



# Complete Agenda

**Democratic Service**  
Swyddfa'r Cyngor  
CAERNARFON  
Gwynedd  
LL55 1SH

Meeting

**PENSIONS COMMITTEE**

Date and Time

**2.00 pm, WEDNESDAY, 17TH NOVEMBER, 2021**

Location

**Virtual Meeting**

Contact Point

**Lowri Haf Evans**

**01286 679878**

**[lowrihafevans@gwynedd.llyw.cymru](mailto:lowrihafevans@gwynedd.llyw.cymru)**

(DISTRIBUTED 09/11/21)

# **PENSIONS COMMITTEE**

## **MEMBERSHIP (7)**

### **Plaid Cymru (4)**

Councillors

Aled Wyn Jones  
Simon Glyn

Peredur Jenkins

Ioan Thomas

### **Independent (2)**

Councillors

John Brynmor Hughes

John Pughe Roberts

### **Individual Member (1)**

Councillor Stephen Churchman

### **Co-opted Members**

Councillor Robin Wyn Williams    Isle of Anglesey County Council  
Councillor Goronwy Owen Edwards    Conwy County Borough Council

### **Ex-officio Members**

Chair and Vice-Chair of the Council

# **A G E N D A**

## **1. APOLOGIES**

To receive any apologies for absence

## **2. DECLARATION OF PERSONAL INTEREST**

To receive any declaration of personal interest

## **3. URGENT ITEMS**

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

## **4. MINUTES**

4 - 6

The Chairman shall propose that the minutes of the meeting of this committee held on 21 October 2021 to be signed as a true record

## **5. GWYNEDD PENSION FUND'S FINAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021 AND RELEVANT AUDIT**

7 - 69

Submit –

- Statement of Accounts post- Audit;
- Wales Audit 'ISA260' report;
- Letter of Representation (Appendix 1)

To consider and approve the information

## **6. OBJECTIVES FOR INVESTMENT CONSULTANTS REVIEW**

70 - 73

To consider the report, note progress and approve future objectives

## **7. TREASURY MANAGEMENT 2021 - 2022 MID YEAR REVIEW**

74 - 81

To consider the report for information

# Agenda Item 4

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## PENSIONS COMMITTEE 21-10-21

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Present:

Councillors: Stephen Churchman, Peredur Jenkins, Aled Wyn Jones, John Pughe Roberts, Ioan Thomas and Robin Williams (Isle of Anglesey Council)

Officers:

Dafydd Edwards (Head of Finance Department), Delyth Jones-Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

Others invited:

Sioned Parry (observing – Pensions Board Member)

### 1. **APOLOGIES**

Apologies were received from Councillors Goronwy Edwards (Conwy County Borough Council), Simon Glyn and John Brynmor Hughes

### 2. **DECLARATION OF PERSONAL INTEREST**

None to note

### 3. **URGENT ITEMS**

None to note

### 4. **MINUTES**

The Chair accepted the minutes of the meeting held on 24 June 2021, as a true record.

### 5. **GOVERNANCE POLICY STATEMENT**

Submitted - the report of the Pensions Manager, highlighting the requirement for the Fund to publish a Governance and Compliance Statement under Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) and to review that statement on an ongoing basis. The purpose of the statement is to set out the Fund's Governance Structure, the scheme of delegation, and the terms of reference for its Governing Bodies, the Pensions Committee and the Local Pension Board.

He stated that the current statement had been in force since 2008 and that the service had been reviewing and updating the statement in preparation for the Scheme Advisory Board's Good Governance Project that would come into force in April 2022. He explained that the main changes included providing more information on the functions and responsibilities of pension fund staff and also introducing a new part to the policy in relation to the role and responsibilities of the Pension Board. It was reported that the Statement had been submitted to the Pension Board in July 2021 and that the Board had made observations.

Members thanked the officer for the report, and agreed with the requirement to comply with the Regulations and report on the current situation.

During the ensuing discussion, the following observations were made by members:

- That information should be included about the Wales Pension Partnership, considering that they were responsible for the Gwynedd Fund's activity.
- That the responsibilities of the Head of Finance needed to be updated.
- That the word 'some' in the sentence 'make some decisions in the context of administrating pensions' was vague - there was a need to use wording that explained this better.
- That reference was made to training for Pension Board members, but not for the Pensions Committee

In response to the observations that the wording 'broadly compliant' was an ambiguous statement, it was noted that the current structure did not allow for full compliance. It was reiterated that the Wales Pension Partnership had considered the situation, and reported that it was possible to revisit the structure just before the 2022 Election, as well as the likely introduction of new regulations. It was suggested that the wording 'broadly compliant' should be kept, and for it to be reviewed if any changes occurred

#### **RESOLVED:**

##### **To accept the report**

##### **To approve the Governance Policy Statement subject to including the following amendments**

- **To add a paragraph highlighting the powers delegated by the Council to the Wales Pension Partnership**
- **To amend sentence 4 (Main responsibilities of the Committee) to note *To make some decisions in the context of administrating pensions, in exceptions e.g. appeals***
- **To update the responsibilities of the Chief Finance Officer to highlight the interim arrangements for the period from 01/01/22**
- **To add a note highlighting the training requirements of the Pensions Committee members (as has already been highlighted for Pension Board members)**
- **To continue with the statement '*broadly compliant*' and review the statement if changes are made to the structure of the regulatory procedure**

## **6. VALUATION TIMETABLE 2022**

A report was submitted by the Head of Finance, setting a timetable for valuating the Pension Fund, based on the membership as at 31 March 2022, with new employer contribution rates coming into force on 1 April 2022. The purpose of a valuation was to assess the financial position of the Fund, note the forecasts for inflation and gains on investments in the future and review the employer contribution rates.

Following a discussion at a preliminary meeting with Hymans Robertson, the proposed dates were decided upon. As the exercise was one that took place over a long period of time, it was resolved to set a timetable. Reference was made to the different steps that needed to be actioned, with a proposal for two training days with Hymans so that Members could receive full technical information.

It was noted that the period was a challenging and busy time for the Pension Service, with additional work to be done to finish preparing and submitting clean and accurate information in order to ensure that the outcome of the valuation was as accurate as possible for each employer. Nevertheless, the timetable was considered to be achievable.

The members expressed their thanks for the report.

During the ensuing discussion, the following observations were made by members:

- That setting a timetable summarised the procedure effectively
- That holding training was to be welcomed and that the suggestion of holding training on the day of the valuation was useful, considering that the information was so technical.
- Staff were thanked for their professional attitude and for their praiseworthy work

In response, the Head of Finance noted that it was intended to hold one training session after the final projections were completed (January 2022), followed by a session in October 2022 when publishing the employers' results and updating the Funding Strategy Statement.

## **RESOLVED**

### **To accept and note the information**

#### **7. WALES PENSION PARTNERSHIP UPDATE**

The Investment Manager submitted a report, providing a formal update to members on the developments of the Wales Pension Partnership (WPP). It was reported that the collaboration continued to go from strength to strength since it had been established in 2017 and by 31 March 2021, 81% of Gwynedd's fund had been pooled with the WPP. It was noted that the performance was 'very satisfactory' with a number of developments in the pipeline, including the transfer of a proportion of Emerging Markets from Fidelity to the WPP fund. This would bring the total of Gwynedd's pooled investments to 83%.

It was noted that the Fund was performing substantially higher than the benchmark on a regular basis; that the Investment Panel meetings were a good opportunity to question and challenge Managers; and although the Covid situation had been a global crisis, markets were performing strongly.

The next step in the process would be to look at the options of pooling assets to the Private Market category, which was being undertaken with the support of Hymans Robertson, with ongoing discussions taking place to determine the appropriate structure and mechanism to invest in. It was reported that a specialist appointing advisor had been appointed to assist WPP to appoint suitable investment managers to manage the private markets allocation and that a further tender had been released to appoint a suitable manager for infrastructure and private debt.

In the context of a member representative on the Joint Governance Committee, it was noted that each constituent authority was currently submitting amendments to the Inter-Authority Agreement which required the approval of each Full Council - the amendments were approved by Gwynedd Council on 7 October 2021.

Gratitude was expressed for the report and to all staff associated with the work

The Chair noted that the WPP was a successful and effective fund with very acceptable returns. It was reiterated that the position of the Wales fund, compared to others across the UK, was very strong and that the good collaboration was an obvious part of the success.

During the ensuing discussion, the following observations were made by members:

- That the report noted performance that was 'safonol iawn' in the Welsh version, but noted '*very satisfactory*' in English, which appeared to be a better description of the situation / performance - need to reconsider the Welsh turn of phrase.
- That the transfers to date had been very encouraging - the remaining transfers would pose the greatest challenges.

**RESOLVED**

**To accept and note the information**

The meeting commenced at 13:00 and concluded at 13:45

|                |  |
|----------------|--|
| MEETING        | <b>PENSIONS COMMITTEE</b>  |
| DATE           | <b>17 NOVEMBER 2021</b>  |
| TITLE          | <b>Gwynedd Pension Fund's Final Accounts for the year ended 31 March 2021 and relevant Audit</b>   |
| PURPOSE        | <b>To Submit –</b> <ul style="list-style-type: none"><li>• <b>Statement of Accounts post- Audit;</b></li><li>• <b>Audit Wales 'ISA260' report ;</b></li><li>• <b>Letter of Representation (Appendix 1)</b></li></ul> |
| RECOMMENDATION | <b>Approve the information</b>   |
| AUTHOR         | <b>Dafydd L Edwards, Head of Finance</b>   |

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**1. ACCOUNTS FOR 2020/21**

The Gwynedd Pension Fund's statutory 2020/21 Statement of Accounts (post audit) are attached here, providing details of the Fund's financial activities during the year which ended on 31 March 2021.

**2. AUDIT BY AUDIT WALES**

These accounts have been audited by Audit Wales, and the 'ISA 260' report is presented here on behalf of the Auditor General for Wales, detailing the audit's findings.

**3. RECOMMENDATION**

**The Pensions Committee is asked to approve -**

- the Statement of Accounts for 2020/21 (post-audit)
- the 'ISA 260' report by Audit Wales in respect of Gwynedd Pension Fund
- the Letter of Representation.

**4. PENSION FUND ANNUAL GENERAL MEETING**

Gwynedd Pension Fund's Statement of Accounts will also be presented formally to all employers at the Pension Fund's Annual General Meeting on 25<sup>th</sup> November 2021.



# **Gwynedd Pension Fund**

## **STATEMENT OF ACCOUNTS 2020/21**

# **NARRATIVE REPORT**

## **Introduction**

Gwynedd Pension Fund's accounts and notes for the year 2020/21 are presented here on pages 4 to 42.

The accounts consist of the Gwynedd Pension Fund Account and Net Assets Statement.

These accounts are supported by this Narrative Report, the Accounting Policies and various notes to the accounts.

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of all the Fund's employers, including Anglesey, Conwy and Gwynedd Councils, Snowdonia National Park Authority, Police and Crime Commissioner for North Wales, Cartrefi Conwy, Adra, various town and community councils, and other scheduled and admitted bodies.

The Covid-19 pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Gwynedd Pension Fund on 31st March 2020 included a statement that there is a material valuation uncertainty related to the UK property funds managed on behalf of the Fund. No material uncertainties in property valuations are being reported as at 31 March 2021.

The Statement of Accounts and further information is available on Gwynedd Pension Fund's website [www.gwyneddpensionfund.wales](http://www.gwyneddpensionfund.wales).

The Fund has two important statements which set out the strategies for ensuring pensions are funded now and in the future as follows:

- Funding Strategy Statement – the statement sets out the fund-specific strategy which will identify how employer pensions liabilities are best met going forward. It is reviewed every three years after the triennial actuarial valuation and includes individual employer rates for the following period.
- Investment Strategy Statement - the statement sets out the types of investments and broad limits on each type of investment.

Both these statements are available on the Fund's website under the investments section.

An Actuarial Valuation is required every three years to establish the level of assets available to pay pensions now and in the future. The most recent valuation was at 31 March 2019 and any changes to employers' contributions were made from 1 April 2020 onwards.

Further information relating to the accounts is available from:

Delyth Jones-Thomas  
Investment Manager  
01286 679128

Finance Department  
Gwynedd Council  
Council Offices  
Caernarfon  
Gwynedd  
LL55 1SH

It is part of the Fund's policy to provide full information relating to the Fund's affairs. In addition, interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection will be notified on the Pension Fund website at the appropriate time.

## **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.

**17<sup>th</sup> November 2021**

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**Pensions Committee Chair**

### **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 2021 and the Pension Fund's income and expenditure for the year then ended.



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

**9<sup>th</sup> November 2021**

**GWYNEDD PENSION FUND ACCOUNTS**  
**2020/21**

**THE FUND ACCOUNT**

| <b>31 March<br/>2020<br/>£'000</b> |   | <b>Notes</b> | <b>31 March<br/>2021<br/>£'000</b> |
|------------------------------------|---|--------------|------------------------------------|
|                                    | <b>Dealings with members, employers and others directly involved in the Fund</b>            |              |                                    |
| 74,416                             | Contributions   | 7            | 78,252                             |
| 5                                  | Other Income  | 8            | 4                                  |
| 4,887                              | Transfers in from other pension funds   | 9            | 3,356                              |
| <b>79,308</b>                      |   |              | <b>81,612</b>                      |
| (62,328)                           | Benefits  | 10           | (62,378)                           |
| (4,669)                            | Payments to and on account of leavers   | 11           | (3,052)                            |
| <b>(66,997)</b>                    |   |              | <b>(65,430)</b>                    |
| <b>12,311</b>                      | <b>Net additions/ (withdrawals) from dealings with members</b>                              |              | <b>16,182</b>                      |
| (13,121)                           | Management Expenses   | 12           | (22,669)                           |
| <b>(810)</b>                       | <b>Net additions/ (withdrawals) including fund management expenses</b>                      |              | <b>(6,487)</b>                     |
|                                    | <b>Returns on investments</b>   |              |                                    |
| 9,318                              | Investment income   | 13           | 30,768                             |
| (151,518)                          | Profit and losses on disposal of investments and changes in the market value of investments | 14           | 565,511                            |
| <b>(142,200)</b>                   | <b>Net returns on investments</b>   |              | <b>596,279</b>                     |
| <b>(143,010)</b>                   | <b>Net Increase/ (Decrease) in the net assets available for benefits during the year</b>    |              | <b>589,792</b>                     |
| <b>2,081,347</b>                   | <b>Opening net assets of the scheme</b>   |              | <b>1,938,337</b>                   |
| <b>1,938,337</b>                   | <b>Closing net assets of the scheme</b>   |              | <b>2,528,129</b>                   |

The notes on pages 6 to 42 form part of these Financial Statements

## NET ASSETS STATEMENT

| 31 March<br>2020<br>£'000 |   | Notes | 31 March<br>2021<br>£'000 |
|---------------------------|---|-------|---------------------------|
| 1,928,515                 | Investment assets   | 14    | 2,515,169                 |
| 783                       | Cash deposits   | 14    | 146                       |
| 0                         | Investment liabilities  | 14    | (126)                     |
| <b>1,929,298</b>          | <b>Total net investments</b>  |       | <b>2,515,189</b>          |
| 11,929                    | Current assets  | 20    | 16,153                    |
| (2,890)                   | Current liabilities   | 21    | (3,213)                   |
| <b>1,938,337</b>          | <b>Net assets of the fund available to fund<br/>benefits at the end of the reporting period</b> |       | <b>2,528,129</b>          |

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 financial 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 2019) 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 19.

# **NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS**

## **NOTE I – 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 2020/21 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 2016.

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 scheduled, 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 I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

| <b>Scheduled Bodies</b>                           |  |
|---|--|
| Gwynedd Council                                   | Snowdonia National Park Authority                |
| Conwy County Borough Council                      | Bryn Elian 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   | North and Mid Wales Trunk Road Agency            |
| North Wales Economic Ambition Board               |  |
| <b>Resolution Bodies</b>                          |  |
| Llanllfni 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                               |
| Llanfairfechan Town Council                       |  |
| <b>Admission Bodies</b>                           |  |
| Adult Learning Wales (formerly Coleg Harlech WEA) | North Wales Society for the Blind                |
| CAIS  | Community and Voluntary Support Conwy            |
| Conwy Citizens Advice Bureau (until 30/04/20)     | Careers Wales North West                         |
| Holyhead Joint Burial Committee                   | Mantell Gwynedd                                  |
| Cwmni Cynnal                                      | Medrwn Môn                                       |
| Cwmni'r Fran Wen                                  | Menter Môn                                       |
| <b>Community Admission Bodies</b>                 |  |
| Cartrefi Conwy                                    | Adra (formerly Cartrefi Cymunedol Gwynedd (CCG)) |
| Byw'n Iach  |  |
| <b>Transferee Admission Bodies</b>                |  |
| ABM Catering                                      | Caterlink  |
| Kingdom Services Group                            | A E & A T Lewis                                  |



## NOTE I – DESCRIPTION OF FUND (continued)

Membership details are set out below:

|  | 31<br>March<br>2020 | 31<br>March<br>2021 |
|--|---------------------|---------------------|
| Number of employers                              | 47                  | 46                  |
| <b>Number of employees in scheme</b>             |                     |                     |
| County Council                                   | 14,656              | 14,518              |
| Other employers                                  | 3,926               | 3,777               |
| <b>Total</b>                                     | <b>18,582</b>       | <b>18,295</b>       |
| <b>Number of pensioners</b>                      |                     |                     |
| County Council                                   | 8,562               | 8,902               |
| Other employers                                  | 1,767               | 1,878               |
| <b>Total</b>                                     | <b>10,329</b>       | <b>10,780</b>       |
| <b>Deferred pensioners</b>                       |                     |                     |
| County Council                                   | 10,637              | 10,473              |
| Other employers                                  | 1,968               | 1,958               |
| <b>Total</b>                                     | <b>12,605</b>       | <b>12,431</b>       |
| <b>Unclaimed benefits</b>                        |                     |                     |
| County Council                                   | 1,833               | 1,864               |
| Other employers                                  | 230                 | 230                 |
| <b>Total</b>                                     | <b>2,063</b>        | <b>2,094</b>        |
| <b>Undecided Leavers</b>                         |                     |                     |
| County Council                                   | 3,847               | 5,280               |
| Other employers                                  | 531                 | 759                 |
| <b>Total</b>                                     | <b>4,378</b>        | <b>6,039</b>        |
| <b>Total number of members in pension scheme</b> | <b>47,957</b>       | <b>49,639</b>       |

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 7.7% to 33.3% of pensionable pay.

## 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  |
|-----------------|---|---|
| <b>Pension</b>  | Each year worked is worth 1/80 x final pensionable salary.  | Each year worked is worth 1/60 x final pensionable salary.  |
| <b>Lump sum</b> | Automatic lump sum of 3 x salary.<br>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.<br>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 Fund became a career average scheme as summarised below:

|                 | Service post-31 March 2014  |
|-----------------|---|
| <b>Pension</b>  | Each year worked is worth 1/49 x career average revalued earnings (CARE)  |
| <b>Lump Sum</b> | No automatic lump sum.<br>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 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account 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 19 of these accounts.

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund Account – revenue recognition**

#### **a) Contribution Income**

Normal contributions are accounted for on an accrual basis as follows:

- Employee contributions rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommend by the fund actuary for the period to which they relate.

Employer 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 in and out relate to members who have joined or left the fund.

Individual transfers in/ out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 9).

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.

##### **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.

##### **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.

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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, providing that payment has been approved.

#### **e) Management expenses**

The fund discloses its management expenses in line with CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accrual basis as follows:

##### **Administrative expenses**

All staff costs of the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.

##### **Oversight and governance costs**

All costs associated with oversight and governance are separately identified, apportioned to this activity and charged as expenses to the fund.

##### **Investment management expenses**

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments.

Fees charges by external investment managers and custodians are set out 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.

Transaction costs are associated with the acquisition or disposal of fund assets and are disclosed in the notes to the accounts.

#### **f) 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.

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Net assets statement**

#### **g) Financial assets**

All investment 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. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirement of the Code and IFRS 13 (see note 14). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/ Investment Association, 2016).

#### **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.

#### **i) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. All cash balances 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**

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains and losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net assets statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

#### **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 the Code, 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 19).

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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, Utmost Life 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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information only in Note 22.

### **m) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

## **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 2021 was £211.6 million (£157.2 million at 31 March 2020).

### **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 18. 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 reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from assumptions and estimates made.

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

| Item  | Uncertainties   | Effect if actual results differ from assumptions   |
|---|---|--|
| Actuarial present value of promised retirement benefits (Note 19) | Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and return on fund assets. Hymans Robertson is engaged to provide the fund with expert advice about the assumptions to be applied.   | The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.                                       |
| Private equity and infrastructure                                 | Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines (December 2018) and the Special Guidance issued March 2020 concerning the impact of COVID 19 on valuations. 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 £211.6 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 to report.

## NOTE 7 – CONTRIBUTIONS RECEIVABLE

### By category

| 2019/20       |                                       | 2020/21       |
|---------------|---------------------------------------|---------------|
| £'000         |                                       | £'000         |
| 17,914        | Employees' contributions              | 18,671        |
|               | Employers' contributions:             |               |
| 56,376        | • Normal contributions                | 59,581        |
| 126           | • Deficit recovery contributions      | 0             |
| <b>56,502</b> | <b>Total employers' contributions</b> | <b>59,581</b> |
| <b>74,416</b> | <b>Total contributions receivable</b> | <b>78,252</b> |

### By type of employer

| 2019/20       |                             | 2020/21       |
|---------------|-----------------------------|---------------|
| £'000         |                             | £'000         |
| 27,055        | Gwynedd Council             | 25,328        |
| 42,075        | Other scheduled bodies      | 47,917        |
| 2,076         | Admission bodies            | 1,749         |
| 2,623         | Community admission bodies  | 2,712         |
| 221           | Transferee admission bodies | 140           |
| 312           | Resolution bodies           | 352           |
| 54            | Closed fund*                | 54            |
| <b>74,416</b> |                             | <b>78,252</b> |

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

## NOTE 8 – OTHER INCOME

| 2019/20  |                                    | 2020/21  |
|----------|------------------------------------|----------|
| £'000    |                                    | £'000    |
| 2        | Interest on deferred contributions | 2        |
| 3        | Income from divorce calculations   | 2        |
| <b>5</b> |                                    | <b>4</b> |

## NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

| 2019/20      |                      | 2020/21      |
|--------------|----------------------|--------------|
| £'000        |                      | £'000        |
| 4,887        | Individual transfers | 3,356        |
| <b>4,887</b> |                      | <b>3,356</b> |



## NOTE 10 - BENEFITS PAYABLE

### By category

| 2019/20       |  | 2020/21       |
|---------------|--|---------------|
| £'000         |  | £'000         |
| 48,356        | Pensions                                     | 50,411        |
| 12,343        | Commutation and lump sum retirement benefits | 10,807        |
| 1,629         | Lump sum death benefits                      | 1,160         |
| <b>62,328</b> |  | <b>62,378</b> |

### By type of employer

| 2019/20       |                           | 2020/21       |
|---------------|---------------------------|---------------|
| £'000         |                           | £'000         |
| 17,714        | Gwynedd Council           | 18,773        |
| 31,958        | Other scheduled bodies    | 31,703        |
| 1,520         | Admission bodies          | 1,502         |
| 1,472         | Community admission body  | 1,133         |
| 223           | Transferee admission body | 108           |
| 119           | Resolution body           | 174           |
| 9,322         | Closed fund               | 8,985         |
| <b>62,328</b> |                           | <b>62,378</b> |

## NOTE 11 - PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| 2019/20      |   | 2020/21      |
|--------------|---|--------------|
| £'000        |   | £'000        |
| 161          | Refunds to members leaving service        | 92           |
| 1            | Payments for members joining state scheme | 0            |
| 4,507        | Individual transfers                      | 2,960        |
| <b>4,669</b> |   | <b>3,052</b> |

## NOTE 12 - MANAGEMENT EXPENSES

| 2019/20           |                                | 2020/21       |
|-------------------|--------------------------------|---------------|
| Restated<br>£'000 |                                | £'000         |
| 11,434            | Investment management expenses | 21,128        |
| 1,307             | Administrative costs           | 1,268         |
| 380               | Oversight and governance costs | 273           |
| <b>13,121</b>     |                                | <b>22,669</b> |

Management expenses have been reanalysed for 2019/20 to be consistent with 2020/21

## NOTE 12a – Investment Management Expenses

| 2020/21                  | Management fees<br>£'000 | Transaction costs<br>£'000 | Total<br>£'000 |
|--------------------------|--------------------------|----------------------------|----------------|
| <b>Pooled Funds</b>      |                          |                            |                |
| Fixed Income             | 865                      | 0                          | 865            |
| Equities                 | 2,733                    | 442                        | 3,175          |
| <b>Other Investments</b> |                          |                            |                |
| Pooled Property          | 1,565                    | 0                          | 1,565          |
| Private Equity           | 12,274                   | 0                          | 12,274         |
| Infrastructure           | 3,044                    | 0                          | 3,044          |
|                          | 20,481                   | 442                        | 20,923         |
| <b>Custody Fees</b>      |                          |                            | 205            |
| <b>Total</b>             |                          |                            | 21,128         |

| 2019/20                  | Management Fees<br>£'000 | Transaction Costs<br>£'000 | Total<br>£'000 |
|--------------------------|--------------------------|----------------------------|----------------|
| <b>Pooled Funds</b>      |                          |                            |                |
| Fixed Income             | 1,297                    | 0                          | 1,297          |
| Equities                 | 3,462                    | 924                        | 4,386          |
| <b>Other Investments</b> |                          |                            |                |
| Pooled Property          | 1,551                    | 0                          | 1,551          |
| Private Equity           | 2,511                    | 0                          | 2,511          |
| Infrastructure           | 1,572                    | 0                          | 1,572          |
|                          | 10,393                   | 924                        | 11,317         |
| <b>Custody Fees</b>      |                          |                            | 117            |
| <b>Total</b>             |                          |                            | 11,434         |

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment vehicles. There are no performance-related fees paid to 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 in Note 14a.

The WPP Global Opportunities, Multi Asset Credit and Absolute Return Bond funds are investments which are appointed via a manager of manager approach which have their own underlying fees. The return for this mandate are net of the underlying manager fees which is reflected in Note 14a within the Change in Market value- for transparency, the fees in 2020/21 were £1,846,000 (£820,000 in 2019/20).

Transition costs have been incurred as a result of moving investments from Insight and Fidelity into WPP. These costs were £71,000 and are included in the Net Asset Value (NAV).

## NOTE 12b- Administrative Costs

| 2019/20      |                                | 2020/21      |
|--------------|--------------------------------|--------------|
| £'000        |                                | £'000        |
| 563          | Direct employee costs          | 576          |
| 377          | Other direct costs             | 316          |
| 367          | Support services, including IT | 376          |
| <b>1,307</b> |                                | <b>1,268</b> |

Administrative costs include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation.

## Note 12c- Oversight and Governance Costs

| 2019/20    |  | 2020/21    |
|------------|--|------------|
| £'000      |  | £'000      |
| 150        | Actuarial fees                             | 88         |
| 47         | Investment consultancy fees                | 44         |
| 13         | Performance monitoring service             | 13         |
| 34         | External audit fees                        | 34         |
| 66         | Pensions Committee and Local Pension Board | 6          |
| 70         | Wales Pensions Partnership                 | 88         |
| <b>380</b> |  | <b>273</b> |

## Note 12d- Wales Pension Partnership

The Investment Management Expenses in Note 12a are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees (which also includes the operator fee and other associated costs), transaction costs and custody fees. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the NAV.

The oversight and governance costs in Note 12c are the annual running costs of the pool which includes the Host Authority costs and other External Advisor costs. These costs are funded equally by all eight of the local authority Pension Funds in Wales.

The following fees are included in Note 12 in relation to the Wales Pension Partnership and further details on the WPP can be found in the Annual Report.

|                                       | 2019/20      | 2020/21      |
|---------------------------------------|--------------|--------------|
|                                       | £'000        | £'000        |
| <b>Investment Management Expenses</b> |              |              |
| Fund Manager fees                     | 1,656        | 1,955        |
| Transaction costs                     | 924          | 442          |
| Custody fees                          | 102          | 179          |
|                                       | <b>2,682</b> | <b>2,576</b> |
| <b>Oversight and governance costs</b> |              |              |
| Running Costs                         | 70           | 88           |
| <b>Total</b>                          | <b>2,752</b> | <b>2,664</b> |

## NOTE 13 – INVESTMENT INCOME

| 2019/20      |                             | 2020/21       |
|--------------|-----------------------------|---------------|
| £'000        |                             | £'000         |
| 0            | Fixed Income                | 1,579         |
| 1,463        | Equities                    | 20,587        |
| 529          | Private Equity              | 1,108         |
| 101          | Infrastructure              | 888           |
| 6,929        | Pooled property investments | 6,507         |
| 296          | Interest on cash deposits   | 99            |
| <b>9,318</b> | <b>Total before taxes</b>   | <b>30,768</b> |

During 2020/21 Link Asset Services paid distributions in respect of the income earned since inception on all Wales Pension Partnership sub-funds in which the fund invests. This was automatically reinvested into the pooled funds to increase the market value of the holdings.

The Gwynedd Pension Fund has two 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 exchange transactions and relevant costs.

## NOTE 14 – INVESTMENTS

| 31 March<br>2020              |                                     | 31 March<br>2021 |
|-------------------------------|-------------------------------------|------------------|
| Restated<br>£'000             |                                     | £'000            |
| <b>Investment assets</b>      |                                     |                  |
| <b>Pooled Funds</b>           |                                     |                  |
| 280,279                       | Fixed income                        | 484,315          |
| 1,299,750                     | Equities                            | 1,624,630        |
| <b>Other Investments</b>      |                                     |                  |
| 191,256                       | Pooled property investments         | 194,581          |
| 112,661                       | Private equity                      | 165,423          |
| 44,569                        | Infrastructure                      | 46,220           |
| <b>1,928,515</b>              |                                     | <b>2,515,169</b> |
| 783                           | Cash deposits                       | 146              |
| <b>1,929,298</b>              | <b>Total investment assets</b>      | <b>2,515,315</b> |
| <b>Investment liabilities</b> |                                     |                  |
| (0)                           | Amounts payable for purchases       | (126)            |
| <b>(0)</b>                    | <b>Total investment liabilities</b> | <b>(126)</b>     |
| <b>1,929,298</b>              | <b>Net investment assets</b>        | <b>2,515,189</b> |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## Note 14a – Reconciliation of Movements in Investments and Derivatives

| <b>2020/21</b>                               | <b>Market value at 1 April 2020</b> | <b>Purchases during the year</b> | <b>Sales during the year</b> | <b>Change in market value during the year</b> | <b>Market value at 31 March 2021</b> |
|--|-------------------------------------|----------------------------------|------------------------------|---|--------------------------------------|
|  | <b>£'000</b>                        | <b>£'000</b>                     | <b>£'000</b>                 | <b>£'000</b>                                  | <b>£'000</b>                         |
| Pooled investments                           | 1,580,029                           | 759,879                          | (727,541)                    | 496,578                                       | 2,108,945                            |
| Pooled property investments                  | 191,256                             | 3,592                            | (281)                        | 14  | 194,581                              |
| Private equity / infrastructure              | 157,230                             | 29,249                           | (24,283)                     | 49,447  | 211,643                              |
|  | <u>1,928,515</u>                    | <u>792,720</u>                   | <u>(752,105)</u>             | <u>546,039</u>                                | <u>2,515,169</u>                     |
| Cash deposits                                | 783                                 |                                  |                              |   | 146                                  |
| Amount receivable from sales of investments  | 0                                   |                                  |                              |   | 0                                    |
| Amounts payable for purchases of investments | 0                                   |                                  |                              |   | (126)                                |
| Fees within pooled vehicles                  |                                     |                                  |                              | 19,472  |                                      |
| <b>Net investment assets</b>                 | <b>1,929,298</b>                    |                                  |                              | <b>565,511</b>                                | <b>2,515,189</b>                     |

| <b>2019/20 Restated</b>                      | <b>Market value at 1 April 2019</b> | <b>Purchases during the year</b> | <b>Sales during the year</b> | <b>Change in market value during the year</b> | <b>Market value at 31 March 2020</b> |
|--|-------------------------------------|----------------------------------|------------------------------|---|--------------------------------------|
|  | <b>£'000</b>                        | <b>£'000</b>                     | <b>£'000</b>                 | <b>£'000</b>                                  | <b>£'000</b>                         |
| Pooled investments                           | 1,729,681                           | 10,545                           | (9,540)                      | (150,657)                                     | 1,580,029                            |
| Pooled property investments                  | 179,301                             | 20,644                           | (777)                        | (7,912)                                       | 191,256                              |
| Private equity / infrastructure              | 145,613                             | 26,464                           | (13,054)                     | (1,793)                                       | 157,230                              |
|  | <u>2,054,595</u>                    | <u>57,653</u>                    | <u>(23,371)</u>              | <u>(160,362)</u>                              | <u>1,928,515</u>                     |
| Cash deposits                                | 538                                 |                                  |                              |   | 783                                  |
| Amount receivable from sales of investments  | 0                                   |                                  |                              |   | 0                                    |
| Amounts payable for purchases of investments | (123)                               |                                  |                              |   | 0                                    |
| Fees within pooled vehicles                  |                                     |                                  |                              | 8,844   |                                      |
| <b>Net investment assets</b>                 | <b>2,055,010</b>                    |                                  |                              | <b>(151,518)</b>                              | <b>1,929,298</b>                     |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## NOTE 14b – Analysis of Investments

### Investments analysed by fund manager

| Market Value at<br>31 March 2020 |              |                           | Market Value at<br>31 March 2021 |              |  |
|----------------------------------|--------------|---------------------------|----------------------------------|--------------|--|
| £'000                            | %            |                           | £'000                            | %            |  |
| 604,237                          | 31.3         | Wales Pension Partnership | 1,360,124                        | 54.1         |  |
| 565,379                          | 29.3         | BlackRock                 | 735,481                          | 29.2         |  |
| 157,230                          | 8.2          | Partners Group            | 211,643                          | 8.4          |  |
| 181,742                          | 9.4          | Fidelity                  | 67,178                           | 2.7          |  |
| 60,570                           | 3.2          | Lothbury                  | 61,338                           | 2.4          |  |
| 47,832                           | 2.5          | UBS                       | 47,627                           | 1.9          |  |
| 31,401                           | 1.6          | Threadneedle              | 31,904                           | 1.3          |  |
| 625                              | 0.0          | Veritas                   | 20                               | 0            |  |
| 280,282                          | 14.5         | Insight                   | 0                                | 0            |  |
| <b>1,929,298</b>                 | <b>100.0</b> |                           | <b>2,515,315</b>                 | <b>100.0</b> |  |

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

| Market Value at<br>31 March 2020 |      |  | Market Value at<br>31 March 2021 |      |  |
|----------------------------------|------|--|----------------------------------|------|--|
| £'000                            | %    |  | £'000                            | %    |  |
| 305,618                          | 15.8 | WPP Global Opportunities Fund                  | 442,964                          | 17.5 |  |
| 298,619                          | 15.4 | WPP Global Growth Fund                         | 432,845                          | 17.1 |  |
| -                                | -    | WPP Absolute Return Bond                       | 307,181                          | 12.2 |  |
| -                                | -    | Black Rock ACS World Low Carbon Fund           | 297,967                          | 11.8 |  |
| 280,279                          | 14.5 | LDI Solutions Plus Bonds                       | -                                | -    |  |
| 274,417                          | 14.2 | Black Rock Aquila Life UK Equity Index Fund    | 211,625                          | 8.4  |  |
| -                                | -    | WPP Multi Asset Credit Fund                    | 177,134                          | 7.0  |  |
| 137,117                          | 7.1  | Fidelity Institutional Select Global Equity    | -                                | -    |  |
| 119,881                          | 6.2  | Black Rock Aquila Life GI Dev Fundamental Fund | 172,052                          | 6.8  |  |

### Note 14c – Stock Lending

The Fund's investment strategy permits stock lending subject to specific approval. The income earned by the fund through stock lending was £94,796. Currently the Wales Pension Partnership has total quoted equities of £469m on loan. These equities continue to be recognised in the relevant fund's financial statements. No liabilities are associated with the loaned assets.

## **NOTE 15 – FAIR VALUE- BASIS OF VALUATION**

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market- based information. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1** - where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts.

**Level 2** - where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

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

## NOTE 15 – FAIR VALUE- BASIS OF VALUATION (continued)

| Description of Asset             | Valuation hierarchy | Basis of valuation   | Observable and unobservable inputs   | Key sensitivities affecting the Valuations provided  |
|----------------------------------|---------------------|--|--|--|
| Cash and cash equivalents        | Level 1             | Carrying value is deemed to be fair value because of the short- term nature of these financial instruments   | Not required   | Not required   |
| Pooled investments- equity funds | Level 2             | The ‘NAV’ (net asset value) is calculated based on the market value of the underlying assets   | Evaluated price feeds  | Not required   |
| Pooled investments- fixed income | Level 2             | The ‘NAV’ is calculated based on the market value of the underlying fixed income Securities  | Evaluated price feeds  | Not required   |
| Pooled property funds            | Level 2             | Closing bid price where bid and offer prices are published; closing single price where single price is published   | ‘NAV’- based set on a forward pricing basis  | Not required   |
| Private equities                 | Level 3             | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board’s Special Valuation Guidance (March 2020) | <ul style="list-style-type: none"> <li>• EBITDA multiple</li> <li>• Revenue multiple</li> <li>• Discount for lack of marketability</li> <li>• Control premium</li> </ul> | Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts |
| Infrastructure                   | Level 3             | Valued using discounted cashflow techniques to generate a net present value  | Discount rate and cashflow used in the models  | Rate of inflation, interest, tax and foreign exchange  |

### Sensitivity of assets valued at level 3

The values reported in the Level 3 valuations represent the most accurate estimation of the portfolio values as at 31 March 2021. Any subjectivity related to the investment value is incorporated into the valuation, and the sensitivity analysis can be seen in Note 17.

### Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2020/21.



## Note 15a – Fair Value Hierarchy

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.

| <b>Values at 31 March 2021</b>                                     | <b>Quoted<br/>market<br/>price<br/>Level 1<br/>£'000</b> | <b>Using<br/>observable<br/>inputs<br/>Level 2<br/>£'000</b> | <b>With<br/>significant<br/>unobservable<br/>inputs<br/>Level 3<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|--|--|---|------------------------|
| <b>Financial assets at fair value through profit and loss</b>      |  |  |   |                        |
| Fixed income   | 0  | 484,315  | 0   | 484,315                |
| Equities   | 0  | 1,624,630  | 0   | 1,624,630              |
| Pooled property investments  | 0  | 194,581  | 0   | 194,581                |
| Private equity   | 0  | 0  | 165,423   | 165,423                |
| Infrastructure   | 0  | 0  | 46,220  | 46,220                 |
| Cash deposits  | 146  | 0  | 0   | 146                    |
|  | <b>146</b>   | <b>2,303,526</b>   | <b>211,643</b>  | <b>2,515,315</b>       |
| <b>Financial liabilities at fair value through profit and loss</b> |  |  |   |                        |
| Payables for investment purchases                                  | (126)  | 0  | 0   | (126)                  |
| <b>Total</b>   | <b>20</b>  | <b>2,303,526</b>   | <b>211,643</b>  | <b>2,515,189</b>       |

## Note 15a – Fair Value Hierarchy (continued)

|  | Quoted<br>market<br>price<br>Level 1<br>£'000 | Using<br>observable<br>inputs<br>Level 2<br>£'000 | With<br>significant<br>unobservable<br>inputs<br>Level 3<br>£'000 | Total<br>£'000   |
|--|---|---|---|------------------|
| <b>Values at 31 March 2020 Restated</b>                            |   |   |   |                  |
| <b>Financial assets at fair value through profit and loss</b>      |   |   |   |                  |
| Fixed income   | 0   | 280,279   | 0   | 280,279          |
| Equities   | 0   | 1,299,750   | 0   | 1,299,750        |
| Pooled property investments  | 0   | 0   | 191,256   | 191,256          |
| Private equity   | 0   | 0   | 112,661   | 112,661          |
| Infrastructure   | 0   | 0   | 44,569  | 44,569           |
| Cash deposits  | 783   | 0   | 0   | 783              |
|  | <b>783</b>                                    | <b>1,580,029</b>                                  | <b>348,486</b>  | <b>1,929,298</b> |
| <b>Financial liabilities at fair value through profit and loss</b> |   |   |   |                  |
| Payables for investment purchases                                  | 0   | 0   | 0   | 0                |
| <b>Net financial assets</b>  | <b>783</b>                                    | <b>1,580,029</b>                                  | <b>348,486</b>  | <b>1,929,298</b> |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## Note 15b – Reconciliation of Fair Value Measurements within Level 3

|                      | Market Value<br>1 April 2020<br>£'000 | Transfers<br>out of<br>Level 3<br>£'000 | Purchases<br>during<br>the year<br>£'000 | Sales<br>during<br>the year<br>£'000 | Unrealised<br>gains/<br>(losses)<br>£'000 | Realised<br>(gains)/<br>losses<br>£'000 | Market Value<br>31 March 2021<br>£'000 |
|----------------------|---------------------------------------|---|--|--------------------------------------|---|---|--|
| Property Unit Trusts | 191,256                               | (191,256)                               | 0  | 0                                    | 0   | 0                                       | 0                                      |
| Private Equity       | 112,661                               | 0                                       | 18,796                                   | (7,115)                              | 45,538                                    | (4,457)                                 | 165,423                                |
| Infrastructure       | 44,569                                | 0                                       | 10,453                                   | (7,952)                              | 3,909                                     | (4,759)                                 | 46,220                                 |
| <b>Total Level 3</b> | <b>348,486</b>                        | <b>(191,256)</b>                        | <b>29,249</b>                            | <b>(15,067)</b>                      | <b>49,447</b>                             | <b>(9,216)</b>                          | <b>211,643</b>                         |

The transfer from level 3 in 2020/21 is the movement of Property Unit Trusts as the material uncertainty clause was removed from property valuations.

|                      | Market Value<br>1 April 2019<br>£'000 | Transfers<br>into<br>Level 3<br>£'000 | Purchases<br>during<br>the year<br>£'000 | Sales<br>during<br>the year<br>£'000 | Unrealised<br>gains/<br>(losses)<br>£'000 | Realised<br>(gains)/<br>losses<br>£'000 | Market Value<br>31 March 2020<br>£'000 |
|----------------------|---------------------------------------|---------------------------------------|--|--------------------------------------|---|---|--|
| Property Unit Trusts | 111,254                               | 68,047                                | 20,644                                   | (777)                                | (7,817)                                   | (95)                                    | 191,256                                |
| Private Equity       | 107,218                               | 0                                     | 19,408                                   | (5,144)                              | (3,101)                                   | (5,720)                                 | 112,661                                |
| Infrastructure       | 38,395                                | 0                                     | 7,056                                    | (1,746)                              | 1,307                                     | (443)                                   | 44,569                                 |
| <b>Total Level 3</b> | <b>256,867</b>                        | <b>68,047</b>                         | <b>47,108</b>                            | <b>(7,667)</b>                       | <b>(9,611)</b>                            | <b>(6,258)</b>                          | <b>348,486</b>                         |

## Note 16 - 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 2020 Restated       |                          |                               | As at 31 March 2021                |                          |                               |
|------------------------------------|--------------------------|-------------------------------|------------------------------------|--------------------------|-------------------------------|
| Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost | Fair value through profit and loss | Assets at amortised cost | Liabilities at amortised cost |
| £'000                              | £'000                    | £'000                         | £'000                              | £'000                    | £'000                         |
|                                    |                          |                               | <b>Financial assets</b>            |                          |                               |
| 1,580,029                          |                          |                               | 2,108,945                          |                          |                               |
| 191,256                            |                          |                               | 194,581                            |                          |                               |
| 112,661                            |                          |                               | 165,423                            |                          |                               |
| 44,569                             |                          |                               | 46,220                             |                          |                               |
|                                    | 8,883                    |                               |                                    | 12,282                   |                               |
|                                    | 3,829                    |                               |                                    | 4,017                    |                               |
| <b>1,928,515</b>                   | <b>12,712</b>            | <b>0</b>                      | <b>2,515,169</b>                   | <b>16,299</b>            | <b>0</b>                      |
|                                    |                          |                               | <b>Financial liabilities</b>       |                          |                               |
|                                    |                          | (2,890)                       |                                    |                          | (3,339)                       |
| <b>0</b>                           | <b>0</b>                 | <b>(2,890)</b>                | <b>0</b>                           | <b>0</b>                 | <b>(3,339)</b>                |
| <b>1,928,515</b>                   | <b>12,712</b>            | <b>(2,890)</b>                | <b>2,515,169</b>                   | <b>16,299</b>            | <b>(3,339)</b>                |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## Note 16a – Net gains and losses on financial instruments

| 31 March 2020                |                                    | 31 March 2021  |
|------------------------------|------------------------------------|----------------|
| Fair value                   |                                    | Fair value     |
| £'000                        |                                    | £'000          |
| <b>Financial assets</b>      |                                    |                |
| (160,362)                    | Fair value through profit and loss | 546,039        |
| 0                            | Loans and receivables              | 0              |
| <b>(160,362)</b>             | <b>Total financial assets</b>      | <b>546,039</b> |
| <b>Financial liabilities</b> |                                    |                |
| 0                            | Fair value through profit and loss | 0              |
| 0                            | Financial liabilities at cost      | 0              |
| <b>0</b>                     | <b>Total financial liabilities</b> | <b>0</b>       |
| <b>(160,362)</b>             | <b>Net financial assets</b>        | <b>546,039</b> |

## **NOTE 17 – 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). 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 (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund 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. Risk management policies are established to identify and analyse the risks faced by the Pension's Fund operations, then reviewed regularly to reflect changes in activity and market conditions.

### **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 from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

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

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 Fund 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 by factors affecting all such instruments in the market.

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

## NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

### 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 Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period.

| Asset type                | Potential market movement (+/-) |               |
|---------------------------|---------------------------------|---------------|
|                           | 31 March 2020                   | 31 March 2021 |
|                           | %                               | %             |
| UK Equities               | 27.5                            | 16.7          |
| Global Equities           | 28.0                            | 17.4          |
| Emerging Markets Equities | 25.4                            | 22.1          |
| Private Equity            | 28.4                            | 28.5          |
| Absolute Return Bond      | 3.9                             | 2.1           |
| Infrastructure            | 20.1                            | 21.0          |
| Property                  | 14.2                            | 14.2          |
| Diversified Credit        | 8.7                             | 6.2           |
| Cash                      | 0.3                             | 0.3           |
| <b>Total Fund</b>         | <b>18.9</b>                     | <b>11.7</b>   |

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. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

## NOTE 17 – 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:

| <b>Asset type</b>                                 | <b>Value as at 31<br/>March 2021<br/>£'000</b> | <b>Percentage<br/>change<br/>%</b> | <b>Value on<br/>increase<br/>£'000</b> | <b>Value on<br/>decrease<br/>£'000</b> |
|---|--|------------------------------------|--|--|
| UK Equities                                       | 211,625  | 16.7                               | 246,966                                | 176,283                                |
| Global Equities                                   | 1,345,827                                      | 17.4                               | 1,580,001                              | 1,111,653                              |
| Emerging Markets Equities                         | 67,178   | 22.1                               | 82,025                                 | 52,332                                 |
| Private Equity*                                   | 165,423  | 28.5                               | 212,568                                | 118,277                                |
| Absolute Return Bonds                             | 307,181  | 2.1                                | 313,632                                | 300,730                                |
| Infrastructure*                                   | 46,220   | 21.0                               | 55,926                                 | 36,514                                 |
| Property  | 194,581  | 14.2                               | 222,211                                | 166,950                                |
| Diversified Credit                                | 177,134  | 6.2                                | 188,116                                | 166,152                                |
| Cash  | 12,282   | 0.3                                | 12,318                                 | 12,245                                 |
| Debtors and Creditors                             | 678  | 0.0                                | 678                                    | 678                                    |
| <b>Total assets available to pay<br/>benefits</b> | <b>2,528,129</b>                               |                                    | <b>2,914,441</b>                       | <b>2,141,814</b>                       |
| *Level 3 assets                                   | 211,643  |                                    | 268,494                                | 154,791                                |

| <b>Asset type Restated</b>                        | <b>Value as at 31<br/>March 2020<br/>£'000</b> | <b>Percentage<br/>change<br/>%</b> | <b>Value on<br/>increase<br/>£'000</b> | <b>Value on<br/>decrease<br/>£'000</b> |
|---|--|------------------------------------|--|--|
| UK Equities                                       | 274,417  | 27.5                               | 349,881                                | 198,952                                |
| Global Equities                                   | 980,710  | 28.0                               | 1,255,309                              | 706,111                                |
| Emerging Markets Equities                         | 44,625   | 25.4                               | 55,960                                 | 33,290                                 |
| Private Equity*                                   | 112,661  | 28.4                               | 144,544                                | 80,778                                 |
| Absolute Return Bonds                             | 280,279  | 3.9                                | 291,210                                | 269,348                                |
| Infrastructure*                                   | 44,569   | 20.1                               | 53,528                                 | 35,611                                 |
| Property  | 191,255  | 14.2                               | 218,414                                | 164,097                                |
| Cash  | 8,883  | 0.3                                | 8,910                                  | 8,856                                  |
| Debtors and Creditors                             | 938  | 0.0                                | 938                                    | 938                                    |
| <b>Total assets available to pay<br/>benefits</b> | <b>1,938,337</b>                               |                                    | <b>2,378,694</b>                       | <b>1,497,981</b>                       |
| *Level 3 assets                                   | 157,230  |                                    | 198,072                                | 116,389                                |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

### 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.

## NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 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 2020 | As at 31 March 2021 |
|---------------------------|---------------------|---------------------|
|                           | £'000               | £'000               |
| Cash and cash equivalents | 8,100               | 12,136              |
| Cash balances             | 783                 | 146                 |
| Pooled Fixed Income       | 280,279             | 484,315             |
| <b>Total</b>              | <b>289,162</b>      | <b>496,597</b>      |

### Interest rate risk sensitivity analysis

The Fund 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 2021 | Change in year in the net assets available to pay benefits |                |
|---|-------------------------------------|--|----------------|
|   |                                     | +1%  | -1%            |
|   |                                     | £'000  | £'000          |
| Cash and cash equivalents               | 12,136                              | 121  | (121)          |
| Cash balances                           | 146                                 | 1  | (1)            |
| Pooled Fixed Income *                   | 484,315                             | 4,843  | (4,843)        |
| <b>Total change in assets available</b> | <b>496,597</b>                      | <b>4,965</b>   | <b>(4,965)</b> |

\* 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 2020 | Change in year in the net assets available to pay benefits |                 |
|---|-------------------------------------|--|-----------------|
|   |                                     | +1%  | -1%             |
|   |                                     | £'000  | £'000           |
| Cash and cash equivalents               | 8,100                               | 81   | (81)            |
| Cash balances                           | 783                                 | 8  | (8)             |
| Pooled Fixed Income *                   | 280,279                             | 33,633   | (33,633)        |
| <b>Total change in assets available</b> | <b>289,162</b>                      | <b>33,722</b>  | <b>(33,722)</b> |

\* 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 0.61% amounting to interest of £88,037 for the year.

## **NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

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.

The Fund has made commitments to private equity and infrastructure in foreign currency (€364 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 24. 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.

### **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.

The 1 year expected standard deviation for an individual currency as at 31 March 2021 is 9.8%. The equivalent rate for the year ended 31 March 2020 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.



## NOTE 17 – 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 31 March 2021 and at the end of the previous financial year:

| Currency exposure - by asset type       | Carrying amount as at 31 March 2021 | Change in year in the net assets available to pay benefits |                   |
|---|-------------------------------------|--|-------------------|
|   |                                     | Value on increase  | Value on decrease |
|   | £'000                               | £'000  | £'000             |
| Global Equities                         | 1,345,827                           | 1,477,718  | 1,213,936         |
| Emerging Markets Equities               | 67,178                              | 73,762   | 60,595            |
| Private Equity                          | 165,423                             | 181,634  | 149,211           |
| Absolute Return Bonds                   | 307,181                             | 337,285  | 277,077           |
| Infrastructure                          | 46,220                              | 50,750   | 41,690            |
| Diversified Credit                      | 177,134                             | 194,493  | 159,775           |
| Property                                | 0                                   | 0  | 0                 |
| <b>Total change in assets available</b> | <b>2,108,963</b>                    | <b>2,315,642</b>   | <b>1,902,284</b>  |

| Currency exposure - by asset type       | Carrying amount as at 31 March 2020 Restated | Change in year in the net assets available to pay benefits |                   |
|---|--|--|-------------------|
|   |  | Value on increase  | Value on decrease |
|   | £'000  | £'000  | £'000             |
| Global Equities                         | 980,710                                      | 1,078,780  | 882,639           |
| Emerging Markets Equities               | 44,625                                       | 49,088   | 40,163            |
| Private Equity                          | 112,661                                      | 123,927  | 101,395           |
| Absolute Return Bonds                   | 280,279                                      | 308,307  | 252,251           |
| Infrastructure                          | 44,569                                       | 49,026   | 40,112            |
| Diversified Credit                      | 0  | 0  | 0                 |
| Property                                | 226  | 249  | 203               |
| <b>Total change in assets available</b> | <b>1,463,070</b>                             | <b>1,609,377</b>   | <b>1,316,763</b>  |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

### 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 17 – 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.

| <b>Investment Manager</b>                         | <b>Percentage of Portfolio</b> |
|---|--------------------------------|
| BlackRock   | 29.5%                          |
| Fidelity  | 2.5%                           |
| Wales Pension Partnership Global Growth           | 14.0%                          |
| Wales Pension Partnership Global Opportunities    | 14.0%                          |
| Wales Pension Partnership Multi Asset Credit      | 7.5%                           |
| Wales Pension Partnership Absolute Return Bond    | 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 2021 was £12.5m (£8.2m at 31 March 2020).

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.

## **NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

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 25 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 Council 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 Actuary establishes 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 Council 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 Council'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.

## **NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

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 2021 the value of illiquid assets was £406m, which represented 16.1% of the total Fund assets (31 March 2020: £348m, which represented 18.0% 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 2021 are due within one year as was the case at 31 March 2020.

### **Refinancing risk**

The key risk is that the Fund will be bound to replenish a significant proportion of its 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 18 – FUNDING ARRANGEMENTS**

In line with the Local Government Pension Scheme (Administration) Regulations 2013, 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 2019 and the next valuation is due to take place as at 31 March 2022.

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement and was reviewed as part of the 2019 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 (this will also minimise the costs to be borne by Council Tax payers).
- 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 its 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.

## NOTE 18 – FUNDING ARRANGEMENTS (continued)

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. 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 70% chance that the Fund will return to full funding over the 17 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 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £2,081 million, were sufficient to meet 108% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £156 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 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 2019 valuation report.

#### 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 2019 valuation were as follows:

| Financial assumptions  | 31 March 2019 |
|------------------------|---------------|
| Discount rate          | 3.9%          |
| Salary increase        | 2.6%          |
| Benefit increase (CPI) | 2.3%          |

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 2018 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:

## NOTE 18 – FUNDING ARRANGEMENTS (continued)

| Mortality assumption                              | Male<br>Years | Female<br>Years |
|---|---------------|-----------------|
| Current pensioners                                | 21.3          | 23.4            |
| Future pensioners (aged 45 at the 2019 valuation) | 22.2          | 25.1            |

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Pension Fund's website [www.gwynedd-pensionfund.wales](http://www.gwynedd-pensionfund.wales)

### Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

## NOTE 19 - 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.

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 18) 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 2020 and 2021 are shown below:

|                  | 31 March 2020 | 31 March 2021 |
|------------------|---------------|---------------|
|                  | £m            | £m            |
| Active members   | 1,279         | 1,939         |
| Deferred members | 445           | 631           |
| Pensioners       | 809           | 882           |
| <b>Total</b>     | <b>2,533</b>  | <b>3,452</b>  |

As noted above, the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 18) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

## NOTE 19 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (continued)

### Assumptions used

The financial assumptions used are those adopted for the Administering Authority's IAS19 report as shown below and are different as at 31 March 2020 and 2021. The actuary estimates that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £756m. It is estimated that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £42m.

|                       | 31 March 2020 | 31 March 2021 |
|-----------------------|---------------|---------------|
| <b>Assumption</b>     | <b>%</b>      | <b>%</b>      |
| Pension increase rate | 1.90          | 2.85          |
| Salary increase rate  | 2.20          | 3.15          |
| Discount rate         | 2.30          | 2.00          |

The life expectancy for the longevity assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

|   | Male<br>Years | Female<br>Years |
|---|---------------|-----------------|
| Current pensioners                                | 21.5          | 23.9            |
| Future pensioners (aged 45 at the 2019 valuation) | 22.7          | 25.9            |

The commutation assumption allows for future retirements to elect to take 50% of the maximum tax-free cash up to the HMRC limit 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:

| <b>Sensitivity to the assumptions for the year ended 31 March 2021</b> | <b>Approximate % increase to liabilities</b> | <b>Approximate monetary amount £m</b> |
|--|--|---------------------------------------|
|  | <b>%</b>                                     |                                       |
| 0.5% p.a. increase in the pension increase rate                        | 10   | 333                                   |
| 0.5% p.a. increase in the salary increase rate                         | 1  | 46                                    |
| 0.5% p.a. decrease in the real discount rate                           | 11   | 388                                   |

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 20 – CURRENT ASSETS

| <b>31 March<br/>2020<br/>£'000</b> |                               | <b>31 March<br/>2021<br/>£'000</b> |
|------------------------------------|-------------------------------|------------------------------------|
| 403                                | Contributions due – employees | 421                                |
| 1,234                              | Contributions due – employers | 1,402                              |
| 2,192                              | Sundry debtors                | 2,194                              |
| <b>3,829</b>                       | <b>Total debtors</b>          | <b>4,017</b>                       |
| 8,100                              | Cash                          | 12,136                             |
| <b>11,929</b>                      | <b>Total</b>                  | <b>16,153</b>                      |

## NOTE 21 – CURRENT LIABILITIES

| <b>31 March<br/>2020<br/>£'000</b> |                  | <b>31 March<br/>2021<br/>£'000</b> |
|------------------------------------|------------------|------------------------------------|
| 1,828                              | Sundry creditors | 1,671                              |
| 1,062                              | Benefits payable | 1,542                              |
| <b>2,890</b>                       | <b>Total</b>     | <b>3,213</b>                       |

## NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The market value of the funds is stated below:

|                  | <b>Market value at<br/>31 March 2020<br/>£'000</b> | <b>Market value at<br/>31 March 2021<br/>£'000</b> |
|------------------|--|--|
| Clerical Medical | 3,674  | 4,372  |
| Utmost Life      | 193  | 193  |
| Standard Life    | 5  | 5  |
| <b>Total</b>     | <b>3,872</b>                                       | <b>4,570</b>                                       |

AVC contributions were paid directly to the managers as follows:

|                  | <b>2019/20<br/>£'000</b> | <b>2020/2021<br/>£'000</b> |
|------------------|--------------------------|----------------------------|
| Clerical Medical | 601                      | 597                        |
| Standard Life    | 10                       | 0                          |
| <b>Total</b>     | <b>611</b>               | <b>597</b>                 |



## NOTE 23 - 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 £1,231,146 (£1,275,899 in 2019/20) 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 Fund and contributed £25.33m to the Fund in 2020/21 (£27.06m in 2019/20). At the end of the year, the Council owed £0.405m to the Fund which was primarily in respect of interest paid on the Pension Fund's balances and contributions for March 2021 and the Fund owed £1.25m to the Council which was primarily in respect of recharges to the Council for the administrative costs.

The Gwynedd Pension Fund has two 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 2020/21, the Fund received interest of £88,037 (£266,995 in 2019/20) from Gwynedd Council.

### Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2020/21 (committee members P. Jenkins and J.B. Hughes). In addition, committee members P. Read (member until May 2020), S.W. Churchman, R.W. Williams, J.B. Hughes, A.W. Jones, I. Thomas, G. Edwards and S. Glyn are active members of the Pension Fund. The late D. Cowans was also an active member of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2020/21 (board members H.E. Jones and S. Warnes). In addition, Board members A.LI. Evans, O. Richards, H. Trainor and S.E. Parry are active members of the Pension Fund.

### Key Management Personnel

The key management personnel of the fund is the Section 151 officer.

The remuneration payable to key management personnel attributable to the fund is set out below:

| 31/03/2020 |                            | 31/03/2021 |
|------------|----------------------------|------------|
| £'000      |                            | £'000      |
|            | 8 Short-term benefits      | 8          |
|            | 2 Post-employment benefits | 2          |
| <hr/>      |                            | <hr/>      |
| 10         |                            | 10         |

## NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

|                                 | Total<br>commitments | Commitment at<br>31 March 2020 | Commitment at<br>31 March 2021 |
|---------------------------------|----------------------|--------------------------------|--------------------------------|
|                                 | €'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               | 2,096                          | 2,096                          |
| P.G. Global Infrastructure 2012 | 40,000               | 8,147                          | 7,019                          |
| P.G. Direct 2012                | 12,000               | 1,181                          | 1,181                          |
| P.G. Global Value 2014          | 12,000               | 1,531                          | 1,531                          |
| P.G. Direct Equity 2016         | 50,000               | 2,826                          | 2,826                          |
| P.G. Global Value 2017          | 42,000               | 25,973                         | 23,120                         |
| P.G. Global Infrastructure 2018 | 28,000               | 23,688                         | 21,516                         |
| P.G. Direct Equity 2019         | 48,000               | n/a                            | 30,964                         |
| PG Direct Infrastructure 2020   | 32,000               | n/a                            | 29,602                         |
| <b>Total Euros</b>              | <b>364,000</b>       | <b>71,655</b>                  | <b>126,068</b>                 |
|                                 | \$'000               | \$'000                         | \$'000                         |
| P.G. Emerging Markets 2011      | 7,000                | 1,082                          | 1,082                          |
| P.G. Secondary 2015             | 38,000               | 18,401                         | 17,640                         |
| P.G. Direct Infrastructure 2015 | 43,600               | 20,840                         | 13,780                         |
| <b>Total Dollars</b>            | <b>88,600</b>        | <b>40,323</b>                  | <b>32,502</b>                  |

'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 25 – 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 Fund and payment will only be triggered in the event of employer default.

## NOTE 26 – CONTINGENT LIABILITIES

There are no contingent liabilities identified.

## **NOTE 27 – IMPAIRMENT LOSSES**

### **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 £3,976,718, equating to 99.4% from the administrators up to 31 March 2021. The final dividend was received in July 2020 and the administration has now been completed.

## **The independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund**

### **Opinion on the financial statements**

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004. Gwynedd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

#### **Basis of opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

#### **Other information**

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

## Report on other requirements

### Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

### Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

## Responsibilities

### Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the Council's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Gwynedd Pension Fund's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the posting of unusual journals.
- obtaining an understanding of Gwynedd Pension Fund's framework of authority as well as other legal and regulatory frameworks that Gwynedd Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Gwynedd Pension Fund.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Pensions Committee;-
- reading minutes of meetings of those charged with governance and the administering authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all the audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Gwynedd Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

**Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Gwynedd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Adrian Crompton  
Auditor General for Wales  
19 November 2021

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Audit of Accounts Report – Gwynedd Pension Fund

Audit year: 2020-21

Date issued: November 2021

Document reference: 2690A2021-22



This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at [infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

# Contents

We intend to issue an unqualified audit report on your Annual Report and Accounts. There are some matters to report to you prior to their approval.

## Audit of Accounts Report

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# Audit of Accounts Report

## Introduction

- 1 We summarise the main findings from our audit of your 2020-21 annual report and accounts in this report.
- 2 We have already discussed these issues with the head of Finance and his team.
- 3 Auditors can never give complete assurance that accounts are correctly stated. Instead, we work to a level of 'materiality'. This level of materiality is set to try to identify and correct misstatements that might otherwise cause a user of the accounts into being misled.
- 4 We set this level at £25.3 million for this year's audit.
- 5 We have now substantially completed this year's audit.
- 6 In our professional view, we have complied with the ethical standards that apply to our work; remain independent of yourselves; and our objectivity has not been compromised in any way. There are no relationships between us and yourselves that we believe could undermine our objectivity and independence.

## Impact of COVID-19 on this year's audit

- 7 The COVID-19 pandemic has had a significant impact on all aspects of our society and continues to do so. You are required by law to prepare accounts and it is of considerable testament to the commitment of your accounts team that you have succeeded in doing so this year in the face of the challenges posed by this pandemic. We are extremely grateful to the professionalism of the team in supporting us to complete our audit in such difficult circumstances.
- 8 The pandemic has unsurprisingly affected our audit and we summarise in **Exhibit 1** the main impacts. Other than where we specifically make recommendations, the detail in **Exhibit 1** is provided for information purposes only to help you understand the impact of the COVID-19 pandemic on this year's audit process.

## Exhibit 1 – impact of COVID-19 on this year’s audit

|   |   |
|---|---|
| <b>Timetable</b>  | Officers provided us with the draft accounts on 24 June 2021 as planned. This complies with regulatory deadlines. We expect your audit report to be signed by the end of November 2021.   |
| <b>Electronic signatures</b>                                      | Given current social distancing requirements, it will be difficult for signing and certification of the accounts in hard copy again this year. We will accept electronic signatures from you.   |
| <b>Conducting the audit approach and obtaining audit evidence</b> | <p>Due to social distancing measures, Audit Wales and the majority of the Authority’s staff are currently working remotely from home. As a result, we adopted remote ways of working by:</p> <ul style="list-style-type: none"><li>• holding Microsoft Teams meetings with officers throughout the audit to discuss progress and emerging issues; and</li><li>• utilising our remote access to enable the audit team to access the Pension Fund’s system and financial records.</li></ul> |

- 9 We will continue to review what we have learned for our audit process from the COVID-19 pandemic and whether there are innovative practices that we might adopt in the future to enhance that process.

## Proposed audit opinion

- 10 **We intend to issue an unqualified audit opinion on this year’s accounts** once you have provided us with a Letter of Representation based on that set out in **Appendix 1**.
- 11 We issue a ‘qualified’ audit opinion where we have material concerns about some aspects of your accounts; otherwise, we issue an unqualified opinion.
- 12 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards.
- 13 Our proposed audit report is set out in **Appendix 2**.

## Significant issues arising from the audit

### Uncorrected misstatements

14 There are no misstatements identified in the accounts, which remain uncorrected.

### Corrected misstatements

15 There were some presentational omissions and minor errors in the draft financial statements that have now been corrected by management.

### Other significant issues arising from the audit

16 In the course of the audit, we consider a number of matters relating to the annual report and accounts and report any significant issues arising to you. There were no issues arising in these areas this year.

# Appendix 1

## Final Letter of Representation

Gwynedd Council letterhead

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

17 November 2021

### Representations regarding the 2020-21 financial statements

This letter is provided in connection with your audit of the financial statements of Gwynedd Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

### Management representations

#### Responsibilities

We have fulfilled our responsibilities for:

- the preparation of the financial statements in accordance with legislative requirements and CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2020-21; in particular the financial statements give a true and fair view in accordance therewith; and
- the design, implementation, maintenance, and review of internal control to prevent and detect fraud and error.

### Information provided

We have provided you with:

- full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- our knowledge of fraud or suspected fraud that we are aware of and that affects Gwynedd Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements;
- our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators, or others;
- our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements;
- the identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

The methods, the data and the significant assumptions used in making accounting estimates, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

## Representations by the Pensions Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Pensions Committee on 17 November 2021.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Dafydd L. Edwards

Councillor Peredur Jenkins

Head of Finance

Chair of the Pensions Committee

17 November 2021

17 November 2021



# Appendix 2

## Proposed Audit Report

### **The independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund**

#### **Opinion on the financial statements**

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004. Gwynedd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

#### **Basis of opinion**

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

## Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

## Report on other requirements

### Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

### Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my team;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

## Responsibilities

### Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the Council's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Gwynedd Pension Fund's policies and procedures concerned with:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the posting of unusual journals.
- obtaining an understanding of Gwynedd Pension Fund's framework of authority as well as other legal and regulatory frameworks that Gwynedd Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Gwynedd Pension Fund.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Pensions Committee;
- reading minutes of meetings of those charged with governance and the administering authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all the audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Gwynedd Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

## **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Gwynedd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Adrian Crompton  
Auditor General for Wales  
19 November 2021

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Cardiff  
CF11 9LJ



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We welcome correspondence and telephone calls in Welsh and English.  
Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.

# Agenda Item 6

|                 |  |
|-----------------|--|
| MEETING:        | <b>PENSIONS COMMITTEE</b>  |
| DATE:           | <b>17 NOVEMBER 2021</b>  |
| TITLE:          | <b>OBJECTIVES FOR INVESTMENT CONSULTANTS REVIEW</b>                                  |
| PURPOSE:        | <b>To report progress against current objectives and to review future objectives</b> |
| RECOMMENDATION: | <b>NOTE PROGRESS AND APPROVE FUTURE OBJECTIVES</b>                                   |
| AUTHOR:         | <b>DELYTH JONES-THOMAS, INVESTMENT MANAGER</b>                                       |

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## 1. INTRODUCTION

At the end of 2018, following a review of the investment consulting and fiduciary management markets, the Competition and Markets Authority (“CMA”) stipulated that Pension Scheme Trustees should set objectives for their investment consultants.

## 2. ESTABLISHING OBJECTIVES FOR INVESTMENT CONSULTANTS

The CMA states that objectives for consultants should include a clear definition of the outcome expected, and should be:

- ‘closely linked’ to the pension scheme’s strategic objectives
- reviewed at least every three years, and after a significant change to the investment strategy or objectives

Establishing long term objectives is part of a well organised governance approach. The extension to set objectives for investment consultants could be regarded as a natural progression towards all stakeholders being aligned towards a common goal.

## 3. GWYNEDD PENSION FUND OBJECTIVES FOR INVESTMENT CONSULTANTS

The objectives for Gwynedd Pension Fund can be found in Appendix 1, with the progress reported against them during 2021.

A compliance statement needs to be signed by the Pensions Committee Chairman by the required deadline of 7th January 2022.

## 4. FUTURE OBJECTIVES

The current objectives will remain for the upcoming period with an additional objective identified to develop the understanding of ESG and climate risk.

This objective aims to ensure that the investment consultants builds the knowledge of the Committee on ESG and climate risk considerations, support the

implementation of TCFD governance requirements and help the Committee understand and manage climate-related risks within the strategy.

## **5. RECOMMENDATION**

The Committee is asked to note the progress report and approve the Investment Consultants' objectives for the upcoming year.



| Consultant's Objectives   | Progress report during 2021  |
|---|--|
| 1. Advise on a suitable investment strategy, and amendments to the strategy, to deliver the required investment returns from the Fund's investments to support progress towards a long term steady state of funding | Advice has been given on the investment strategy during 2021, including advice on rebalancing given equity outperformance and options for topping up property allocation taking into account structural changes in the property market following the pandemic.   |
| 2. Deliver an investment approach that reflects the Fund's cashflow position, and likely evolution, and minimises the risk of forced disinvestment  | Strategic objectives for the Fund are stated in the ISS and the last Actuarial Valuation confirmed that the investment strategy provides the Fund with high likelihood of meeting its objectives   |
| 3. Advise on the cost efficient implementation of the Fund's investment strategy as required, taking into account the evolution of the Wales pool (WPP).  | This exercise is being carried out by the Wales Pension Partnership. Initial advice has also been provided on private markets opportunities to be made available through WPP.  |
| 4. Ensure advice complies with relevant pensions regulations, legislation and supporting guidance.  | All arrangements remain compliant. There have been no recent regulatory changes that the Fund needed to be aware of, although the Fund continues to monitor and receive training on expected legislative changes (TCFD).   |
| 5. Develop the Committee's policies and beliefs, including those in relation to Responsible Investment.   | Ongoing review of ESG policy, and potential broadening of the scope, supported by Responsible Investment training.   |
| 6. Ensure our advice reflects the Committee's own policies and beliefs, including those in relation to Responsible Investment considerations  | Ongoing advice has been provided on new investments, to ensure these are consistent with strategy  |
| 7. Provide relevant and timely advice   | Timely advice and regular updates are given, including quarterly performance monitoring, advice on rebalancing, and support on asset transitions (disinvestment from equities, investment in multi-asset credit and absolute return bonds, transition of emerging market equities to WPP).   |
| 8. Help the Committee develop knowledge and understanding of investment matters   | Hymans have not provided any direct training on new asset classes but have done through WPP. Hymans keep the Committee updated on market developments via presentation of the quarterly performance reports. The Committee received training on Responsible Investment (climate change and net zero) during 2021. The Fund has also taken part in the National Knowledge Assessment indicated the potential areas for future training needs. |
| 9. Our services to support your ongoing governance shall be proportionate and competitive in terms of costs relative to our peer group  | Hymans' fees are in line with peer group, with fixed fees for certain core tasks, and time-cost fees for additional tasks. Large project fees are agreed in Advanced   |
| 10. Develop the Committee's knowledge on ESG and climate risk   | New for 2022   |

# Agenda Item 7

|                 |   |
|-----------------|---|
| MEETING:        | <b>PENSIONS COMMITTEE</b>   |
| DATE:           | <b>17 NOVEMBER 2021</b>   |
| TITLE:          | <b>TREASURY MANAGEMENT 2021 –2022<br/>MID YEAR REVIEW</b>   |
| PURPOSE:        | <b>CIPFA’s Code of Practice recommends that a report on the Council’s actual Treasury Management during the current financial year is produced.</b> |
| RECOMMENDATION: | <b>RECEIVE THE REPORT FOR INFORMATION</b>   |
| AUTHOR:         | <b>DAFYDD L EDWARDS, HEAD OF FINANCE</b>  |

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## **EXECUTIVE SUMMARY**

**During the six month period between 1 April and 30 September 2021, the Council’s investments remained well within the limits originally set. There were no new defaults by banks in which the Council deposited money. Furthermore, it is estimated that the Council’s actual investment income will be higher than the expected income in the 2021/22 budget.**

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## **1. INTRODUCTION**

The Chartered Institute of Public Finance and Accountancy’s Treasury Management Code (CIPFA’s TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides a mid-year update.

The Council’s treasury management strategy for 2021/22 was approved by full Council on 4<sup>th</sup> March 2021. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council’s treasury management strategy.

It was decided at the Pensions Committee, 25 March 2021 to allow the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash flow for the financial year 2021/22.

## 2. EXTERNAL CONTEXT

**Economic background:** The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30<sup>th</sup> September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

**Financial markets:** Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more

internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and drivers of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30<sup>th</sup> September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

**Credit review:** Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 53bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

### 3. TREASURY INVESTMENT ACTIVITY

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the 6 months, the Council's investment balance ranged between £62.9 and £147.9 million due to timing differences between income and expenditure. The investment position during the period is shown in the table below.

#### Treasury Investment Position

|  | 31.3.21<br>Balance<br>£m | 6 month<br>Movement<br>£m | 30.9.21<br>Balance<br>£m | 30.9.21<br>Income<br>Returns<br>% |
|--|--------------------------|---------------------------|--------------------------|-----------------------------------|
| Banks & building societies (unsecured) | 8.6                      | 15.8                      | 24.4                     | 0.10                              |
| Local authorities                      | 20.0                     | 5.0                       | 25.0                     | 0.07                              |
| Debt Management Office                 | 0.0                      | 24.0                      | 24.0                     | 0.01                              |
| Money Market Funds                     | 26.0                     | (7.5)                     | 18.5                     | 0.01                              |
| Pooled Funds                           | 8.9                      | 0.3                       | 9.2                      | 4.10                              |
| <b>Total investments</b>               | <b>63.5</b>              | <b>37.6</b>               | <b>101.1</b>             |                                   |

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.

£10m of the Authority's investments are held in externally managed strategic pooled property and equity funds where short-term security and liquidity are lesser consideration, and the objectives instead are regular revenue income and long-term price stability. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Authority's investment objective are regularly reviewed.

The performance of our pooled property and equity funds at 30 September 2021 can be seen below:

| STRATEGIC POOLED FUND PORTFOLIO               |             |                            | GWYNEDD                                 |                  |                    |                           | From:          | 22/02/2019    | To:          | 30/09/2021  |
|---|-------------|----------------------------|---|------------------|--------------------|---------------------------|----------------|---------------|--------------|-------------|
| FUND NAME                                     | ASSET CLASS | No of Units Held in Period | Current Value £                         | Capital Growth £ | Dividends Earned £ | Holding Period (yrs)      | Capital Return | Income Return | Total Return | Volatility  |
| AEGON (KAMES) DIVERSIFIED MONTHLY INCOME FUND | MULTI ASSET | 1,158,480                  | 1,254,947                               | -4,947           | 157,264            | 2.6                       | 0.40%          | 12.58%        | 12.98%       | 15.6%       |
| CCLA - LAMIT PROPERTY FUND                    | PROPERTY    | 1,524,344                  | 4,713,881                               | -286,119         | 493,097            | 2.6                       | -5.72%         | 9.86%         | 4.14%        | 5.7%        |
| NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND | MULTI ASSET | 1,209,599                  | 1,207,116                               | -42,884          | 136,604            | 2.6                       | -3.43%         | 10.93%        | 7.50%        | 7.8%        |
| SCHRODER INCOME MAXIMISER FUND                | EQUITY - UK | 5,173,994                  | 2,067,528                               | -447,780         | 428,897            | 2.5                       | -17.80%        | 17.05%        | -0.75%       | 17.7%       |
| <b>GRAND TOTAL</b>                            |             |                            | <b>9,243,472</b>                        | <b>-771,837</b>  | <b>1,215,861</b>   | <b>2.6</b>                | <b>-7.71%</b>  | <b>12.14%</b> | <b>4.43%</b> | <b>8.0%</b> |
|   |             |                            | Unrealised capital loss since purchase: |                  | -756,529           | Annualised income return: |                | 4.53%         |              |             |

It is evident that the combined capital value of £9.243m is less than the initial investment of £10m. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters, and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. Investment in these funds will be maintained in the medium term.

### Investment Benchmarking

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

|                    | <b>Credit Score</b> | <b>Credit Rating</b> | <b>Bail-in Exposure</b> | <b>Weighted Average Maturity (days)</b> | <b>Rate of Return %</b> |
|--------------------|---------------------|----------------------|-------------------------|---|-------------------------|
| 30.06.2021         | 4.66                | A+                   | 51%                     | 35                                      | 1.43                    |
| 30.09.2021         | 4.52                | A+                   | 41%                     | 34                                      | 1.74                    |
| <b>Similar LAs</b> | <b>4.73</b>         | <b>A+</b>            | <b>58%</b>              | <b>48</b>                               | <b>0.48</b>             |
| <b>All LAs</b>     | <b>4.69</b>         | <b>A+</b>            | <b>69%</b>              | <b>10</b>                               | <b>2.35</b>             |

### Treasury Management Performance

The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates.

The Council's budgeted investment income for the year is £0.4m, however the actual expected investment income for the year 2021/22 is slightly higher, estimated at £0.44m.

## 4. COMPLIANCE

I can confirm that the treasury management activities undertaken during the period complied fully with CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

The Council's investments remained well within the limits originally set.

### Investment Limits

|   | <b>Counterparty Maximum during period</b> | <b>Counterparty 30.9.21 Actual</b> | <b>Counterparty 2021/22 Limit</b> | <b>Complied</b> |
|---|---|------------------------------------|-----------------------------------|-----------------|
| The UK Government                             | £50m                                      | £24m                               | Unlimited                         | ✓               |
| Local authorities & other government entities | £5m                                       | £5m                                | £10m                              | ✓               |
| Secured investments                           | £0  | £0m                                | £10m                              | ✓               |
| Banks (unsecured)                             | £5m                                       | £5m                                | £5m                               | ✓               |
| Building societies (unsecured)                | £0  | £0                                 | £5m                               | ✓               |

|                                  |     |     |      |   |
|----------------------------------|-----|-----|------|---|
| Registered providers (unsecured) | £0m | £0m | £5m  | ✓ |
| Money market funds               | £7m | £7m | £10m | ✓ |
| Strategic pooled funds           | £5m | £5m | £10m | ✓ |
| Real Estate Investment Trusts    | £0  | £0  | £10m | ✓ |
| Other investments                | £0m | £0m | £5m  | ✓ |

### Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating or credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

|                                | Target | Actual | Complied |
|--------------------------------|--------|--------|----------|
| Portfolio average credit score | 6.0    | 4.52   | ✓        |

**Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments.

|                                      | 30.9.21 Actual | 2021/22 Target | Complied |
|--------------------------------------|----------------|----------------|----------|
| Total cash available within 3 months | £76.9m         | £10m           | ✓        |

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest was:

| Interest rate risk indicator   | 30.9.21 Actual | 2021/22 Limit | Complied |
|--|----------------|---------------|----------|
| Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates | £573,968       | £635,000      | ✓        |
| Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates | £0             | £24,000       | ✓        |

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

|   | 2021/22 | 2022/23 | 2023/24 |
|---|---------|---------|---------|
| Actual principal invested beyond year end   | £0m     | £0m     | £0m     |
| Limit on principal invested beyond year end | £20m    | £20m    | £20m    |
| <b>Complied</b>                             | ✓       | ✓       | ✓       |

**5. INVESTMENT TRAINING**

During the period, officers have attended investment training with Arlingclose and CIPFA relevant to their roles.

**6. OUTLOOK FOR THE REMAINDER OF 2021/22**

|                                 | Dec-21      | Mar-22      | Jun-22      | Sep-22      | Dec-22      | Mar-23      | Jun-23      | Sep-23      | Dec-23      | Mar-24      | Jun-24      | Sep-24      | Dec-24      |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Official Bank Rate</b>       |             |             |             |             |             |             |             |             |             |             |             |             |             |
| Upside risk                     | 0.00        | 0.15        | 0.00        | 0.25        | 0.25        | 0.25        | 0.25        | 0.25        | 0.25        | 0.25        | 0.25        | 0.25        | 0.25        |
| <b>Arlingclose Central Case</b> | <b>0.10</b> | <b>0.10</b> | <b>0.25</b> | <b>0.25</b> | <b>0.25</b> | <b>0.50</b> | <b>0.50</b> | <b>0.50</b> | <b>0.50</b> | <b>0.50</b> | <b>0.50</b> | <b>0.50</b> | <b>0.50</b> |
| Downside risk                   | 0.00        | 0.00        | 0.15        | 0.15        | 0.15        | 0.40        | 0.40        | 0.40        | 0.40        | 0.40        | 0.40        | 0.40        | 0.40        |

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England’s desire to move from emergency levels as by fears of inflationary pressure.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

While Q2 UK GDP expanded more quickly than initially thought, the ‘pingdemic’ and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.