables	16,297	0	0	16,297
Total financial assets	1,122,214	1,131,163	326,716	2,580,093
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(4,407)	0	0	(4,407)
Total financial liabilities	(4,407)	0	0	(4,407)
Net financial assets	1,117,807	1,131,163	326,716	2,575,686

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



14.5 Fair value – Basis of valuation

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

14.6 Reconciliation of fair value measurements within level 3

Asset Type	Market Value 1 April 2018	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised Gains / (Losses)	Realised Gains / (Losses)	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equities - Unquoted overseas	0	0	0	0	0	0	0	0
Property	236,646	0	0	98,249	(9,450)	(1,271)	2,542	326,716
Total	236,646	0	0	98,249	(9,450)	(1,271)	2,542	326,716

14.7 Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2018-19.



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 (+/-)
Equity	10.50%
Bonds	6.50%
Indexed Linked	9.80%
Property	2.60%
Cash	0.50%

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

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

15.4.1 Sensitivity of assets valued at level 3

Asset Type	Value as at 31 March 2019 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Equities - Unquoted overseas	0	10.50%	0	0
Property	326,716	2.60%	335,211	318,221
Total	326,716		335,211	318,221

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 2018 and 31 March 2019 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

31/03/2018	Asset type	31/03/2019
£'000		£'000
6,586	Cash and cash equivalents	7,052
4,908	Cash held at CCC	5,207
489,582	Bonds	403,998
501,076	Total	416,257

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 31/03/19 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	-1% £'000
Cash and cash equivalents	7,052	71	(71)
Cash held at CCC	5,207	52	(52)
Bonds	403,998	4,040	(4,040)
Total change in available assets	416,257	4,163	(4,163)

Asset type	Value as at 31/03/18 £'000	Change in year in the net assets available to pay benefits	
		+1% £'000	-1% £'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)



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 31/03/18	Asset type	Fair value 31/03/19
1,163,608	Overseas Equities	1,213,890
34,101	Property	27,846
0	Cash	4
1,197,709	Total	1,241,740

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 2018 and as at 31 March 2019:

15.9 Currency risk sensitivity analysis

The aggregate currency exposure within the Fund as at 31 March 2019 was 8.8% (2017-18: 9%). This analysis assumes that all other variables, in particular interest rates, remain constant.

A 8.8% 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 31/03/19	Change in year in the net assets available to pay benefits	
	£'000	+8.80%	-8.80%
		£'000	£'000
Overseas equities	1,213,890	106,822	(106,822)
Property	27,846	2,450	(2,450)
Cash	4	0	0
Total change in available assets	1,241,740	109,272	(109,272)

Asset type	Fair value 31/03/18	Change in year in the net assets available to pay benefits	
	£'000	+9.00%	-9.00%
		£'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)



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

31/03/18		31/03/19
£'000		£'000
	Contributions due from employer	
2,592	- Employer	1,804
1,539	- Employee	1,624
4,908	Cash Balances	5,207
524	Debtors	610
9,563		9,245

16.1 Analysis of Current assets

31/03/18		31/03/19
£'000		£'000
5	HMRC	3
8,247	Other local authorities	7,731
1	NHS bodies	1
4	Public corporations and trading funds	0
1,306	Other entities and individuals	1,510
9,563		9,245



17. Current liabilities

31/03/18		31/03/19
£'000		£'000
(2,585)	Unpaid benefits	(2,266)
(2,015)	Creditors	(2,141)
(4,600)		(4,407)

17.1 Analysis of Current liabilities

31/03/18		31/03/19
£'000		£'000
(599)	HMRC	(759)
(16)	Other local authorities	(106)
(1,023)	Public corporations and trading funds	(684)
(2,962)	Other entities and individuals	(2,858)
(4,600)		(4,407)

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 31/03/18	Contributions	Expenditure	Change in Market Value	Value as at 31/03/19
AVC Provider	£ '000	£ '000	£ '000	£ '000	£ '000
Prudential	4,592	1,728	(669)	103	5,754
Equitable Life	530	11	(35)	16	522
Standard Life	3,610	456	(830)	90	3,326
Total	8,732	2,195	(1,534)	209	9,602

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 2018-19.



20. Related Party Transactions

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

The Authority incurred costs of £1.038 million (2017-2018: £0.956 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 £32.441 million to the Fund in 2018-2019 (2017-2018: £32.013 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 2019, the Fund had an average investment balance of £13.58 million (2017-2018: £12.45 million) earning interest of £88,575 (2017-2018: £45,888).

20.1 Governance

Pension Committee

There are three members and one substitute member of the Pension Committee. During 2018-19 these were Councillor Elwyn Williams, Councillor John Prosser (active member) replaced by Councillor Robert Evans in February 2019, 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 1 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 2018-19.

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:

31/03/18		31/03/19
£'000		£'000
14	Short-term benefits	14
3	Post-employment benefits	3
17		17



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

2017-18					2018-19			
Contri- bution rate	Deficit Contri- bution	Contri- butions	Benefits payable		Contri- bution rate	Deficit Contri- bution	Contri- butions	Benefits payable
%	£'000	£'000	£'000		%	£'000	£'000	£'000
				Scheduled bodies				
15.1	2,529	29,484	34,037	Carmarthenshire County Council	15.1	2,623	29,818	35,526
15.6	270	15,687	17,365	Pembrokeshire County Council	15.6	864	16,468	17,794
15.3	90	10,934	10,915	Ceredigion County Council	15.3	140	11,505	11,621
13.5	86	4,467	2,398	Office for the Police & Crime Commissioner for Dyfed-Powys	13.5	90	4,732	3,002
14.1	71	1,341	1,434	Mid & West Wales Fire Authority	14.1	74	1,294	1,248
15.2	(2)	311	366	Coleg Ceredigion	16.2	0	291	313
14.3	150	1,304	802	Coleg Sir Gar	16.1	113	1,531	1,058
15.1	(26)	605	968	Pembrokeshire Coast National Park Authority	15.8	(84)	633	778
12.8	59	899	297	Pembrokeshire College	15.0	84	1,081	423
	3,227	65,032	68,582			3,904	67,353	71,765
				Designated (Resolution) bodies				
20.0	0	8	12	Aberystwyth Town Council	23.0	0	11	13
12.6	0	1	0	Aberaeron Town Council	24.9	0	0	0
18.6	14	78	74	Carmarthen Town Council	17.9	17	80	111
18.7	0	21	0	Cwmamman Town Council	21.6	0	31	0
21.7	0	11	0	Llanedi Community Council	21.7	0	12	0
27.7	1	5	4	Gorslas Community Council	24.0	1	5	4
-	0	11	31	Haverfordwest Town Council	-	0	11	31
27.6	8	15	12	Kidwelly Town Council	27.6	9	13	12
17.3	0	2	1	Llanbadarn Fawr Community Council	20.7	0	2	1
21.2	0	1	1	Llanarthne Community Council	24.9	0	0	1
15.0	10	164	146	Llanelli Rural Council	15.9	6	194	156
17.8	9	50	82	Llanelli Town Council	19.1	7	57	91
12.8	0	7	0	Llangennech Community Council	15.9	0	8	0
18.2	4	23	15	Llannon Community Council	19.5	5	39	21
23.5	3	41	7	Pembrey & Burry Port Town Council	19.6	(2)	39	7
13.0	(1)	8	12	Tenby Town Council	16.3	(2)	10	12
12.0	0	11	0	Pembroke Town Council	16.6	1	13	0
8.5	0	7	0	Pembroke Dock Town Council	13.5	1	9	0
	48	464	397			43	535	460

2017-18				Admission bodies Community Admission Body (CAB)	2018-19			
Contri- bution rate	Deficit Contri- bution	Contri- butions	Benefits payable		Contri- bution rate	Deficit Contri- bution	Contri- butions	Benefits payable
%	£'000	£'000	£'000		%	£'000	£'000	£'000
13.2	14	32	17	CAVO	17.9	11	44	53
13.3	43	812	982	Careers Wales	15.1	(21)	1,148	1,323
11.7	7	24	32	CAVS	17.0	10	32	40
26.5	(5)	11	0	Carms YFCs	27.6	(9)	10	0
17.9	0	13	39	Iaith Cyf	15.9	2	14	40
20.0	5	2	15	Leonard Cheshire Disability	23.3	5	3	15
18.1	3	9	34	Llanelli Burial Board	0.0	0	0	34
7.8	4	56	10	Menter Bro Dinefwr	11.7	11	71	10
11.5	17	34	49	Menter Cwm Gwendraeth	10.5	29	36	32
7.4	0	18	0	Menter Gorllewin Sir Gar	10.8	1	38	0
23.7	1	24	10	Menter Iaith Castell-Nedd Port Talbot	7.4	(2)	13	10
16.0	2	9	2	Narb. & Dist. Comm & Sports Assoc.	19.3	(3)	9	15
14.5	4	62	103	PAVS	20.1	1	66	100
12.6	8	55	34	PLANED	13.7	4	83	69
14.2	(44)	260	226	Tai Ceredigion	15.8	(5)	267	222
16.5	109	555	511	University of Wales-Trinity St David	18.4	72	602	497
22.5	80	11	214	Aberystwyth University	22.3	83	11	219
15.1	23	220	351	Welsh Books Council	14.7	(24)	223	334
13.8	7	26	40	West Wales Action for Mental Health	14.8	5	28	41
17.8	1	136	188	Valuation Tribunal Wales	15.8	(3)	26	73
13.5	0	8	0	Swim Narberth	14.2	1	7	0
	279	2,377	2,857			168	2,730	3,128
				Transferee Admission Body (TAB)				
19.3	(4)	16	37	Grwp Gwalia	19.3	0	16	38
21.5	0	10	6	DANFO	26.6	(1)	6	54
0.0	0	0	0	Llesiant DELTA Wellbeing	15.3	0	214	27
20.3	0	144	117	Human Support Group (HSG)	21.2	(7)	117	106
	(4)	170	160			(7)	353	225
				Bodies with no pensionable employees				
0	0	5	6	DVLA	0.0	0	5	6
0	0	0	12	Cardigan Swimming Pool	0.0	0	0	13
0	0	0	23	PRISM	0.0	0	0	90
0	0	51	300	Dyfed Powys Magistrates Courts	0.0	0	52	317
0	0	1	6	Carmarthen Family Centre	0.0	0	1	7
0	0	2	3	Milford Haven Town Council	0.0	0	2	10
0	0	0	2	Mencap	0.0	0	0	2
0	0	0	7,796	Dyfed County Council	0.0	0	0	7,668
0	0	0	2	Dyfed AVS	0.0	0	0	2
0	0	6	7	NHS	0.0	0	7	7
0	0	11	35	Welsh Water	0.0	0	4	16
0	0	0	7	Cwm Environmental	0.0	0	0	7
0	0	0	5	Cartrefi Cymru	0.0	0	0	6
0	0	1	1	Rent Officer Service	0.0	0	2	2
	0	77	8,205			0	73	8,154
	3,550	68,120	80,201	Total		4,107	71,045	83,731



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.

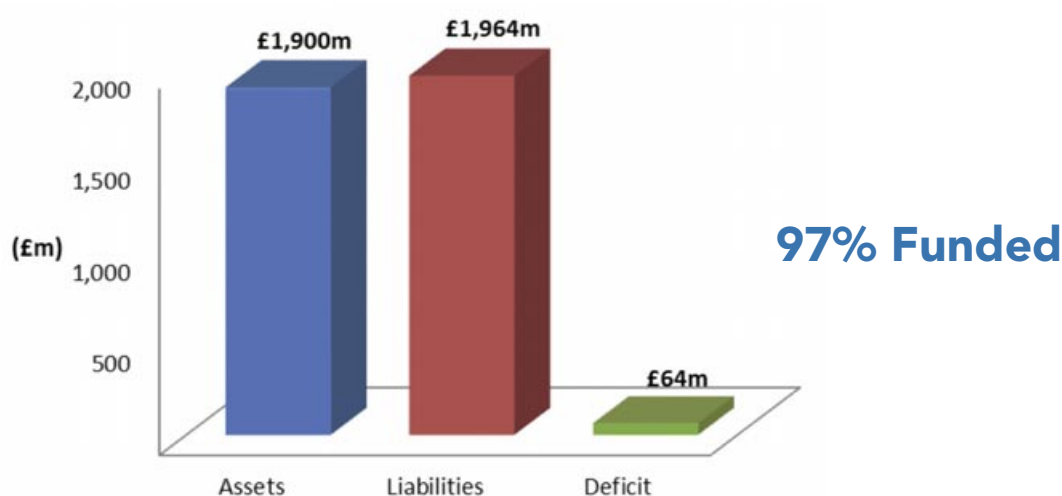
Proportion to be recharged (%)

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 2019/20 is approximately £4.8 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 (Primary rate of contribution)
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 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.2% per annum
Rate of pay increases *	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP) Deferred revaluation	2.2% per annum	2.3% 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 decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £2,993 million. Interest over the year increased the liabilities by c£78 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£44 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £176 million due to "actuarial losses" (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 2019 is therefore £3,291 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

Following a request from the LGPS Scheme Advisory Board, the Government Actuary's Department (GAD) has carried out some costings of the potential effect of McCloud on the LGPS as a whole, which are set out in their paper dated 10 June 2019. For the LGPS as a whole, GAD's calculations indicate a potential balance sheet effect of additional liabilities of about 3.2% of active member liabilities (around 1% of overall liabilities), when measured on IAS26 actuarial assumptions as at 31 March 2019 assuming real pay growth of 1.5% p.a. above CPI. Applying the same 1% of overall liabilities to the Dyfed Pension Fund, the increase in the estimated total value of the Fund's promised retirement benefits at 31 March 2019 would be approximately £33 million.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

John Livesey

Fellow of the Institute and Faculty of Actuaries Mercer Limited
July 2019

23. Events after the balance sheet date

The Supreme Court refused the UK Government leave to appeal against its decision in the McCloud case on 27 June 2019. The impact of this has been assessed by Mercer and an increase of approximately £33m in the fund's promised value of retirement benefits at 31 March 2019 has been disclosed in the Actuarial Statement (Note 22). As this liability is not recognised in the net assets statements, no other adjustments are required to the statement of accounts and no other events have been identified up to the date when the accounts were authorised.



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 2018-19 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 2019 which were authorised for issue on 13 September 2019. 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 2019 which were authorised for issue on 13 September 2019 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, 13 September 2019 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, the Investment Policy and Performance Report, Fund Administration Report, Actuarial Report, Governance Report, Funding Strategy Statement, Investment Strategy Statement and the Communications Policy Statement.



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

Date 29 October 2019

24 Cathedral Road
Cardiff
CF11 9LJ



FUNDING STRATEGY STATEMENT

This Statement has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (the Fund), as required by legislation, following the completion of the 2016 actuarial valuation. The full document including appendices is published on our website: <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:
 - o the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
 - o the Secondary rate: a schedule of lump sum monetary amounts or % adjustments over 2017/20 in respect of an employer's surplus or deficit (including any phasing adjustments).

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

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

Funding for Non-Ill Health Early Retirement Costs

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



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

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

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

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

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

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

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

The current strategy is:

	Benchmark (%)	Range (%)
UK Equities	25.00	23.50 - 26.50
Overseas Equities	25.00	23.50 - 26.50
Global Equities	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

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.

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

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

Structure and governance arrangements of the WPP

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

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

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

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

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

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

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

Under the proposed structure, the depositary 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

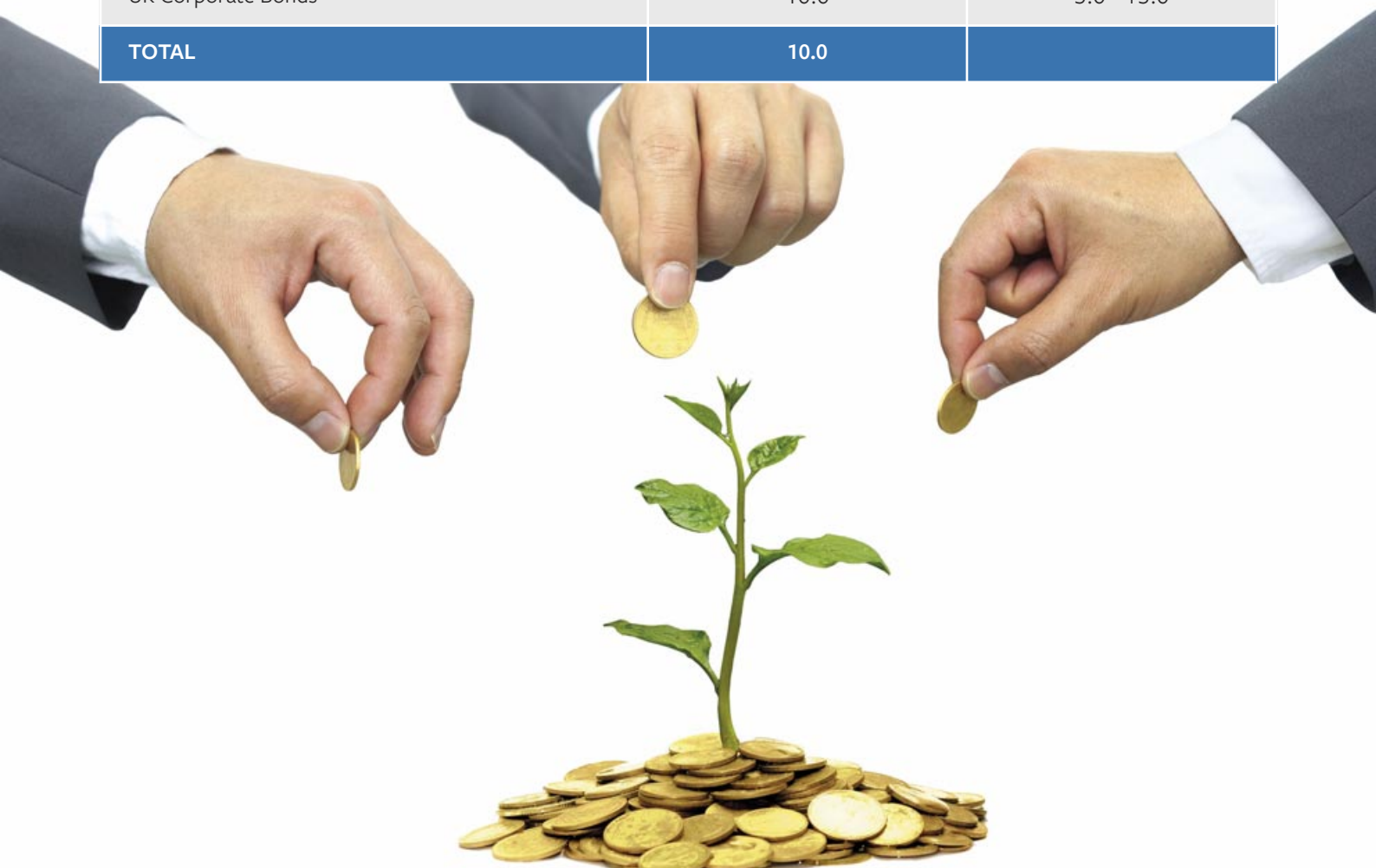
In creating this statement, the Fund has taken advice from its Officers, its Independent Investment Advisor and its Actuary, Mercer.



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

My Pension Online

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

Annual Report and Accounts

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

Annual Newsletter(s)

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

Annual Benefit Statements

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

Bilingual Scheme Literature

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

Statutory Notification

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

Roadshows

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

General Presentations & Courses

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

Pension Surgeries

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

Mid Life Planning Courses

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

Pre-Retirement Courses

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

Correspondence

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

Payment Advice / P60

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

Pension Increase Statements

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

Existence Validation -

(Life Certificate Exercise)

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

Miscellaneous

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

Prospective Scheme Members

Scheme Booklet

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

Corporate Induction Courses

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

Non Joiner Campaigns

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

Pension Roadshows

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



Website

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

Trade Unions

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

Scheme Employers

Annual Consultative Meeting

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

Periodic Meetings

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

Employers' Guide

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

Email Updates

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

Training

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

Website

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

Access to Pensions Administration System

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

Administration Strategy

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

Fund Staff

Induction

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

Meetings

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



Training & Support

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

Seminars

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

Other Bodies

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

Trade Unions

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

National Information Forum

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

Seminars

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

South & Mid Wales Pensions

Officers' Group

Pension Officers from administering authorities in the region meet regularly to share information and ensure uniform interpretation of the LGPS and other prevailing regulations.



Website

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

Data Protection

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

National Fraud Initiative

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

General

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

Policy Review

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



GLOSSARY

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

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

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

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

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