Complete Agenda

Democratic Services
Swyddfa'r Cygnor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

GWYNEDD PENSIONS FUND ANNUAL MEETING BETWEEN MEMBERS OF GWYNEDD COUNCIL'S PENSION COMMITTEE AND REPRESENTATIVES OF THE EMPLOYERS AND UNIONS

Date and Time

2.00 pm, WEDNESDAY, 10TH OCTOBER, 2018

Location

Siambr Dafydd Orwig, Council Offices,

Caernarfon, Gwynedd, LL55 1SH

Contact Point

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(DISTRIBUTED 02/10/18)

GWYNEDD PENSIONS FUND ANNUAL MEETING BETWEEN MEMBERS OF GWYNEDD COUNCIL'S PENSION COMMITTEE AND REPRESENTATIVES OF THE EMPLOYERS AND UNIONS

MEMBERSHIP (7)

Plaid Cymru (4)

Councillors

Aled W Jones, Simon Glyn, Peredur Jenkins, Peter Read

Independent (2)

Councillors

John Brynmor Hughes, John Pughe Roberts

Lib / Lab (1)

Councillor Stephen Churchman

Co-opted Members

Councillor Robin Williams Anglesey County Council
Councillor David Cowans Conwy Borough Council

Aelodau Ex-officio / Ex-officio Members

Chair and Vice-Chair of the Council

A G E N D A

1. ELECT CHAIR

To elect a Chairman for this meeting

2. APOLOGIES

To receive any apologies for absence

3. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest.

4. URGENT BUSINESS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

5. PENSION FUND ANNUAL REPORT 2017-18

To receive the Pension Fund’s Annual Report for 2017-2018

Contents

1. Foreword

Welcome to the Annual Report for the Gwynedd Pension Fund for the financial year ended 31 March 2018. Despite a challenging year, the Fund has weathered the storm with positive returns in 2017/18, building again on our relatively robust funding level.

During 2017/18, the number of contributing scheme members increased by 10.8% to 18,090; while the number of scheme pensioners increased by 4.3% to 9,199. Meanwhile, 2017/18 saw challenging stock market conditions, but the Gwynedd Pension Fund has continued to build on the stellar investment performance of 2016/17.

The Fund's assets delivered investment returns of 3% for the year, reflecting weaker markets compared to last year's Fund return of 22%, but taking the total value of the Fund to £1,938m as at 31 March 2018. This was an increase of £56.4m from the previous year, and the Fund value then grew to over £2 billion during the first quarter of 2018/19.

Continued growth in asset value remains heartening, especially when this builds upon the Fund's comparatively favourable position, being 91% funded at the 2016 triennial valuation (or 109% funded, using The Government Actuary's Department's standardised "like-for-like" assumptions, rather than our funds' own more prudent assumptions).

Preparations are now commencing for the next actuarial valuation as at 31 March 2019. While the position of individual employers within our Fund differ, generally the Fund's strength should allow us to take a flexible approach to employer contribution rates effective from April 2020. Clearly, minimising contribution rates will be an aim once again, given the ongoing squeeze on public spending (Government's funding of local authorities, as well as voluntary organisations receiving reduced direct grants).

This report provides further information on investment performance, and on the activities and management of the Pension Fund during the year. I hope this report provides useful information about your Pension Fund. However, it is important that we try to improve the quality and suitability of information provided within the report and feedback is welcomed. For further information on Gwynedd Pension Fund, or for providing us with your views on this report, relevant officers' contact details are provided on page 4 of the report.

The Fund's investment strategy is under review, but currently remains focused on growth assets which are expected to earn more attractive returns over the longer term than lower risk investments. Last year, Gwynedd's Pensions Committee and the Fund's Pension Board, with Hymans Robertson (the Fund's investment advisors) developed principles of responsible investment, considering environmental, social and governance factors. On 8 November 2018 the Committee will discuss a revised Investment Strategy Statement, including the agreed responsible investment principles.

Investment pooling continues to be a significant piece of ongoing work for the Pension Fund, along with the other 7 LGPS funds in Wales. All 8 funds have been voluntarily working together for several years to identify areas of potential collaboration, and the Wales Pension Partnership was formally established in March 2017.

When the Partnership's Joint Governance Committee met with decision making powers, Gwynedd's Councillor Stephen Churchman was elected the first Chairman of the Joint Committee. During 2017/18 the Partnership acquired a platform that will allow the 8 Welsh funds to implement their investment strategies, appointing Link Asset Services as the platform operator, in partnership with Russell Investments as an investment manager.

The 8 Welsh funds already have one joint contract with BlackRock for all their passive equity portfolios. Now that the Wales Pension Partnership's Authorised Contractual Scheme (ACS, a type of tax transparent fund) has been authorised by the Financial Conduct Authority (FCA), efforts are underway to set up two pooled sub-funds for actively managed global equities.

The Partnership's sub-funds will replace individual funds' separate mandates with investment managers. Gwynedd Pension Fund intends to transfer assets (global equities) into these sub-funds during 2018/19, in order to realise further fee savings from pooling, whilst still retaining ownership and responsibility for Gwynedd's own investments.

2017/18 was the second year of Councillor Stephen Churchman's 2 year term as Chairman of Gwynedd's Pensions Committee. During 2016 - 2018, the role's responsibilities escalated following establishing the Pension Board and the Wales Pension Partnership. I would like to thank Steve for his leadership, his tireless work at a challenging and innovative time, and for his work as the Chair of the Partnership's Joint Committee, where he represented the Gwynedd Fund with dignity.

On 19 June 2018, the Pensions Committee elected Councillor John Pughe Roberts as their new Chairman for 2018/19, and John has commenced his duties with vigour and determination. Meanwhile, Mr Anthony Deakin has completed the first year of his 2 year term pro-actively and scrupulously chairing Gwynedd's Pension Board (the Board's report for 2017/18 is included here on page 5).

The Fund's staff have been striving to ensure that we continue to deliver a high level of service, and I am very happy to say that Gwynedd's pensions administration performance levels in 2017/18 were generally improved or stable compared with 2016/17. These excellent results would not be possible without the commitment and hard work of the pensions administration team. On behalf of all the aforementioned Chairmen, we would like to take this opportunity to thank Gwynedd's pensions staff, and their colleagues in the investments team, for their efforts over the course of the past year.

As well as monitoring and steering positive investment performance, the Pensions Committee will continue to ensure that service improvements are maintained, while the Local Pension Board will provide conscientious scrutiny and useful support for scheme management. We would like to sincerely thank the members of the Committee and Board for their valuable input and dedication during 2017/18, and we are looking forward to working with all the members over the coming year. Full details of the membership of the Committee and Board can be found on page 4.

We would also like to thank the Fund's investment manager firms, our external advisors, and other partners for their hard work and achievements over the twelve months, supporting the management and beneficiaries of the scheme.

I hope you find the following report helpful. Many thanks for your support during 2017/18, and I look forward to continuing our constructive working relationship in 2018/19.

Dafydd L. Edwards
Head of Finance

2. Management Structure

Administering Authority
Gwynedd Council

Pensions Committee (up to 7th May 2017)
Councillor Stephen Churchman (Chairman)
Councillor Peredur Jenkins (Vice Chairman)
The late Councillor Trefor Edwards
Councillor Simon Glyn
Councillor W. Tudor Owen
Councillor John Pughe Roberts
Councillor Glyn Thomas
Councillor H. Eifion Jones (Co-opted Member)
Councillor Margaret Lyon (Co-opted Member)

Pensions Committee (from 8th May 2017)
Councillor Stephen Churchman (Chairman)
Councillor Peredur Jenkins (Vice Chairman)
Councillor Simon Glyn
Councillor John Pughe Roberts
Councillor John Brynmor Hughes
Councillor Aled Wyn Jones
Councillor Peter Read
Councillor David Cowans (Co-opted Member)
Councillor John Griffith (Co-opted Member)

Pensions Board
Employer Representatives
Mr Anthony Deakin (Cartrefi Conwy)
Mr Huw Trainor (North Wales Police)
Councillor Aled Lloyd Evans (Gwynedd Council)
Member Representatives
Mr Osian Richards
Mrs Sharon Warnes
Mr H. Eifion Jones (joined 8th May 2017)

Head of Finance ("Section 151 Officer")
Mr Dafydd L. Edwards

Advisor
Mr Paul Potter (Hymans Robertson)

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

Custodian
Northern Trust

Actuary
Hymans Robertson

Bank
Barclays Bank plc

Auditor
Deloitte LLP

Contact Details
Enquiries and more detailed information regarding:

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

  Mr Nicholas Hopkins,
  Pensions Manager,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH
  ☎ 01286 679612
  🖃 nicholasedwardhopkins@gwynedd.llyw.cymru

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

  Mrs Caroline Roberts,
  Investment Manager,
  Finance Department,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH
  ☎ 01286 679128
  🖃 carolineroberts@gwynedd.llyw.cymru

Fund Website
www.gwyneddpensionfund.org.uk

3. Annual Rert of the Gwynedd Pension Board for 2017/18 (the year to 31 July 2018)

Background / Constitution

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

Over the period between 1 August 2017 and 31 July 2018, the Board has met four times. Board members are invited as observers to meetings of the Pensions Committee and have agreed to take this role in turn in order to facilitate understanding as well as communication. This arrangement is reciprocated with the Chair of the Pensions Committee now attending Board meetings, where he is accountable, with officers for the governance and administration of the Fund. The Board's views and reccomendations are submitted for consideration by the Committee.

Function of the Board

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

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

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

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

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

The work of the Board

Once again, the past year has been a busy year for the senior staff of the Administering Authority with the continuation of the pooling of investments project. Therefore, Board members were aware of the need to prioritise requests in order for officers to prepare reports for the Board.

Attendance

	23/10/2017	05/12/2017	15/02/2018	12/04/2018	16/07/2018
Anthony Deakin	√	√	√	√	√
Cllr. Aled Evans	√	X	√	√	X
Hywel Eifion Jones	√	√	√	√	√
Osian Richards	√	√	√	√	√
Huw Trainor	√	√	X	√	√
Sharon Warnes	√	√	X	√	√

Work Plan

In accordance with the work plan, as determined and amended by Board members, in consultation with Fund officers, reports on the following issues were received and reviewed by the Board:

- Markets in Financial Instruments Directive II (MiFID II)
- Gwynedd Pension Fund Accounts for 2016/17
- Dealing with complaints
- The Risk Register
- Treasury Management Strategy
- Communicating with Employers – Presenting data timely and correctly
- Wales Pension Partnership
- Gwynedd Pension Fund investment performance
- Pension Fund Statement of Accounts

Through their reviews of the above reports, input was provided by the Board to public statements, such as the Risk Register and Treasury Management Strategy.

Board members attended the annual meeting of the Fund in September 2017 and noted that the fund has performed highly satisfactory, compared with other LGPS funds.

A presentation on Responsible Investment was held on the 18th January 2018 by Simon Jones and Paul Potter of Hymans Robertson, the Fund's actuary. The session was attended by members of the board and committee. Following the session, Board Members contributed to the development of appropriately amended responsible investment principles, and support for their inclusion in the revised Investment Strategy Statement to be produced later in 2018.

The Board completed the Pensions Regulator's survey on public service governance, which was a mixture of factual questions and an opinion poll.

The work plan for 2018/19 includes:

- Update on the Wales Pension Partnership
- Update on Pension Administration
- Update on the Fund's Investment Performance
- Update to the Risk Register
- Pension Fund 2017/18 Statement of Accounts
- Communicating with Scheme Members
- Governance Update / Matters from the Scheme Advisory Board

Training

During the year the Board received various presentations by the Head of Finance, the Investment Manager, the Pensions Manager and Senior Communication Officer on the operation of the LGPS and its administration in Gwynedd.

It is a pleasure to report that all members of the Board have now completed their basic training ("LGPS Fundamentals"), organised by the Local Government Association ("LGA").

Board members have also attended a number of external training events, seminars and conferences. These have included:

- **CIPFA Pensions Network Workshops**
- **Barnett Waddingham & CIPFA LGPS Local Pension Board seminars & Annual Conference**
- **LGPS Governance Conference; and**
- **LGC Investment Seminar**

Thanks

The Chair wishes to thank his fellow members on the Board, who have volunteered their time to the roles, and the relevant officers for their support.

Anthony Deakin
Chairman

4. Review of the Year
4.1 Pensions Administration

General and Introduction

Again, it has been another busy year within Local Government Pension administration, and again this year I would like to thank all the employers for their continued hard work in ensuring that data is processed as quickly and as accurately as possible to the Pensions Unit. I would also like to extend my personal thanks to the pension staff themselves for all their support and for their hard and diligent work over the last year. The end of year date for the annual contribution returns was again set at the 30 April 2018, with most employers adhering to this time scale, however, there were a number of employers whose returns were well beyond this date, which then had an impact on the Pensions Unit in finalising data for the annual benefit returns. May I take this opportunity to again stress the importance of ensuring that all your data is processed as accurately and as efficiently as possible. Particular attention should be made with regard to what the Pensions Regulator has stated, in relation to inaccurate data and the real possibility of fines or charges being introduced to any employer/fund who does not adhere to these requirements. This year again has seen pension administration continuing to adapt to the increasing changes and complexity following the introduction of the Care Average Revalued Earning (CARE) scheme, and regulatory changes.

The pension's staff continue to receive regular training to ensure that their knowledge and understanding of the LGPS remains up-to-date, and again this year staff members have attended various courses throughout the year.

The pension software provided by Aquila Heywood is continuously updated as and when legislation changes.

All Wales Partnership

Further administrative collaboration has again continued on an all Wales basis, again with a number of leaflets, newsletters, and annual benefit statements being produced and sent out via the All Wales collaborative working party. Again this year Gwynedd continues to play a prominent part in the design and translation of most of these documents.

Managing Performance

The Pension Fund is dedicated to improving its service delivery and will review the measures in place to monitor performance on an annual basis to identify where improvements may be made. Where areas of poor performance are identified, the Pensions section will review the reasons for poor performance and will endeavour to put in place appropriate processes to improve the level of service delivery in the future.

During the year, the section has communicated regularly with the relevant employers regarding the timeliness of providing retirement and early leaver data and has again be actively working with the Fund's largest employers to try and implement i-Connect software to enable data to be hopefully transferred to the Fund on a monthly basis rather than the current end of year process. This will reduce the need for a lot of the duplication in paper and e mail correspondence that currently takes place at the end of year process and will have a much greater effect on the quality of data received, as it will all be done in real time updates. **It will also be fully compliant with the data quality that the Pensions Regulator now insists upon.**

Ref.	Core Activities	Performance in 2016/2017		Performance in 2017/2018	
		Number of cases	Average days taken	Number of cases	Average days taken
CD9.01	Average number of work days taken to send a quotation letter offering a transfer in	107	18.9	198	15.3
CD9.02	Average number of work days taken to send a quotation letter detailing a transfer out	123	15.8	160	6.1
CD9.03	Average number of work days taken to send a letter informing value of benefits – estimates	1438	6.5	1469	4.3
CD9.04	Average number of work days taken to send a letter informing value of benefits – actual	704	3.1	572	3.2
CD9.05	Average no of days taken to acknowledge death of active / preserved / pensioner member	23	9.1	21	4.5
CD9.06	Average number of work days taken to notify dependents benefits	222	8.1	242	9.0
CD9.07	Monthly pension payments processed and paid on time (figure based on number of payments in Month 12 of each year)	9,459	100%	9,780	100%
CD9.08	Number of cases where amended payments were necessary as a result of an error in the section.	3	N/A	3	N/A

Legislative Changes in the LGPS during 2017/18

New amendment regulations

The LGPS (Amendment) Regulations 2018 were made on 17 April 2018 and came into force on 14 May 2018. The regulations amend the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014.

The Disclosure 2013 Regulations require that pension schemes inform all members and beneficiaries of the scheme of any change to the scheme that results in a material change to the basic scheme information.

Our intention is to inform the members of the changes via a newsletter to be sent with the annual benefit statements.

The main changes introduced in the Amendment Regulations are:

Early payment of deferred benefits – if a member left the LGPS with a deferred benefit between 1 April 1998 and 31 March 2014 they can now choose to take early payment of their deferred benefits from age 55 (rather than 60). The change to the scheme rules means that they no longer need the consent of their former employer to take their benefits between the age of 55 and 59. Members who left the LGPS with a deferred benefit on or after 1 April 2014 (except councillors) were already able to choose to take early payment of their deferred benefits from age 55 without needing their former employer's consent, and this has not changed.

Early payment of deferred benefits for leavers before 1 April 1998 - if a member left the LGPS with a deferred benefit before 1 April 1998 the scheme rules have been changed to allow them to take their benefit <u>at</u> age 55 (rather than 60) or the date their deferred benefit will be payable without a reduction for early payment – this is called the Normal Pension Age (NPA). The NPA will be between age 60 and 65 depending on when the member joined the scheme.

The Ministry for Housing, Communities and Local Government (MHCLG), who make the scheme rules for the LGPS, have confirmed their intention to allow members who left the LGPS before 1 April 1998 to also be allowed to take early payment of their deferred benefits from age 55 (rather than only allowing payment <u>at</u> age 55 or NPA), without their former employer's consent. This option is already available to people who left the LGPS on or after 1 April 2014.

Reductions to benefits for early payment - If a member choose to take their deferred benefits earlier than their Normal Pension Age (NPA) they will normally be reduced to take account of the fact that their pension will be paid for longer. How much the deferred benefits are reduced by depends on how early they are taken. The reduction is based on the length of time (in years and days) between the date the member takes them and the date the deferred benefit will be payable without a reduction for early payment.

The early reduction factors are set by the Government and can vary from time to time. The current factors can be found on the national LGPS member website - www.lgpsmember.org/more/reductions.php

Changes to pre- April 2014 AVC contracts – members of the LGPS who is, or was, paying Additional Voluntary Contributions (AVCs) and the contract to pay those AVCs started before 1 April 2014, will see some changes to the way their AVCs are calculated and how they can take their AVC plan.

If they are currently paying AVCs:

- they can now pay up to 100% (rather than 50%) of their pensionable pay into their AVC plan.
- AVCs will now also be deducted from any voluntary overtime they work (if they pay AVCs as percentage of their salary).

When they take their AVC plan:

- if they leave the scheme with a deferred benefit they can now buy additional pension from the LGPS with their AVC plan when they take their benefits from the scheme. Before the change, this option was only available to members who took immediate payment of their main scheme benefits and their AVC plan when they left the scheme.
- when they take their main scheme benefits they will no longer be able to leave their AVC invested and take it later.
- if they die before taking their AVC and a lump sum is to be paid from their AVC plan their pension fund now has absolute discretion over who to pay that sum to (rather than it having to be paid to the estate). If the lump sum is paid at the discretion of the pension fund it does not form part of the estate and will not be subject to inheritance tax.

Pension Increase
Pensions are adjusted annually under the Pensions Increase Act. For 2017/18 the full increase was 1%. Pension benefits are statutory and are effectively guaranteed by Parliament. They do not depend on investment performance but the actuary does take account of how well the investments perform in setting the employers' contribution rate in the actuarial valuation.

Tax Reform
No change in the current tax allowances these remain at £1million for the Lifetime Allowance (LTA) (But increased to £1.03 million for the 2018/19 tax year) and £40,000 for the Annual Allowance. These lower limits have had an impact on more individuals within the scheme. A seminar was held on this subject on the 18th May 2017 at the Gwynedd Council Office, which was well attended.

i- Connect
As briefly stated above, it is most pleasing to report that work has been ongoing in signing employers to the i-Connect system. i-Connect, is a software system that links together information between an employers payroll system and the Pension Section's software. Therefore reporting data directly on a monthly basis and reducing duplication and paper flow from the employer to the Pension Section. More importantly, it will reduce the need to complete the end of year spreadsheet, and the list of complicated queries that inevitable arise.

There are now 25 employers signed up to the i-Connect software, 12 of which submitted their data on line by the 31/03/2018. It is envisaged, with the help of the employers that 95% of the scheme employers will be signed up to i-Connect before the end of the 2018/19 tax year. Work is already under way with both Gwynedd and Conwy CBC, these being 2 of our biggest employers, and will therefore be a significant step forward in this process.

The Pensions Regulator

Following the introduction of the Pensions Regulator Public Service Code of Practice (Governance and Administration of the Public Service Pension Schemes) which came into force with effect from 1st April 2015, the Regulator has stated that they will be monitoring funds to ensure that data is being updated regularly and that it is as accurate as possible. **Please take note, failure to comply will result in the Pension Regulator administering fines for non-compliance. Gwynedd Pension Fund will be undertaking a valuation of all of its employer data within the next few months with a report being sent to each employer with its common data (e.g. name, address, DOB, National Insurance number) and unconditional data (e.g. details of hour history, final salary, care pay etc). Each employer will then be responsible for updating the data if incorrect.**

Communications

During 2017/18, the Fund has continued to develop the way in which it communicates with its stakeholders, with the key communication activity being:

- Production and distribution of Annual Benefit Statements to both active and deferred members.
- Production and distribution of an annual newsletter to active and deferred members.
- Hosting presentations and roadshows to promote the scheme to active and prospective members.
- On-going promotion of the Pension On-Line service – The member self-service website.
- Continuing collaboration with the other Welsh Pension Funds to produce key communication material, thereby sharing expertise and costs.
- Upkeep of the Fund's website (www.gwyneddpensionfund.wales), which covers all aspects of the LGPS for its active members, councillor members, deferred members, pensioners and their dependants.
- Liaising with all scheme employers to ensure appropriate processes and procedures are in place to improve communication and the flow of accurate data between the employers and the Pension Fund.
- Hosting a Pension Tax training event for the Fund's high earners in conjunction with our actuary Hymans Robertson.
- Conducting pension surgeries where members could book individual appointment in order to discuss their pension privately.
- Representing the Fund at the Pre-Retirement Course being held on a North Wales basis by Chadwicks IFA.

The Fund's Website

The website provides members with access to pension forms and online literature, which assists reducing the Fund's printing and postage costs.

The website has been completely re-designed over the last 6 months – it is hoped that the new look design is much easier to navigate. Additional material has been added, giving much more information on the scheme.

Gwynedd Pension Fund's online Member Self Service is also a valuable tool for members. Once registered to the secure website they are able to:

- View and update their personal details and changes of address
- Find out how much they will receive on retirement
- Calculate the amount of additional lump sum they can take on retirement
- View their service history, including any service which has been transferred
- View their nominated beneficiaries

The self-service section of the website also helps to reduce costs for the Pension Section with fewer estimates having to be performed by the service's staff.

The website also includes a dedicated employer section that contains substantial information, including standard forms, which an employer needs to administer the LGPS.

Annual Benefit Statements

Annual Benefit Statements (ABS) will this year be available online for all members that have signed up for e-communication. Each member has received a notification letter to inform them to sign up for the online services and informing them that their ABS will be available online. Members not wishing to receive an online ABS will still receive a paper copy, which will be sent to their home address (upon written request). Each member will receive 3 letters informing them of the online facilities:

1st letter sent 29/03/2018
2nd letter sent 25/05/2018
3rd letter to be sent on 31/07/2018

Response to the first 2 letters has been very positive with approximately 8000 member's now signed up for MSS (compared to 2,000 previously).

During the period the letters were sent out, the section received a significant high number of telephone calls, and as such we were very grateful to the staff for their hard work during this very busy period.

Approximately 800 members have written in to confirm they wish to continue to receive a paper copy of their statements.

It is anticipated that by sending the statements online, will save the fund approximately £15,000 in postage and production per annum.

All ABS's must be sent out by 31/08/2018.

Transfer of Undertaking (Protection of Employment) Regulations. (TUPE).

I would also like to again remind all employers who think there may be a possibility of outsourcing any particular service, please first consider the pension implications of the individuals that are being Tuped out. If the proposed new employer has a GAD certified comparable scheme, then there is no pension issue. Individuals will have the option of transferring their pension benefits to the new pension arrangement or leave them as deferred benefits within the Local Government Pension scheme (LGPS).

If the new employer does not have a comparable GAD certified pension arrangement then the new employer will have no option (if they wish to proceed with the tender) but to become an Admitted Body within the Gwynedd Pension Fund. Before this can be done the proposed new employer will need to know what the new contribution rate will be and whether or not there is a Guarantor in place, (i.e the outsourcing employer). If there is no Guarantor in place then a Bond is required.

In order for the contribution rate and Bond to be determined the Pension Section will need to ascertain all details of the individuals being Tuped out, in order for a report to be sent to the Actuaries for them to calculate the contribution rate and the potential Bond. The cost of which will be financed by either the new employer or the outsourcing employer by whatever decision is made in the negotiating process.

The section has recently completed working on a scheme guide for the employers with the hope of arranging a presentation later in the year. Details of which will be circulated at the relevant time.

2017/2018 LGPS annual report

LGPS funds have made significant progress since the 2013 valuation

- Total assets have grown in market value from £180bn to £217bn. The aggregate f unding level on prudent local bases has improved from 79% to 85% at 2016
- The improved funding level is due in part to the significant financial commitment of LGPS employers (total employer contributions received in the three years covered by the 2013 valuation report were £6.9bn per year on average of which approximately £2.0bn per year were deficit recovery payments), as well as better than expected returns on assets
- On GAD's best estimate basis, the LGPS was in surplus at 2016 (funding level approximately 106%), and around 60 funds were in surplus. This means that we expect there is, on average, a greater than 50% chance that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due.

Nicholas Hopkins
Pensions Manager

4.2 Welsh Pension Funds Collaboration

For a number of years now we have been reporting on the collaboration between the eight Welsh Local Authority Pension Funds. This started as a project for Wales before the more recent requirements of the Government to pool investments. The Wales project concluded that significant savings on investment fees could be achieved by using fewer managers across the Welsh funds

Following the procurement process to appoint one passive manager, which was completed in April 2016, significant savings in fees have been realised across the funds which have passive investments, including Gwynedd Pension Fund.

During 2016/17 the Welsh funds were given permission from the Westminster Government to continue on the basis of a pool across Wales despite the fact that it does not reach the £25 billion threshold specified at present.

The governance structure for this collaboration is a Joint Committee with one elected member from each of the eight pension funds in Wales. The Joint Committee meets quarterly at each of the Pension Fund's offices in turn.

During 2017/18 Russell, the provider of the investment platform provider, was appointed through the required procurement process. They are using Link as operator of the Welsh Pool. The work is of transferring investments to the fund is ongoing, with active equities transferring to the fund during 2018/19.

Since being appointed as Operator in December 2017, Link have worked with our delegated partners in Northern Trust, Russell Investments and Eversheds Sutherland, as well as the Wales Pension Partnership and your partners, to build the prospectus and obtain Finance Conduct Authority (FCA) approval for the Authorised Contractual Scheme (ACS) launch. In 2019 we will continue the conceptualisation and development of further strategies / sub-funds to ensure each authority can fulfil their individual investment objectives.

Progress from appointment of Lind as Operator to September 2018

December 2017
- Link appointed as Operator

January 2018
- Tranche I sub-fund conceptualisation begins with Russell to build proposal
- Agreed initial optimal sub-fund

February 2018
- Various sub-fund structure proposals considered with the Officers Working Group (OWG)
- Fund structure and Managers agreed

March 2018
- Tranche I Investment Manager appointment agreed

June 2018
- Joint Governance Committee signs off ACS Prospectus
- Commencement of Tranche 2 conceptualisation with Russell to build proposal

July 2018

- FCA Approval of funds received 24th July
- Tranche 2 Fund structure agreed with OWG

August 2018

- Transition Manager tender issued 10th August 2018 – all bidders responded
- Fund Operational setup begins with Administrator & Depositary (NT)

September 2018

- Initial Manager Day held 5th September – Global Growth managers and 3 of the Global Opportunities managers. Feedback was positive
- Transition Manager Evaluation & appointment begins

4.2 Actuarial Valuation

The triennial actuarial valuation as at 31 March 2016 was completed during 2016/17. The funding position for the whole fund improved from 85% at 31 March 2013 to 91% at 31 March 2016, mainly due to strong investment performance over the period.

The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially offset by lower than expected pay and benefit growth.

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

The actuary produced a provisional report for each individual employer. A forum was held for all employers in November where the Actuary presented the results and answered questions. This was a very useful session and it was disappointing that more employers did not take the opportunity to attend.

The final Gwynedd Pension Fund 2016 Actuarial Valuation Report was produced in March 2017 and is available on the fund's website at
http://www.gwyneddpensionfund.org.uk/upload/public/attachments/1272/170330_Gwynedd_Pension_Fund_2016_Formal_Valuation_Report_final1.pdf

4.3 Funding Strategy Statement

The Funding Strategy Statement was reviewed during 2016/17 to reflect the Actuarial Valuation at 31 March 2016 and the employers participating in the Fund were consulted during this process. The Funding Strategy Statement sets out the fund-specific strategy which will identify how employers' pensions liabilities are best met going forward. It includes the individual employer contribution rates from 1 April 2017 onwards.

A copy of the Funding Strategy is available on the fund's website at
http://www.gwyneddpensionfund.org.uk/Pensiynau/pens_dogfen.asp?cat=6161&doc=30465&p=1&c=1

4.5 Investment Strategy Statement

The Pensions Committee approved the Investment Strategy Statement (ISS) on 16 March 2017 following consultation with interested parties. This strategy defines the types of investments that the fund may use in the long term.

There are no specific limits for types of investments. However, it is good practice to have some broad limits and these are included in the ISS. A copy of the ISS is available on the fund's website at http://www.gwyneddpensionfund.org.uk/en/Investments/Statement-of-Investment-Principles.aspx

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

Definition of IAS19

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

Accounting for IAS19 and FRS17

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

IAS19 and FRS17 Reports as at 31/03/2018

In February 2018, work was undertaken to collect all the necessary data required by the Actuary to calculate the individual IAS19 or FRS17 information for each of the Fund's employers. The majority of the reports were sent to the employers between 18th and 24th April 2018.

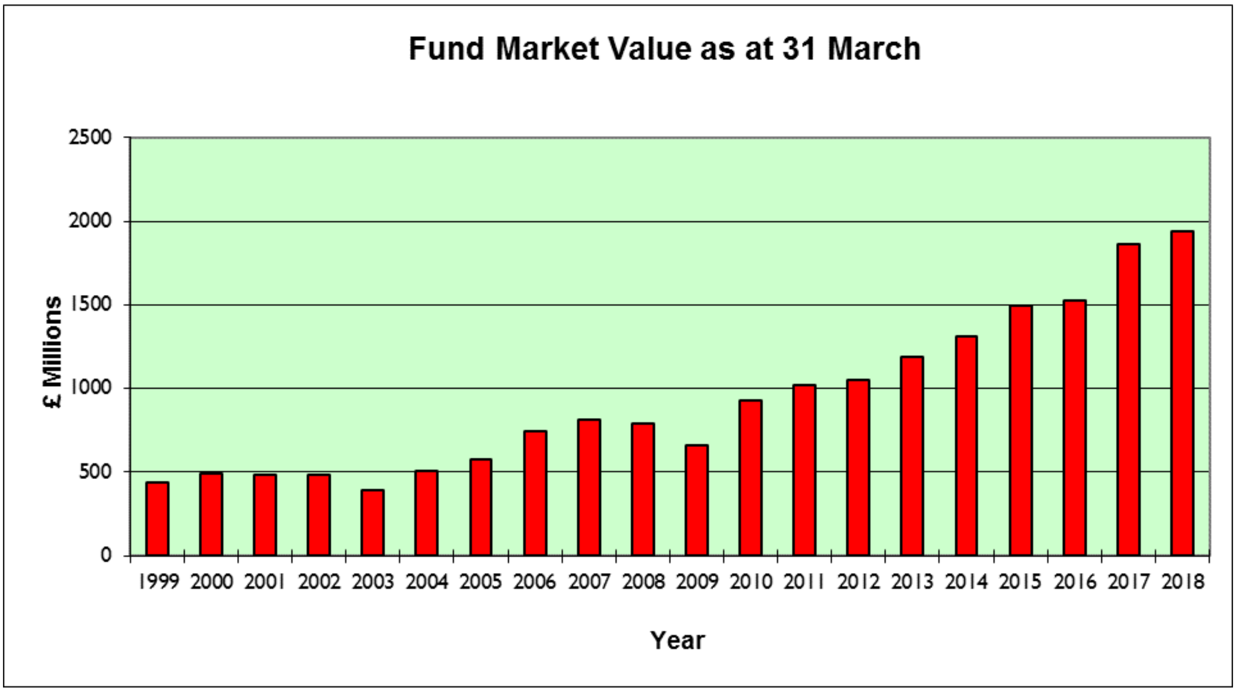
IAS19 and FRS17 Results as at 31/03/2018

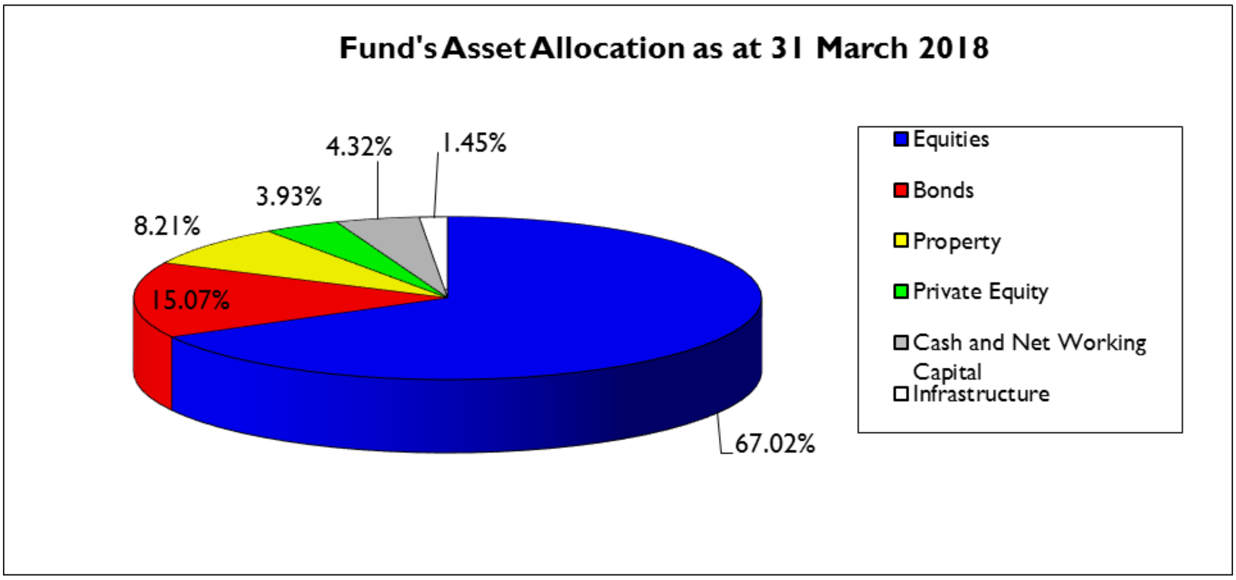
Each employer's results reflect their own specific circumstances. Therefore, this update should be considered as an illustrative guide to the main issues affecting most employers, rather than a detailed explanation of each employer's experience.

The assumptions used are those adopted for the Gwynedd Council's IAS19 report and are different as at 31 March 2018 and 31 March 2017. The actuary estimates that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £53million. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Caroline Roberts
Investment Manager

5. Recent Trends





6. Management Report

6.1 Scheme Administration

General

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

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 25 other scheduled bodies (including 2 Local Authorities) and 20 admitted bodies. The Fund does not cover teachers, for whom separate arrangements exist. The Fund is financed by contributions from employers and employees, together with income earned from investments.

From April 2014 employee contribution rates are determined in bands according to their actual pay indexed annually in line with inflation. Employees may opt to pay half rate contributions to accrue half rate personal benefits in what is called the 50/50 scheme, death and dependant benefits remain at full rate. The bandings for April 2017 – March 2018 are shown in the table below:

Pay Bands	Contribution Rates main scheme	Contribution Rates 50/50 scheme
Up to £13,700	5.5%	2.75%
£13,701 - £21,400	5.8%	2.9%
£21,401 - £34,700	6.5%	3.25%
£34,701 - £43,900	6.8%	3.4%
£43,901 - £61,300	8.5%	4.25%
£61,301 - £86,800	9.9%	4.95%
£86,801 - £102,200	10.5%	5.25%
£102,201 - £153,300	11.4%	5.7%
More than £153,301	12.5%	6.25%

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

Benefits

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

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

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

- **Annual Pension**

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

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

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

- **Lump Sum**

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

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

- **Conversion of Benefits**

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

Councillor Pensions

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

Ill-Health Retirement

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

The benefit payable depends on the ill health retirement awarded:

Tier 1

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

Tier 2

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

Tier 3

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

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

Early Retirement

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

Preserved Benefits

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

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

Death in Service

A death grant of 3 times Final Pay is payable, regardless of the length of membership. For part-time employees, the Final Pay is not increased to its whole-time equivalent rate.

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

Death after Retirement

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

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

6.2 Actuarial Position

General

The most recent actuarial valuation of the Fund was undertaken as at 31st March 2016 (previously 31st March 2013), and it requires full solvency of the Fund.

Method and Assumptions Used

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

	% per annum
Discount Rate	3.9%
Pay Increases (not including increments)*	2.1%
Price Inflation / Pension Increases	2.1%

The Results

The key funding objective of the Fund is to build up sufficient assets to provide adequate security for members' benefits as they accrue. When the value of the Fund's assets match the value of its liabilities the Fund is said to be 100% funded. In the valuation report for 31 March 2016, published on the 31 March 2017 by Hymans Robertson, the Funding level was 91% (compared to 85% at 31 March 2013) and there was a funding shortfall of £145m. The market value of assets at the valuation date was £1,525m and liabilities were assessed to be £1,670m.

The following table sets out the valuation results for the Fund as a whole:

	£m
Net Liabilities :-	
Active Members	761
Deferred Pensioners	252
Pensioners	657
Total Net Liabilities	**1,670**
Total Value of Assets	**1,525**
Surplus (Deficit)	**(145)**
Funding Level	**91%**

Employer Contribution Rates

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

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

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

Primary Rate (% of pay)	Secondary Rate £		
1 April 2017 – 31 March 2020	2017/18	2018/19	2019/20
18.7%	£6,734,000	£6,761,000	£6,788,000

6.3 Administrative and Custodial Arrangements

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

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

Copies can be seen on the Pension Fund website.

Specialist Advice
The Local Government Pension Scheme Regulations oblige the Council to take specialist advice on investment. This advice is provided by an independent advisor from Hymans Robertson (the Fund's advisors), who joins the Pensions Committee in monitoring the Investment Managers. An advisor from Hymans Robertson is always present at the Pensions Committee's quarterly meetings with the Investment Managers.

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

The target distribution of Fund assets for the year is shown in the table below. The investment in infrastructure will be built up over a period of time and therefore the actual allocation has not reached the target during the year.

The target distribution of Fund assets is as follows:

Manager	%
BlackRock	29.5
Veritas	19.0
Fidelity	19.0
Insight	15.0
UBS / Lothbury / Threadneedle / BlackRock (Property Only)	10.0
Partners – Private equity	5.0
Partners – Infrastructure	2.5
Total	100.0

Custodians

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

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

As one investment manager does not have an associated custodian, the Pensions Committee has chosen to appoint:

- The Northern Trust Company as custodian of those assets managed by Veritas.

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

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

Administrative Procedures

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

Asset Allocation

One of the key determinants of the Fund's long-term overall performance is its strategic asset allocation. The Fund's strategic asset allocation is 72.5% equities, 15% UK bonds, 10% property and 2.5% infrastructure.

The following table shows the Fund's benchmark allocation during 2017/18.

	BlackRock %	Veritas %	Fidelity %	Insight %	UBS/Thread-needle/ Lothbury/ BlackRock Property %	Partners Group %	Total %
Percentage of Fund	**29.5**	**19.0**	**19.0**	**15.0**	**10.0**	**7.5**	**100.0**
UK Equities	**56.0**	**7.8**	**7.8**	**-**	**-**	**-**	**19.5**
Overseas Equities	**44.0**	**92.3**	**92.3**	**-**	**-**	**-**	**48.0**
North America	7.4	52.8	52.8	-	-	-	21.0
Europe ex-UK	14.1	16.7	16.7	-	-	-	10.0
Japan	6.0	7.4	7.4	-	-	-	5.0
Pacific Basin	9.0	4.4	4.4	-	-	-	5.5
Emerging Markets	7.5	10.9	10.9	-	-	-	6.5
Private Equity	**-**	**-**	**-**	**-**	**-**	**66.7**	**5.0**
Total Equities	**100.0**	**100.0**	**100.0**	**-**	**-**	**66.7**	**72.5**
UK Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	**-**	**-**	**-**	**100.0**	**-**	**-**	**15.0**
Property	**-**	**-**	**-**	**-**	**100.0**	**-**	**10.0**
Infrastructure						**33.3**	**2.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

6.4 Investment Powers

Investment Powers

Previously there was a requirement for the Fund to have a Statement of Investment Principles (SIP), which included limits on certain types of investment and each fund could opt to change these amounts if necessary to set an appropriate allocation for its specific requirements. During 2016/17 the regulations were amended to require an Investment Strategy Statement (ISS). A copy of the ISS is available on the Pension Fund website at http://www.gwyneddpensionfund.org.uk/Pensiynau/pens_dogfen.asp?cat=6161&doc=30466&p=1&c=1

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

6.5 Investment Management

General

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

Investment Manager Briefs

As a result of a deliberate policy to diversify assets and investment styles, the Fund has 5 Investment Managers with varying briefs:

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

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

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

Veritas and Fidelity have an "active" equity brief while Insight has an "active" bond brief. Partners Group has been given "active" private equity and infrastructure briefs.

6.6 Investment Performance

Quarterly Meetings
The performance of the Investment Managers is monitored on a quarterly basis. Investment Managers submit quarterly reports and valuations to the Pensions Committee, the relevant officers at Gwynedd Council and the Fund's adviser. Every quarter a meeting is held between Investment Managers, the Committee, officers and the adviser to monitor their performance.

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

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

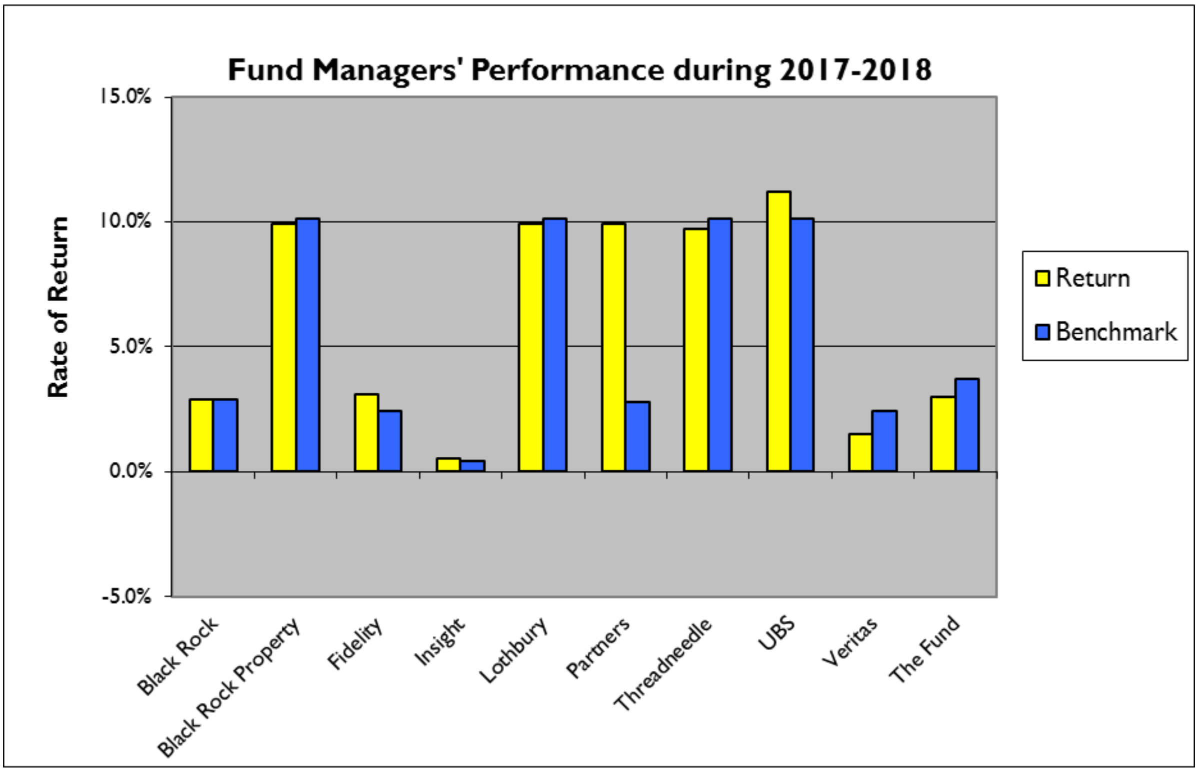
Manager	Benchmark	Target
BlackRock	FTSE All-Share and FTSE All-World Indices	Benchmark Return
Veritas	MSCI All Countries World Index	Benchmark + 2% p.a. (gross of fees)
Fidelity	MSCI All Countries World Index	Benchmark + 2%-3% p.a. (gross of fees)
Insight	Cash (Libor)	Benchmark +2% p.a.
Partners	MSCI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

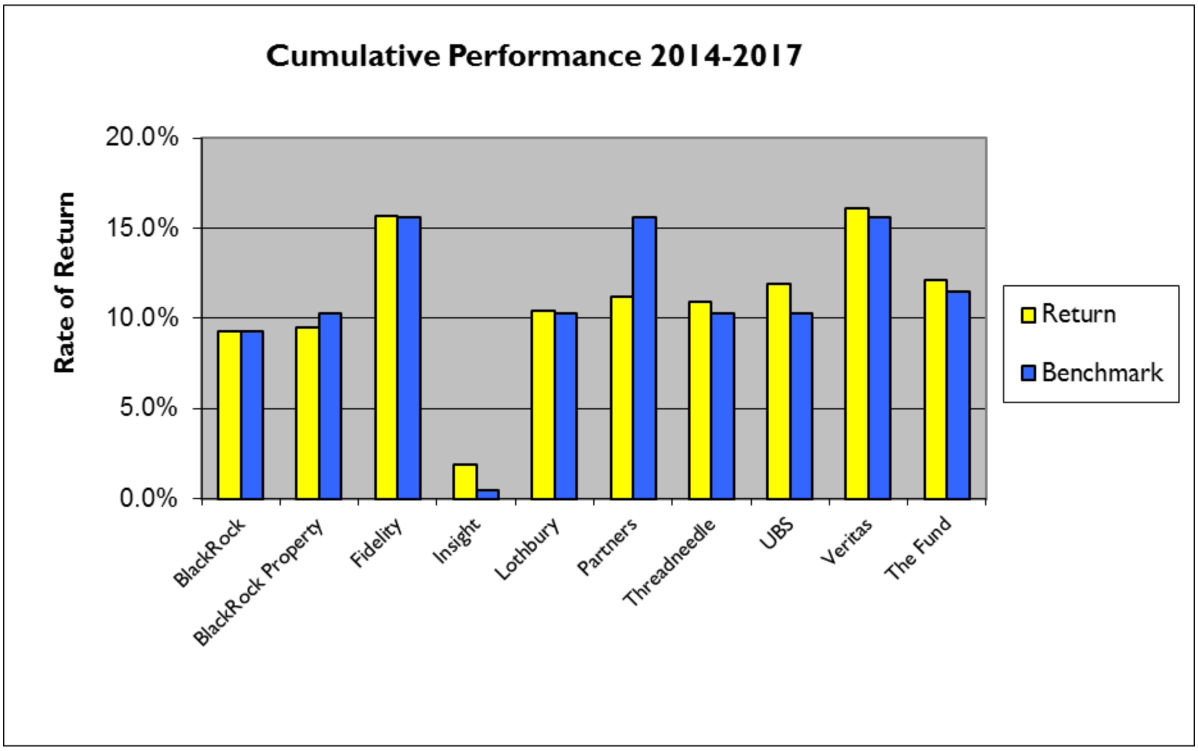
**Partners do not have an official performance target. The target stated above is purely for indicative purposes.*
MSCI=Morgan Stanley Capital International

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

Fund Performance
Against the benchmark, the Fund underperformed by 0.6% during the 2017/18 financial year. The Fund achieved a return of +3.0% against a benchmark return 3.6%. The Fund was in-line with the benchmark over three years, with a return of +8.3%. Over a five year period the Fund outperformed against the benchmark, with a return of +9.4% against a benchmark return of +8.8%.

The following graphs and table show the performance of the Managers over 1 and 3 years.





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

	1 Year Return	1 Year Benchmark	3 Year Return	3 Year Benchmark
BlackRock	25.3%	25.3%	9.3%	9.3%
BlackRock Property	3.5%	3.7%	9.5%	10.3%
Fidelity	30.7%	32.3%	15.7%	15.6%
Insight	3.7%	0.4%	1.9%	0.5%
Lothbury	4.8%	3.7%	10.4%	10.3%
Partners	23.5%	32.3%	29.4%	15.6%
Threadneedle	3.6%	3.7%	10.9%	10.3%
UBS	4.1%	3.7%	11.9%	13.0%
Veritas	26.2%	32.2%	16.1%	15.6%
TOTAL FUND	**22.1%**	**22.2%**	**12.1%**	**11.5%**

6.8 Funding Strategy Statement

General

Local Government Pension Scheme (LGPS) administering authorities are required to prepare and publish a Funding Strategy Statement (FSS).

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

Reviewing the FSS

The FSS was reviewed during 2016/17 as part of the 31 March 2016 Actuarial Valuation process. The review process involved consultation with all the Fund's employers and the Fund's Actuary. The current FSS was adopted by the Pensions Committee on 16th March 2017.

A copy can be seen on the Pension Fund website at
http://www.gwyneddpensionfund.org.uk/Pensiynau/pens_dogfen.asp?cat=6161&doc=30465&Language=1&p=1&c=1

6.9 Knowledge and Skills Framework

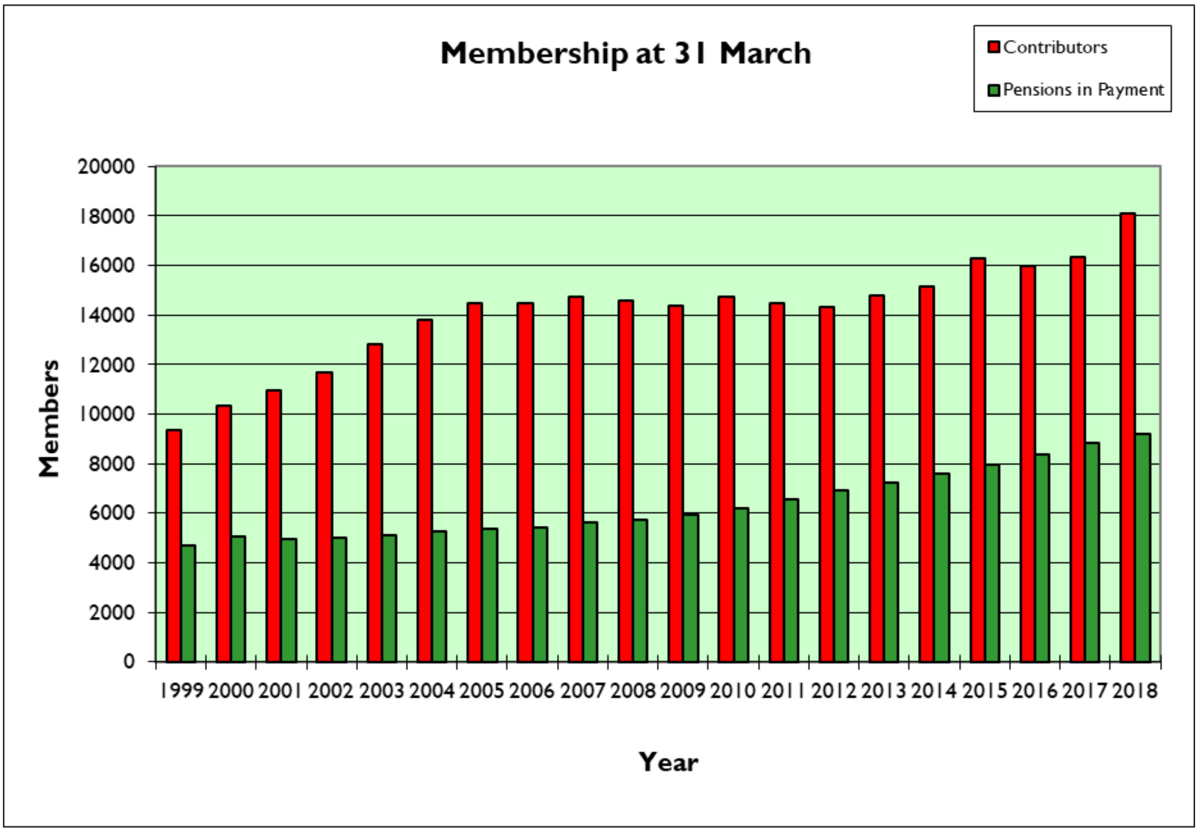
The Pensions Committee has formally adopted the following knowledge and skills policy statement:

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

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

7. Membership Summary

The graph below shows the changes in the Fund's membership over the last 20 years. It shows that the number of pensioners has slowly increased from 4,689 in 1999 to 9,199 in 2018 and the number of active contributors has also increased from 9,372 in 1999 to 18,090 in 2018 which is a significant increase from the previous year (2017:16,327).



The table below shows the membership summary:

31 March 2017	Description	31 March 2018
16,327	Contributors	18,090
10,669	Deferred Pensioners	11,315
8,819	Pensions in Payment	9,199
1,437	Unclaimed Benefits	1,470
37,252	**Total Membership**	**40,074**

8. Statement of Accounts

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE PENSION FUND'S RESPONSIBILITIES

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

THE HEAD OF FINANCE'S RESPONSIBILITIES

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

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

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

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2018 and the Pension Fund's income and expenditure for the year then ended.

27 September 2018

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

GWYNEDD PENSION FUND ACCOUNTS
2017/18

THE FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

31 March 2017 £'000		Notes	31 March 2018 £'000
	Dealings with members, employers and others directly involved in the Fund		
67,695	Contributions	7	82,302
7	Interest on deferred contributions		1
2	Income from divorce calculations		1
0	Income from transfer value calculations		1
5,893	Transfers in from other pension funds	8	4,360
73,597	**Total contributions received**		**86,665**
(53,982)	Benefits paid or payable	9	(53,911)
(3,970)	Payments to and on account of leavers	10	(2,306)
(57,952)	**Total benefits paid**		**(56,217)**
(11,641)	Management Expenses	11	**(13,367)**
	Returns on Investments		
12,886	Investment income	14	15,155
(378)	Taxes on income	15	(252)
322,316	Profit and (loss) on disposal of investments and changes in the market value of investments	16	41,758
334,824	**Returns on investments net of tax**		**56,661**
338,828	**Increase in the net assets available for benefits during the year**		**73,742**
	Net assets of the Fund		
1,525,405	At 1 April		1,864,233
338,828	Increase in net assets		73,742
1,864,233			**1,937,975**

NET ASSETS STATEMENT AS AT 31 MARCH 2018

31 March 2017 £'000		Notes	31 March 2018 £'000
1,798,325	Investment assets	16	1,859,635
49,248	Cash deposits	16	44,352
1,847,573	**Total Investment assets**		**1,903,987**
(235)	Investment liabilities	16	(4,690)
20,984	Current assets	21	42,626
(4,089)	Current liabilities	22	(3,948)
1,864,233			**1,937,975**

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2016) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

b) Membership

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

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

NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GWE	NWTRA
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Trefriw Community Council (joined 1 June 2017)	
Admission Bodies	
Adult Learning Wales (previously Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice	Careers Wales North West
Ynys Môn Citizens Advice	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transferee Admission Bodies	
ABM Catering	Caterlink
Superclean 1	Dawnus (joined 1 April 2017)

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ended 31 March 2018. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2017 to 31 March 2020 following the actuarial valuation carried out as at 31 March 2016.

NOTE 1 – DESCRIPTION OF FUND (continued)

d) Benefits

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

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

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

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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 due after the end of the financial year or the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

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

Transfers into the Fund from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets statement

g) Financial assets

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

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

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

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

iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:

- Unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property are valued at the net asset value or a single price advised by the Fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

h) Foreign currency transactions

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Cash and cash equivalents

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

j) Financial liabilities

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

k) Actuarial present value of promised retirement benefits

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

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

l) Additional voluntary contributions

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

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

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2018 was £104 million (£110 million at 31 March 2017).

Pension fund liability

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

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

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

The items in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £104 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE REPORTING DATE

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

NOTE 7 – CONTRIBUTIONS

By category

2016/17 £'000		2017/18 £'000
52,439	Employers	66,372
15,256	Employees/Members	15,930
67,695		**82,302**

By authority

2016/17 £'000		2017/18 £'000
23,210	Gwynedd Council	29,868
40,231	Other scheduled bodies	48,301
1,514	Admission bodies	1,674
2,215	Community admission bodies	1,957
252	Transferee admission bodies	206
219	Resolution bodies	242
54	Closed fund*	54
67,695		**82,302**

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

By contribution

2016/17 £'000		2017/18 £'000
15,256	Employees' normal contributions	15,930
46,570	Employers' normal contributions	47,186
5,869	Employers' deficit recovery contributions	19,186
67,695		**82,302**

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2016/17 £'000		2017/18 £'000
1,315	Group transfers	0
4,578	Individual transfers	4,360
5,893		**4,360**

NOTE 9 - BENEFITS PAID

By category

2016/17 £'000		2017/18 £'000
41,081	Pensions	42,708
11,093	Commutation and lump sum retirement benefits	9,670
1,808	Lump sum death benefits	1,533
53,982		**53,911**

By authority

2016/17 £'000		2017/18 £'000
15,233	Gwynedd Council	15,454
25,701	Other scheduled bodies	26,173
1,561	Admission bodies	1,615
1,095	Community admission body	812
173	Transferee admission body	42
58	Resolution body	70
10,161	Closed fund	9,745
53,982		**53,911**

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £'000		2017/18 £'000
103	Refunds to members leaving service net of tax repayments	143
11	Payments for members joining state scheme	5
3,856	Individual transfers	2,158
3,970		**2,306**

NOTE 11 – MANAGEMENT EXPENSES

2016/17 £'000		2017/18 £'000
1,242	Administrative costs	1,261
10,343	Investment management expenses (Note 13)	12,046
56	Oversight and governance costs	60
11,641		**13,367**

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

NOTE 12 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2016/17		2017/18
£'000		**£'000**
	Administrative costs	
486	Direct employee costs	514
293	Other direct costs	264
303	Support services, including IT	357
33	External audit fees	34
128	Actuarial fees	92
1,243		**1,261**
	Oversight and governance costs	
55	Pensions Committee and Local Pension Board	60
1,298		**1,321**

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

NOTE 13 – INVESTMENT MANAGEMENT EXPENSES

2016/17		2017/18
£'000		**£'000**
10,258	Management fees	11,933
45	Custody fees	50
3	Performance monitoring service	8
37	Investment consultancy fees	55
10,343		**12,046**

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment funds.

The investment management expenses above include £22,562 (2016/17 £322,972) in respect of performance-related fees paid to one of the Fund's investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 14 – INVESTMENT INCOME

2016/17		2017/18
£'000		£'000
6,832	Equity dividends	7,662
1,239	Private equity income	544
207	Infrastructure income	1,201
4,475	Pooled property investments	5,256
133	Interest on cash deposits	492
12,886		**15,155**

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

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

NOTE 15 – TAXES ON INCOME

2016/17		2017/18
£'000		£'000
378	Withholding tax – equities	252
378		**252**

NOTE 16 – INVESTMENTS

2016/17		2017/18
£'000		£'000
	Investment assets	
236,625	Fixed interest absolute return	292,050
345,284	Equities	337,188
963,262	Pooled equity investments	961,611
142,448	Pooled property investments	159,044
82,023	Private equity	76,137
28,053	Infrastructure	28,173
1,797,695		**1,854,203**
49,248	Cash deposits	44,352
630	Amount receivable from sales of investments	5,432
1,847,573	**Total investment assets**	**1,903,987**
	Investment liabilities	
(235)	Amounts payable for purchases	(4,690)
(235)	**Total investment liabilities**	**(4,690)**
1,847,338	**Net investment assets**	**1,899,297**

Note 16a – Reconciliation of movements in investments and derivatives

2017/18	Market value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	236,625	134,950	(79,950)	425	292,050
Equities	345,284	79,717	(89,912)	2,099	337,188
Pooled investments	963,262	4,840	(22,637)	16,146	961,611
Pooled property investments	142,448	13,488	(5,802)	8,910	159,044
Private equity / infrastructure	110,076	15,913	(27,847)	6,168	104,310
	1,797,695	248,908	(226,148)	33,748	1,854,203
Cash deposits	49,248			188	44,352
Amount receivable from sales of investments	630				5,432
Amounts payable for purchases of investments	(235)				(4,690)
Fees within pooled vehicles				7,822	
Net investment assets	**1,847,338**			**41,758**	**1,899,297**

2016/17	Market value at 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	198,845	30,000	0	7,780	236,625
Equities	269,784	73,681	(76,100)	77,919	345,284
Pooled investments	746,944	15,347	(13,492)	214,463	963,262
Pooled property investments	157,734	18,373	(31,465)	(2,194)	142,448
Private equity / infrastructure	81,540	29,118	(18,212)	17,630	110,076
	1,454,847	166,519	(139,269)	315,598	1,797,695
Cash deposits	42,631			(387)	49,248
Amount receivable for sales of investments	383			(4)	630
Amounts payable for purchases of investments	(64)			(1)	(235)
Fees within pooled vehicles				7,110	
Net investment assets	**1,497,797**			**322,316**	**1,847,338**

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £103,937 (2016/17 £171,393). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

Note 16b – Analysis of investments

31 March 2017 £'000		31 March 2018 £'000
	Equities	
37,453	UK quoted	35,413
307,832	Overseas Quoted	301,775
	Pooled funds	
236,625	Fixed Income Unit Trust	292,050
301,034	UK Unit trusts quoted	305,111
306,567	Overseas Unit trusts	319,205
355,661	Global Unit trusts (including UK)	337,295
142,447	**Pooled property unit trusts**	159,044
82,023	**Private equity**	76,137
28,053	**Infrastructure**	28,173
1,797,695		**1,854,203**

Investments analysed by fund manager

Market Value at 31 March 2017 £'000	%		Market Value at 31 March 2018 £'000	%
601,837	32.6	BlackRock	618,768	32.6
399,686	21.6	Fidelity	384,762	20.3
236,632	12.8	Insight	292,053	15.4
39,599	2.1	Lothbury	50,372	2.6
110,076	6.0	Partners Group	104,310	5.5
16,476	0.9	Threadneedle	18,149	1.0
48,112	2.6	UBS	48,604	2.5
394,920	21.4	Veritas	382,279	20.1
1,847,338	**100.0**		**1,899,297**	**100.0**

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

Market value 31 March 2017	% of total Fund	Security	Market value 31 March 2018	% of total Fund
£'000			£'000	
355,661	19.08	Fidelity Institutional Select Global Equity	337,295	17.40
301,033	16.15	Aquila Life UK Equity Index Fund	305,110	15.74
236,625	12.69	Insight Umbrella Holdings	0	0
0	0	Insight LDI Solutions Plus Bonds	292,050	15.07
129,078	6.92	Aquila Life Global Dev Fundamental Fund	129,689	6.69

Note 16c – Stock lending

The Statement of Investment Principles (SIP) states that stock lending will be permitted subject to specific approval. Currently the Fund does not undertake any stock lending.

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

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

As at 31 March 2017				As at 31 March 2018		
Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at cost**		**Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial assets			
345,284			Equities	337,188		
1,199,887			Pooled investments	1,253,661		
142,448			Pooled property investments	159,044		
82,023			Private equity	76,137		
28,053			Infrastructure	28,173		
	64,623		Cash		79,923	
	0		Foreign Currency		1,468	
	6,188		Debtors		11,019	
1,797,695	**70,811**	**0**		**1,854,203**	**92,410**	**0**
			Financial liabilities			
		(4,273)	Creditors			(8,638)
		(4,273)				**(8,638)**
1,797,695	**70,811**	**(4,273)**		**1,854,203**	**92,410**	**(8,638)**

Note 17b – Net gains and losses on financial instruments

31 March 2017		31 March 2018
Fair value		**Fair value**
£'000		£'000
	Financial assets	
315,598	Fair value through profit and loss	33,748
(392)	Loans and receivables	188
315,206	**Total financial assets**	**33,936**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	**Total financial liabilities**	**0**
315,206	**Net financial assets**	**33,936**

Note 17c – Fair value of financial instruments and liabilities

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

31 March 2017 Carrying value £'000	31 March 2017 Fair value £'000		31 March 2018 Carrying value £'000	31 March 2018 Fair value £'000
		Financial assets		
1,120,845	1,797,695	Fair value through profit and loss	1,210,252	1,854,203
70,815	70,811	Loans and receivables	92,372	92,410
1,191,660	**1,868,506**	**Total financial assets**	**1,302,624**	**1,946,613**
		Financial liabilities		
(235)	(235)	Fair value through profit and loss	(4,675)	(4,690)
(4,038)	(4,038)	Financial liabilities at cost	(3,948)	(3,948)
(4,273)	**(4,273)**	**Total financial liabilities**	**(8,623)**	**(8,638)**
1,187,387	**1,864,233**	**Net financial assets**	**1,294,001**	**1,937,975**

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

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

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

Level 1

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

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments could include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

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

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 £'000
Financial assets				
Financial assets at fair value through profit and loss	332,498	1,318,419	203,286	1,854,203
Loans and receivables	92,410	0	0	92,410
Total financial assets	**424,908**	**1,318,419**	**203,286**	**1,946,613**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,690)	0	(4,690)
Financial liabilities at cost	(3,948)	0	0	(3,948)
Total financial liabilities	**(3,948)**	**(4,690)**	**0**	**(8,638)**
Net financial assets	**420,960**	**1,313,729**	**203,286**	**1,937,975**

Values at 31 March 2017	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	345,285	1,302,735	149,675	1,797,695
Loans and receivables	70,811	0	0	70,811
Total financial assets	**416,096**	**1,302,735**	**149,675**	**1,868,506**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(235)	0	(235)
Financial liabilities at cost	(4,038)	0	0	(4,038)
Total financial liabilities	**(4,038)**	**(235)**	**0**	**(4,273)**
Net financial assets	**412,058**	**1,302,500**	**149,675**	**1,864,233**

The figures at 31 March 2017 have been changed to match the method used at 31 March 2018

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

Risk and risk management

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

Other price risk

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

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

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

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

Other price risk – sensitivity analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

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

Asset type	Potential market movement (+/-)	
	31 March 2017	31 March 2018
	%	%
UK Equities	15.8	16.8
Global Equities	18.4	17.9
Private Equity	28.5	28.3
Absolute Return Bonds	2.9	2.8
Alternatives (Infrastructure)	11.3	20.1
Property	14.2	14.3
Cash	0.0	0.0
Whole Fund	12.8	12.6

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

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

Asset type	Value as at 31 March 2018 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	340,524	16.8	397,732	283,316
Global Equities	958,275	17.9	1,129,806	786,744
Private Equity	76,137	28.3	97,684	54,590
Absolute Return Bonds	292,050	2.8	300,227	283,873
Alternatives (Infrastructure)	28,173	20.1	33,837	22,511
Property	159,044	14.3	181,787	136,300
Cash	44,352	0.0	44,352	44,352
Total assets available to pay benefits	**1,898,555**	**12.6***	**2,137,773**	**1,659,337**

* The whole fund values in the table above are based on 12.6% rather than the total of the individual asset types.

Asset type	Value as at 31 March 2017 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	338,486	15.8	391,966	285,005
Global Equities	970,060	18.4	1,148,552	791,569
Private Equity	82,023	28.5	105,399	58,646
Absolute Return Bonds	236,625	2.9	243,487	229,763
Alternatives (Infrastructure)	28,053	11.3	31,223	24,883
Property	142,448	14.2	162,676	122,220
Cash	49,248	0.0	49,248	49,248
Total assets available to pay benefits	**1,846,943**	**12.8***	**2,083,352**	**1,610,534**

* The whole fund values in the table above are based on 12.8% rather than the total of the individual asset types.

Interest rate risk

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

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

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

Asset type	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Cash and cash equivalents	15,375	37,038
Cash balances	49,248	44,352
Fixed interest securities	236,625	292,050
Total	**301,248**	**373,440**

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

Interest rate risk sensitivity analysis

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

Asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	37,038	370	(370)
Cash balances	44,352	444	(444)
Fixed interest securities*	292,050	2,658	(2,658)
Total change in assets available	**373,440**	**3,472**	**(3,472)**

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

Asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	15,375	154	(154)
Cash balances	49,248	492	(492)
Fixed interest securities*	236,625	(1,538)	1,538
Total change in assets available	**301,248**	**(892)**	**892**

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.43%, amounting to interest of £127,666 for the year.

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

Currency risk

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

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

The Fund has made commitments to private equity and infrastructure in foreign currency, (€214 million and $88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

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

Currency exposure - asset type	**As at 31 March 2017 £'000**	**As at 31 March 2018 £'000**
Overseas and Global Equities	970,060	958,275
Global Fixed Income	236,625	292,050
Overseas Alternatives (Private Equity and infrastructure)	110,076	104,310
Overseas Property	3,636	1,808
Overseas Currency	0	1,468
Total overseas assets	**1,320,397**	**1,357,911**

Currency risk – sensitivity analysis

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

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2018. The equivalent rate for the year ended 31 March 2017 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

The tables below show a breakdown of the Fund's exposure to individual currencies as at March 31, 2018 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	958,275	1,054,103	862,448
Global Fixed Income	292,050	321,255	262,845
Overseas Alternatives (Private Equity and infrastructure)	104,310	114,741	93,879
Overseas Property	1,808	1,989	1,628
Overseas Currency	1,468	0	0
Total change in assets available	**1,357,911**	**1,492,088**	**1,220,800**

Currency exposure - by asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	970,060	1,067,066	873,054
Global Fixed Income	236,625	260,288	212,963
Overseas Alternatives (Private Equity and infrastructure)	110,076	121,084	99,068
Overseas Property	3,636	4,000	3,273
Overseas Currency	0	0	0
Total change in assets available	**1,320,397**	**1,452,438**	**1,188,358**

b) Credit risk

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

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

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

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

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	19.0%
Veritas	19.0%
Insight	15.0%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Partners Group	7.5%

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

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

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2018 was £37.0m (£15.4m at 31 March 2017).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 27.

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

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

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

c) Liquidity risk

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

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

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2018 the value of illiquid assets was £202m, which represented 10.5% of the total Fund assets (31 March 2017: £198m, which represented 10.6% of the total Fund assets).

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

All financial liabilities at 31 March 2018 are due within one year as was the case at 31 March 2017.

Refinancing risk

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

NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (Funding Strategy Statement) reviewed as part of the 2016 valuation.

The key elements of the funding policy are:

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

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 66% chance that the Fund will return to full funding over the 20 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,525 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £145 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2017.

NOTE 19 – FUNDING ARRANGEMENTS (continued)

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	**31 March 2016**
Discount rate	3.9%
Salary increase	2.1%
Benefit increase	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Mortality assumption	**Male Years**	**Female Years**
Current pensioners	22.0	24.2
Future pensioners (aged 45 at the 2016 valuation)	24.0	26.4

Copies of the 2016 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwyneddpensionfund.org.uk

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2018.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

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

The actuarial present value of promised retirement benefits at 31 March 2018 and 2017 are shown below:

	31 March 2017 £m	31 March 2018 £m
Active members	1,214	1,378
Salary increase rate	246	385
Discount rate	514	718
Total	**1,974**	**2,481**

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

Assumptions used

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

Assumption	31 March 2017 %	31 March 2018 %
Inflation/pension increase rate	2.4	2.4
Salary increase rate	2.4	2.4
Discount rate	2.6	2.7

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

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

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

Sensitivity to the assumptions for the year ended 31 March 2018	**Approximate % increase to liabilities** %	**Approximate monetary amount** £m
0.5% p.a. increase in the pension increase rate	8	208
0.5% p.a. increase in the salary increase rate	2	52
0.5% p.a. decrease in the discount rate	11	278

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

NOTE 21 – CURRENT ASSETS

2016/17		2017/18
£'000		**£'000**
820	Contributions due - employees	842
2,845	Contributions due – employers	2,508
1,944	Sundry debtors	2,238
5,609	**Total debtors**	**5,588**
15,375	Cash	37,038
20,984	**Total**	**42,626**

Analysis of debtors

2016/17		2017/18
£'000		**£'000**
2,352	Gwynedd Council	2,111
560	Central government bodies	713
1,209	Other local authorities	1,074
3	NHS bodies	7
1,485	Other entities and individuals	1,683
5,609	**Total**	**5,588**

NOTE 22 – CURRENT LIABILITIES

2016/17		2017/18
£'000		**£'000**
2,591	Sundry creditors	2,370
282	Transfer value payable (leavers)	0
1,216	Benefits payable	1,578
4,089	**Total**	**3,948**

Analysis of creditors

2016/17		2017/18
£'000		**£'000**
1,051	Gwynedd Council	1,317
37	Central government bodies	70
138	Other Local Authorities	69
58	NHS bodies	0
2,805	Other entities and individuals	2,492
4,089	**Total**	**3,948**

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2017 £'000	Market value at 31 March 2018 £'000
Clerical Medical	3,349	3,506
Equitable Life	229	226
Standard Life	53	70
Total	**3,631**	**3,802**

AVC contributions were paid directly to the three managers as follows:

	2016/2017 £'000	2017/2018 £'000
Clerical Medical	561	591
Equitable Life	0	0
Standard Life	0	13
Total	**561**	**604**

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The Council incurred costs of £1,056,813 (£1,008,589 in 2016/17) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the pension fund and contributed £29.87m to the Fund in 2017/18 (£23.21m in 2016/17). At the end of the year the Council owed £2.11m to the Fund (see Note 21) which was primarily in respect of contributions for

March 2018 and the Fund owed £1.32m to the council (see Note 22) which was primarily in respect of recharges from the Council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2017/18, the Fund received interest of £127,666 (£132,567 in 2016/17) from Gwynedd Council.

Governance

There were three members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2017/18 (committee members J.B. Hughes, P. Jenkins and the late T.O. Edwards). In addition, committee members S.W. Churchman, D. Cowans, S. Glyn, J.B. Hughes, A.W. Jones, H.E. Jones, W.T. Owen, and P. Read were active members of the Pension Fund.

NOTE 24 - RELATED PARTY TRANSACTIONS (continued)

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2017/18 (Board member H.E. Jones and S. Warnes). In addition, Board members A.W. Deakin, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the Pension Fund.

Key Management Personnel

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

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

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2017	Commitment at 31 March 2018
	€'000	**€'000**	**€'000**
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	3,372	2,712
P.G. Global Infrastructure 2012	40,000	15,894	12,133
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	4,638	4,109
P.G Direct 2016	50,000	34,373	29,374
Total Euros	**214,000**	**65,671**	**55,722**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	7,000	1,623	1,225
P.G Secondary 2015	38,000	32,723	29,150
P.G Direct Infrastructure 2015	43,600	35,219	30,896
Total Dollars	**88,600**	**69,565**	**61,271**

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

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

NOTE 26 – CONTINGENT ASSETS

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

NOTE 27 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts

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

b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2018.

NOTE 28 - PENSION FUND PUBLICATIONS

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

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

Copies can be obtained from the Pension Fund website www.gwyneddpensionfund.org.uk on the investment page or by contacting Mrs Caroline Roberts on 01286 679128.