Complete Agenda

Democratic Service
Swyddfa'r Cygnor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, MONDAY, 21ST NOVEMBER, 2022

Location

Virtual Meeting

*** For public access to the meeting, please contact us***

Contact Point

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(DISTRIBUTED 14/11/22)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (4)

Councillors

Iwan Huws	Medwyn Hughes	Elin Hywel
Ioan Thomas		

Independent (2)

Councillors

John Pughe Roberts	John Brynmor Hughes

Lib / Lab (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

The Chairman shall propose that the press and public be excluded from the meeting during the discussion on the following items due to the likely disclosure of exempt information as defined in paragraph 14, Schedule 12A of the Local Government Act 1972.

This paragraph is relevant as the reports contain information relating to the financial or business affairs of any particular person (including the authority holding that information).

There is an acknowledged public interest in openness in relation to the use of public resources and related financial issues. It is also acknowledged that there are occasions, in order to protect the financial interests of public authorities that matters related to commercial information need to be discussed without being publicised. Publication of such commercially sensitive information would be inappropriate having regard to the legitimate interests of third parties and could undermine confidence to engage with the Council and therefore the Councils ability make decisions on behalf of the fund. This would be contrary to the wider public interest of securing value for money and the best overall outcome. For those reasons I am satisfied that the matter should be exempt in the public interest.

10. CLEAN ENERGY PROJECTS IN WALES (WALES PENSION PARTNERSHIP INITIATIVE)

To consider the report and approve the allocation to invest in Direct Clean Energy Projects in Wales

(copy for committee members only)

11. REVIEW OF GWYNEDD PENSION FUND'S STRATEGIC ASSET ALLOCATION

To consider and approve the fund’s revised strategic asset allocation

(copy for committee members only)

PENSIONS COMMITTEE 27-06-22

Present:

Councillors: Stephen Churchman, Goronwy Edwards (Conwy County Borough Council), John Brynmor Hughes, Medwyn Hughes, Iwan Huws, Elin Hywel, John Pughe Roberts and Ioan Thomas

Officers:

Dafydd Edwards (Fund Director), Delyth Jones Thomas (Investment Manager), Meirion Jones (Pensions Manager) and Lowri Haf Evans (Democracy Services Officer).

Others invited:

Sharon Warnes (observing – Pension Board Member)

Yvonne Thomas (Audit Manager, Audit Wales)
Malcolm Stanley (Hymans Robertson)

1. ELECTION OF CHAIR

Resolved to elect Councillor Stephen Churchman as Chair of the Committee for 2022/23

2. ELECTION OF VICE-CHAIR

Resolved to elect Councillor Ioan Thomas as Vice-Chair of this Committee for 2022/23

3. APOLOGIES

Apologies were received from Councillor Robin Williams (Isle of Anglesey County Council)

4. DECLARATION OF PERSONAL INTEREST

None to note

5. URGENT ITEMS

None to note

6. MINUTES

The Chair accepted the minutes of the meeting held on 17 March 2022 as a true record.

7. THE GWYNEDD PENSION FUND AUDIT PLAN FOR 2022

Yvonne Thomas (Audit Wales) was welcomed to the meeting.

The Audit Wales plan for 2022 was submitted, noting the work intended to be completed during the year, in line with the statutory responsibility they held as external auditors. Reference was made to the need to audit the pension fund's accounts, with the aim of identifying relevant misstatements, as well as the risks associated with the financial audit. Reference was made to the content of the performance auditing programme, offering an overview of the work to be done, the fees and the proposed timetable, and it was highlighted that a Statement of Responsibilities would be submitted, detailing matters and offering more information on the Auditors' work.

It was reported that the Covid-19 pandemic was continuing to have an unprecedented impact on the United Kingdom and on the work of the public sector, and Audit Wales was continuing to monitor the situation and discuss the implications of any changes with officers. It was highlighted that the risks noted were ones that were relevant to every plan and were not unique to Gwynedd and that the increase in fees was due to the need to continually invest in the quality of the audit work in response to increasing pressures and costs.

The members expressed their thanks for the report and to Yvonne Thomas for attending the meeting. A willingness to collaborate was expressed along with an appreciation that the Audit Wales Team were fluent in Welsh, and it was noted that this was to be welcomed.

RESOLVED:

To accept the Gwynedd Pension Fund Audit Plan for the year 31 March 2022 (which is undertaken by Audit Wales).

8. DRAFT ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2022

Submitted, for information, the report of the Investment Manager to provide details of the financial activities of the Pension Fund during the year ending on 31 March 2022. It was highlighted that the accounts (draft) were subject to audit and the audit would be undertaken by Audit Wales.

It was reported that the accounts followed the statutory CIPFA format, with the guidance interpreting what was presented in the accounts.

It was expressed that the year had been very busy for the fund when transferring emerging markets for the Wales Pension Partnership, setting a net zero target and monitoring the effects of events such as the Ukraine war. Reference was made to a summary of the fund account, noting that the figures were relatively consistent. It was reiterated that there had been a reduction in the management costs since the previous year, after the Partners fees had stabilised.

With an increase in the fund's market value of £247 million, the value of the fund came to £2.7billion.

The Fund Director took the opportunity to thank the Investment Team for its commitment to ensure that the Statement of Accounts (Draft) had been completed within the timetable. He noted that the Head of Finance had already certified the draft accounts and that sharing the accounts with the Members was good practice, in order to give them an opportunity to ask questions / make observations.

Thanks were expressed for the report.

In response to a question regarding the explanation of 'unclaimed benefits', it was noted that the term referred to situations, e.g. where repayments had been frozen, failure to identify the location of an individual or very simply, benefits that had not been claimed by contributors.

In response to an observation regarding a reduction in the sales over the year, it was noted that the reduction referred to the activity and not to a reduction in value. It was reiterated that the activity of transferring investments had created an impact (83% of investments now transferred to the Wales Pension Fund).

In response to a question regarding a reduction in the net gains on investments
In response to a question regarding a reduction in the net gains on investments (£249.18m on 31 March 2022 compared with £596.28m on 31 March 2021), it was noted that stock market equity investments had been prosperous since the pandemic struck in March 2020, but it had now stabilised - nevertheless, it was explained that £249.18m of gains indicated a good year.

In response to a question regarding the contributions of contributors being equal for all, regardless of the employer contributions, it was noted that the contributions varied, with changes being introduced with the triennial valuation.

RESOLVED to accept and note the Pension Fund's Statement of Accounts (subject to audit) for 2021/22.

9. WALES PENSION PARTNERSHIP BUSINESS PLAN

The Investment Manager submitted a report, which included the Partnership's Business Plan. It was reported that the Partnership created a Business Plan every year for a period of three years, with the content detailing how the Partnership would achieve its aims. The purpose of the business plan was:

- To explain the background and governance structure of the WPP
- To highlight the priorities and objectives over the next three years
- To outline the financial budget for the Business Plan period
- To summarise the WPP's Investments and Performance Objectives

It was reiterated that the business plan would be monitored regularly and be reviewed and formally agreed every year. It was also noted that the eight Authorities that made up the Partnership needed to approve the Plan.

Thanks were expressed for the report.

RESOLVED to accept and approve the Business Plan.

10. TREASURY MANAGEMENT

The Investment Manager submitted a report, noting that the Pensions Committee (at the Committee meeting on 25/03/21), had agreed to pool the Council and Pension Fund's investments for the 2021/22 financial year. It was reported that a decision was made annually to permit the surplus funds of the Pension Fund to be pooled and co-invested with the Council's general cash-flow. It was highlighted that the report compared the actual performance against the strategy for the 2021/22 financial year and achieved the Council's legal duty under the Local Government Act 2003 to take into account the CIPFA Code and the Welsh Government's Investment Guidance.

It was reported, during the 2021/22 financial year, that the Council's borrowing activity remained within the restrictions that had been originally set and £556,000 in interest was received on investments, which was higher than the £433,000 that was in the budget. It was reiterated that no organisation that the Council had invested money with them had defaulted.

Attention was drawn to the investment position, highlighting the areas where the Council had invested money over the period (the list included banks and building societies, local authorities, financial market funds, Debt Management Office (DMO) and pooled funds). It was reiterated that the Debt Management Office was being used this year for the first time for a while and this due to the fact that their rates were very competitive and suitable for investing the Council's cash levels. It was also reported that the rates had improved as a result of an increase in the basic rate from December 2021 onwards.

In the context of the compliance report and indicators, it was reported that all activities had complied in full with the CIPFA code of practice and the Council's Treasury Management Strategy - this was very encouraging news.

Thanks were expressed for the report.

RESOLVED to accept the report for information.

11. REPRESENTATION POLICY

A report was submitted by the Pensions Manager in response to the requirements of the Good Governance Review for authorities to ensure that every fund produced and published a policy on the representation of scheme members and employers that were not a part of the administration authority on the Committees, and explaining the voting rights arrangements of every group.

It was highlighted that the policy confirmed the Fund's stance in relation to appointments and the Committee's delegated rights, as well as the constitution of the Pension Board. It was reported that a draft of the Policy had been submitted to the Pension Board (4/4/22) and that the Board's recommendations had been included in the final version. One of the recommendations was to note that the Chair of the Pensions Committee served on the Wales Pension Partnership's Joint Governance Committee, and an invitation would be extended to the Vice-chair if the Chair was unable to attend.

Thanks were expressed for the report.

During the ensuing discussion, the following observations were noted:

- That the policy was simple and clear
- The policy reflected what was already in place

RESOLVED to accept and approve the Representation Policy.

12. PENSIONS ADMINISTRATION STRATEGY

A report was submitted by the Pensions Manager, which again responded to the requirements of the Good Governance Review for every administering authority to produce and publish an administrative strategy that was accessible and achieved the requirements of the LGPS Regulations.

It was explained, as part of the preparations for the good governance project, that a draft copy of the strategy had been shared with Hymans Robertson in order to receive feedback. It was confirmed that the Administration Strategy touched on the appropriate fields and they were of the opinion that it met all current requirements and those additional requirements that derived from the Good Governance review. It was reiterated that a draft copy of the strategy had also been submitted to the Pension Board (17/3/22) and that the recommendations of the Board were included in the final version. Following a presentation to the Board, a copy of the strategy was also shared with the fund's employers, however, no observations or feedback was received.

It was reiterated that the strategy would be reviewed annually.

Thanks were expressed for the report.

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

- That the strategy responded well to the requirements of the LGPS Regulations
- That the strategy would benefit the Pensions Unit - it would set a timetable, note responsibilities and procedures for communicating
- That the strategy was detailed
- The document was to be welcomed

RESOLVED to accept and approve the Pensions Administration Strategy

13. SECTION 13 REPORT

The Fund Director submitted a report, setting the background and purpose of Section 13 of the Public Services Pensions Act 2013, which made it mandatory for a report to be published on the valuation of the 91 Local Government Pension Funds in England and Wales every three years.

It was highlighted that the Levelling Up, Housing and Communities Department had appointed the Government's Actuary Department to undertake the exercise of scrutinising the results of the 2019 valuations across the UK funds, and for their conclusions to be published in December 2021. It was reiterated that the Gwynedd Pension Fund had met all criteria of the Section 13 valuation without any amber or red flags being raised or concerns requiring the Committee's attention being highlighted - this news was positive and very encouraging.

Malcolm Stanley from Hymans Robertson was invited to give an independent update to the Committee on the practice and submit and explain the results of the Gwynedd Fund. He noted in his presentation that the Gwynedd Fund was in a good position, and that there were no concerns about the funding of the scheme.

The members gave thanks for the report and thanked Malcolm Stanley for attending.

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

- That the presentation to explain the figures was to be welcomed.
- That the method of 'setting the position' of the fund was inconsistent - there was a need to consider the highest or lowest position, and not a combination of both.
- That the result gave the Committee assurance as it moved on to the next valuation.

RESOLVED to accept the report for information.

The meeting commenced at 15:00 and concluded at 16:00

Agenda Item 5

MEETING:	**PENSIONS COMMITTEE**
DATE:	**21 NOVEMBER 2022**
TITLE:	**TREASURY MANAGEMENT 2022 –2023 MID YEAR REVIEW**
PURPOSE:	**CIPFA's Code of Practice recommends that a report on the Council's actual Treasury Management during the current financial year is produced.**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

EXECUTIVE SUMMARY

During the six month period between 1 April and 30 September 2022, the Council's investment of the Pension Fund's surplus funds, pooled and co-invested with the Council's cash flow, remained well within the limits originally set. There were no defaults by the banks in which money was deposited. Furthermore, it is estimated that the actual investment income will be significantly higher than the expected income in the 2022/23 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 2022/23 was approved by full Council on 3rd March 2022. 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.

CIPFA published its revised Treasury Management Code of Practice and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non- treasury investments. The principles within the two codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish which the Council has elected to do.

It was decided at the Pensions Committee, 17 March 2022 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 2022/23.

2. EXTERNAL CONTEXT

Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.
Bank of England policymakers noted that any resulting inflationary impact of increased demand

would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July and September, taking policy rates to a range of 3% - 3.25%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

Financial markets: Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

Credit review: In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remain under constant review.

3. TREASURY INVESTMENT ACTIVITY

CIPFA revised TM Code defines treasury management investments as those which arise from the Council's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.

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 £82.3 and £170.8 million due to timing differences between income and expenditure. The investment position during the period is shown in the table below.

Treasury Investment Position

	31.3.22 Balance £m	6 month Movement £m	30.9.22 Balance £m	30.9.22 Income Returns %
Banks & building societies (unsecured)	23.1	10.2	33.3	1.64
Local authorities	30.0	(15.0)	15.0	1.97
Money Market Funds	17.0	36.0	53.0	2.07
Pooled Funds	9.8	(0.6)	9.2	4.76
Debt Management Office	18.0	(18.0)	0.0	n/a
Total investments	**97.9**	**12.6**	**110.5**	

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.

The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, which had ranged between 0.7% - 1.5% at the end of March, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.

By the end of September, the rates on DMADF deposits ranged between 1.85% and 3.5%. The return on the Council's sterling low volatility net asset value Money Market Funds ranged between 0.54% - 0.58% p.a. in early April and between 1.96% and 2.17% at the end of September.

£10m of the Council's investments are held in externally managed strategic pooled property, multi-asset 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 Council's investment objective are regularly reviewed.

The performance of our pooled property, multi-asset and equity funds at 30 September 2022 can be seen below:

STRATEGIC POOLED FUND PORTFOLIO	GWYNEDD	From:	30/09/2021	To:	30/09/2022

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	1,052,132	-202,815	69,928	1.0	-16.16%	5.57%	-10.59%	10.5%
CCLA - LAMIT PROPERTY FUND	PROPERTY	1,524,344	5,219,354	505,472	180,086	1.0	10.72%	3.82%	14.54%	5.9%
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	1,228,153	1,080,434	-126,693	43,345	1.0	-10.50%	3.59%	-6.90%	4.4%
SCHRODER INCOME MAXIMISER FUND	EQUITY - UK	5,173,994	1,824,350	-243,178	163,069	1.0	-11.76%	7.89%	-3.87%	14.9%
GRAND TOTAL			9,176,269	-67,214	456,428	1.0	-0.73%	4.94%	4.21%	6.3%
			Unrealised capital loss since purchase:	-823,731		Annualised income return:		4.94%		

It is evident that the combined capital value of £9.176m 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.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
30.06.2022	4.55	A+	60%	29	1.42
30.09.2022	4.92	A+	80%	36	2.32
Similar LAs	**3.93**	**AA-**	**39%**	**74**	**2.06**
All LAs	**4.29**	**AA-**	**55%**	**18**	**2.06**

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 2022/23 is significantly higher, estimated at £1.8m due to the increase in the base rate and forecasted future increases.

4. COMPLIANCE

The Head of Finance 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

	Counterparty Maximum during period	Counterparty 30.9.22 Actual	Counterparty 2022/23 Limit	Complied
The UK Government	£61m	£0m	Unlimited	✓
Local authorities & other government entities	£5m	£5m	£10m	✓
Secured investments	£0m	£0m	£10m	✓
Banks (unsecured)	£5m	£5m	£5m	✓
Building societies (unsecured)	£5m	£5m	£5m	✓
Registered providers (unsecured)	£0m	£0m	£5m	✓
Money market funds	£10m	£10m	£10m	✓
Strategic pooled funds	£5m	£5m	£10m	✓
Real Estate Investment Trusts	£0m	£0m	£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.

	Actual	Target	Complied
Portfolio average credit score	4.9	6.0	✓

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.

	30.9.22 Actual	2022/23 Target	Complied
Total cash available within 3 months	£81.3m	£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 were:

Interest rate risk indicator	30.9.22 Actual	2022/23 Limit	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£878,000	£643,000	x
Upper limit on one-year revenue impact of a 1% fall in interest rates	£878,000	£643,000	x

This indicator has not been complied with as the interest rate environment was significantly different to when setting the strategy was set. The Council's revenue budget is expected to benefit from higher interest earnings in the short term.

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 were:

	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£0m	£0m	£0m
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓

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 2022/23

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

Gilt yields will face further upward pressure in the short term due to lower confidence in UK fiscal policy, higher inflation expectations and asset sales by the BoE. Given the recent sharp rises in gilt yields, the risks are now broadly balanced to either side. Over the longer term, gilt yields are forecast to fall slightly over the forecast period.

<u>Background:</u>

Monetary policymakers are behind the curve having only raising rates by 50bps in September. This was before the "Mini-Budget", poorly received by the markets, triggered a rout in gilts with a huge spike in yields and a further fall in sterling. In a shift from recent trends, the focus now is perceived to be on supporting sterling whilst also focusing on subduing high inflation.

There is now an increased possibility of a special Bank of England MPC meeting to raise rates to support the currency. Followed by a more forceful stance over concerns on the looser fiscal outlook. The MPC is therefore likely to raise Bank Rate higher than would otherwise have been necessary given already declining demand. A prolonged economic downturn could ensue.

Uncertainty on the path of interest rates has increased dramatically due to the possible risk from unknowns which could include for instance another Conservative leadership contest, a general election, or further tax changes including implementing windfall taxes.

The government's blank cheque approach to energy price caps, combined with international energy markets priced in dollars, presents a fiscal mismatch that has contributed to significant decline in sterling and sharp rises in gilt yields which will feed through to consumers' loans and mortgages and business funding costs.

UK government policy has mitigated some of the expected rise in energy inflation for households and businesses flattening the peak for CPI, whilst extending the duration of elevated CPI. Continued currency weakness could add inflationary pressure.

The UK economy already appears to be in recession, with business activity and household spending falling. The short- to medium-term outlook for the UK economy is relatively bleak.

Global bond yields have jumped as investors focus on higher and stickier US policy rates. The rise in UK government bond yields has been sharper, due to both an apparent decline in investor confidence and a rise in interest rate expectations, following the UK government's shift to borrow to loosen fiscal policy. Gilt yields will remain higher unless the government's plans are perceived to be fiscally responsible.

The housing market impact of increases in the Base Rate could act as a "circuit breaker" which stops rates rising much beyond 5.0%, but this remains an uncertainty.

Agenda Item 6

MEETING	**PENSIONS COMMITTEE**
DATE	**21 NOVEMBER 2022**
TITLE	**Taskforce on Climate-related Financial Disclosures (TCFD) - LGPS consultation**
PURPOSE	**To present the response on behalf of Gwynedd Pension Fund to the consultation**
RECOMMENDATION	**Approve the response**
AUTHOR	**Dafydd L. Edwards, Fund Director**

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1. UK Government's Consultation

With the impact of climate change being felt more acutely across the globe, on 1st September the UK Government's Department for Levelling Up, Housing and Communities (DLUHC) launched their consultation on governance and reporting of climate risks in the Local Government Pension Scheme (LGPS).

As expected, the proposals to require LGPS administering authorities to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), and regulations expected to come into force by April 2023.

The consultation and proposals apply to all LGPS funds in England and Wales, and are set out on the following link –

> Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks - GOV.UK (www.gov.uk)

2. Consultation Response

The consultation response can be seen in Appendix 1. This has been prepared with input from the fund's advisors, Hymans Robertson.

3. Recommendation

The Committee is asked to approve the consultation response.

APPENDIX 1

Gwynedd Pension Fund (November 2022)

Consultation response: Governance and reporting of climate change risks

We are supportive of this consultation and the proposal to embed climate risk governance and reporting requirements into the Local Government Pension Scheme (LGPS), aligning the public sector with requirementsalready in place for private sector pension schemes. As long-term investors, the LGPS can play an important role in addressing climate change through its investments and stewardship.

Whilst the proposals make reference to expected statutory guidance for administering authorities (AAs), we believe that it may also be helpful to have additional guidance, statutory or otherwise, for LGPS Pools. Given the importance that such guidance will play, we hope that government will consult separately on this guidance prior to the proposals being finalised.

Question 1: Do you agree with our proposed requirements in relation to governance?

We believe the proposed requirements are sensible. The proposals refer to expertise being provided by the committee's officers, advisers and the Pool – it may be helpful for guidance to outline examples of what advice each of the officers and the Pool may be expected to provide.

Question 2: Do you agree with our proposed requirements in relation to strategy?

We agree with the proposed requirements.

Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

We agree with the proposed requirements on scenario analysis.

Question 4: Do you agree with our proposed requirements in relation to risk management?

We agree with the proposed requirements on risk management, noting that the proposed approach again creates a framework for the consideration of risks which will be supplemented by statutory guidance.

Question 5: Do you agree with our proposed requirements in relation to metrics?

Overall, we are broadly supportive of the proposed requirements. The categorisation of data as set out by the proposals is sensible, with a focus on quality rather than availability. Guidance needs to address the extent to which AAs should be expected to estimate missing or unavailable data.

Question 6: Do you agree with our proposed requirements in relation to targets?

We agree with the proposed requirements although believe these could be strengthened slightly. The guidance should make it clear that the most useful and appropriate targets are those where AAs are able to clearly influence outcomes against the target, rather than targets that could be expected to be achieved regardless of any action taken by the Authority.

Question 7: Do you agree with our approach to reporting?

The proposals suggest a single reporting approach which targets multiple audiences, making suggestions as to how this could be accommodated. Given the complex nature of climate risk and particularly the technical nature of many of the governance and reporting requirements, we believe that adopting a standard form of this summary whilst allowing greater flexibility in how more technical details are communicated may support transparency across the LGPS.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

We believe that aggregated data would be the most appropriate way of reporting across the LGPS. Although we do not believe it appropriate to include the data on individual AAs, we see this as an inevitable consequence of this reporting. If it is not done centrally then other bodies will undertake this exercise and publish the information, creating "league tables". The use of such league tables without the context of the strategies adopted by individual Funds could be counterproductive, creating a risk of challenge to individual AAs, with resource being drawn into responding to more detailed requests for information. For instance, a Fund that adopts a more measured strategy to reducing carbon emissions may be making a greater contribution to real world change than a Fund whose focus is on reducing carbon emissions as quickly as possible, whereas both strategies are valid. One potential consequence of this reporting is that Funds may be challenged to act now (reducing carbon emissions through divesting from high emitting sectors) rather than working with companies to encourage decarbonisation of processes and economic activity.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

We believe that Pools should support and drive stewardship by making available relevant strategies, rather than dictating them.

Question 10: Do you agree with our proposed approach to guidance?

We agree that statutory guidance should be provided, but as climate reporting is at an early stage of its evolution and to suggest that there is a single reporting approach that would capture that broad range of potential practices at this time is potentially not appropriate.

Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

We agree that individuals making decisions in response to climate-risk management processes need to have appropriate knowledge and understanding of the topic and therefore proper, high-quality advice must be received, while administering authorities should set out their approach to relevant training.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

We are not aware of any elements of the proposals that could impact protected groups.

MEETING	**PENSIONS COMMITTEE**
DATE	**21 NOVEMBER 2022**
TITLE	**Gwynedd Pension Fund's Final Accounts for the year ended 31 March 2022 and relevant Audit Report**
PURPOSE	**To Submit Gwynedd Pension Fund's –** • **Statement of Accounts post- audit,** • **Audit Wales' ISA260 report, and** • **the Letter of Representation**
RECOMMENDATION	**To consider the auditor's report, approve the Statement of Accounts and authorise the Chair and Head of Finance to certify the letter**
RELEVANT OFFICERS	**Dewi A Morgan, Head of Finance** **Dafydd L Edwards, Fund Director** **Delyth Wyn Jones-Thomas, Investment Manager**

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1. STATUTORY ACCOUNTS FOR 2021/22

Gwynedd Pension Fund's statutory 2021/22 Statement of Accounts (post audit) are attached here, providing details of the Fund's financial activities during the year which ended on 31 March 2022.

2. AUDIT BY AUDIT WALES ON BEHALF OF THE AUDITOR GENERAL

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

3. RECOMMENDATION

The Pensions Committee is asked -

- to note the 'ISA 260' report from Audit Wales, and receive the auditor's comments,
- to consider and approve Gwynedd Pension Fund's post-audit Statement of Accounts for 2021/22, and
- to authorise the Chair and s.151 to (electronically) certify the Letter of Representation (Appendix 1) after the Pensions Committee has approved the above.

4. PENSION FUND ANNUAL GENERAL MEETING

Gwynedd Pension Fund's Statement of Accounts will also be presented for information to Committee members, Board members, and scheme employers at the Pension Fund's Annual General Meeting on 24th November 2022.

Gwynedd Pension Fund

STATEMENT OF ACCOUNTS 2021/22

NARRATIVE REPORT

Introduction

Gwynedd Pension Fund's accounts and notes for the year 2021/22 are presented here on pages 5 to 43.

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 Statement of Accounts and further information is available on Gwynedd Pension Fund's website 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. The next valuation is as at 31 March 2022 with any changes to employers' contributions from 1 April 2023 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 isrequired to make arrangements for the proper administration of its financial affairs and to secure that oneof 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 tomanage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets,and to approve the Statement of Accounts.

21st November 2022

Councillor Stephen Churchman

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 2022 and the Pension Fund's income and expenditure for the year then ended.

21st November 2022

Dewi Morgan CPFA

Head of Finance, Gwynedd Council

GWYNEDD PENSION FUND ACCOUNTS

THE FUND ACCOUNT

31 March 2021 £'000		Notes	31 March 2022 £'000
	Dealings with members, employers and others directly involved in the Fund		
78,252	Contributions	7	82,971
4	Other Income	8	4
3,356	Transfers in from other pension funds	9	2,664
81,612			**85,639**
(62,378)	Benefits	10	(66,979)
(3,052)	Payments to and on account of leavers	11	(3,683)
(65,430)			**(70,662)**
16,182	**Net additions/ (withdrawals) from dealings with members**		**14,977**
(22,669)	Management Expenses	12	**(16,525)**
(6,487)	**Net additions/ (withdrawals) including fund management expenses**		**(1,548)**
	Returns on investments		
30,768	Investment income	13	26,170
565,511	Profit and losses on disposal of investments and changes in the market value of investments	14	223,010
596,279	**Net returns on investments**		**249,180**
589,792	**Net Increase/ (Decrease) in the net assets available for benefits during the year**		**247,632**
1,938,337	**Opening net assets of the scheme**		**2,528,129**
2,528,129	**Closing net assets of the scheme**		**2,775,761**

The notes on pages 7 to 43 form part of these Financial Statements

NET ASSETS STATEMENT

31 March 2021 £'000		Notes	31 March 2022 £'000
2,515,169	Investment assets	14	2,761,271
146	Cash deposits	14	303
(126)	Investment liabilities	14	(285)
2,515,189	**Total net investments**		**2,761,289**
16,153	Current assets	20	17,828
(3,213)	Current liabilities	21	(3,356)
2,528,129	**Net assets of the fund available to fund benefits at the end of the reporting period**		**2,775,761**

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 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by Gwynedd Council.

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. Admission bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park Authority
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GwE	North and Mid Wales Trunk Road Agency
North Wales Economic Ambition Board	
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Llanfairfechan Town Council	
Admission Bodies	
Adult Learning Wales	North Wales Society for the Blind
Adferiad Recovery (formerly Cais)	Community and Voluntary Support Conwy
Holyhead Joint Burial Committee	Careers Wales North West
Cwmni Cynnal	Mantell Gwynedd
Cwmni'r Fran Wen	Medrwn Môn
Menter Môn	
Community Admission Bodies	
Cartrefi Conwy	Adra
Byw'n Iach	
Transferee Admission Bodies	
ABM Catering	Caterlink (until 31/07/21)
Kingdom Services Group	Chartwells (from 01/08/21)
A E & A T Lewis	

NOTE 1 – DESCRIPTION OF FUND (continued)

Membership details are set out below:

	31 March 2021	31 March 2022
Number of employers	46	46
Number of employees in scheme		
County Council	14,518	14,691
Other employers	3,777	3,966
Total	**18,295**	**18,657**
Number of pensioners		
County Council	8,902	9,281
Other employers	1,878	2,017
Total	**10,780**	**11,298**
Deferred pensioners		
County Council	10,473	10,512
Other employers	1,958	2,028
Total	**12,431**	**12,540**
Unclaimed benefits		
County Council	1,864	2,142
Other employers	230	283
Total	**2,094**	**2,425**
Undecided Leavers		
County Council	5,280	5,455
Other employers	759	737
Total	**6,039**	**6,192**
Total number of members in pension scheme	**49,639**	**51,112**

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 2022. 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 36.1% 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
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 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 2021/22.

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 2022 was £226.1 million (£211.6 million at 31 March 2021).

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). 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 £226.1 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 RECEIVED

By category

2020/21 £'000		2021/22 £'000
18,671	Employees' contributions	19,703
	Employers' contributions:	
59,581	• Normal contributions	63,233
0	• Deficit recovery contributions	35
59,581	**Total employers' contributions**	**63,268**
78,252	**Total contributions receivable**	**82,971**

By type of employer

2020/21 £'000		2021/22 £'000
25,328	Gwynedd Council	27,650
47,917	Other scheduled bodies	50,205
1,749	Admission bodies	1,716
2,712	Community admission bodies	2,892
140	Transferee admission bodies	161
352	Resolution bodies	313
54	Closed funds*	34
78,252		**82,971**

* Closed funds – These are contributions received from Ynys Môn Citizens Advice Bureau and Conwy Citizens Advice Bureau which were admitted bodies but are now closed funds.

NOTE 8 – OTHER INCOME

2020/21 £'000		2021/22 £'000
2	Interest on deferred contributions	2
2	Income from divorce calculations	2
4		**4**

NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2020/21 £'000		2021/22 £'000
3,356	Individual transfers	2,664
3,356		**2,664**

NOTE 10 - BENEFITS PAID

By category

2020/21 £'000		2021/22 £'000
50,411	Pensions	52,087
10,807	Commutation and lump sum retirement benefits	13,123
1,160	Lump sum death benefits	1,769
62,378		**66,979**

By type of employer

2020/21* £'000		2021/22 £'000
18,773	Gwynedd Council	20,183
28,234	Other scheduled bodies	31,868
1,506	Admission bodies	1,651
1,133	Community admission bodies	1,217
50	Transferee admission bodies	104
174	Resolution bodies	109
12,508	Closed funds	11,847
62,378		**66,979**

2020/21 figures have been reanalysed to correct the employer categories

NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2020/21 £'000		2021/22 £'000
92	Refunds to members leaving service	138
2,960	Individual transfers	3,545
3,052		**3,683**

NOTE 12 – MANAGEMENT EXPENSES

2020/21 £'000		2021/22 £'000
21,128	Investment management expenses	14,788
1,268	Administrative costs	1,373
273	Oversight and governance costs	364
22,669		**16,525**

NOTE 12a – INVESTMENT MANAGEMENT EXPENSES

2021/22	Management Fees	Transaction Costs	Total
	£'000	£'000	£'000
Pooled Funds			
Fixed Income	297	0	**297**
Equities	2,420	693	**3,113**
Other Investments			
Pooled Property	1,744	0	**1,744**
Private Equity	6,445	0	**6,445**
Infrastructure	2,937	0	**2,937**
	13,843	693	**14,536**
Custody Fees			**252**
Total			**14,788**

2020/21	Management fees	Transaction costs	Total
	£'000	£'000	£'000
Pooled Funds			
Fixed Income	865	0	**865**
Equities	2,733	442	**3,175**
Other Investments			
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**
Custody Fees			**205**
Total			**21,128**

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, Absolute Return Bond and Emerging Market 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 2021/22 were £1,881,000 (£1,846,000 in 2020/21).

NOTE 12b- ADMINISTRATIVE COSTS

2020/21 £'000		2021/22 £'000
576	Direct employee costs	652
316	Other direct costs	344
376	Support services, including IT	377
1,268		**1,373**

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

2020/21 £'000		2021/22 £'000
88	Actuarial fees	117
44	Investment consultancy fees	49
13	Performance monitoring service	9
34	External audit fees	36
6	Pensions Committee and Local Pension Board	18
88	Wales Pensions Partnership	135
273		**364**

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.

	2020/21 £'000	2021/22 £'000
Investment Management Expenses		
Fund Manager fees	1,955	2,286
Transaction costs	442	693
Custody fees	179	227
	2,576	**3,206**
Oversight and governance costs		
Running Costs	88	135
Total	**2,664**	**3,341**

NOTE 13 – INVESTMENT INCOME

2020/21 £'000		2021/22 £'000
1,579	Fixed Income	4,430
20,587	Equities	12,141
1,108	Private Equity	2,090
888	Infrastructure	280
6,507	Pooled property investments	7,213
99	Interest on cash deposits	16
30,768	**Total before taxes**	**26,170**

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 2021 £'000		31 March 2022 £'000
	Investment assets	
	Pooled Funds	
484,315	Fixed income	551,777
1,624,630	Equities	1,730,845
	Other Investments	
194,581	Pooled property investments	252,521
165,423	Private equity	158,711
46,220	Infrastructure	67,417
2,515,169		**2,761,271**
146	Cash deposits	303
2,515,315	**Total investment assets**	**2,761,574**
	Investment liabilities	
(126)	Amounts payable for purchases	(285)
(126)	**Total investment liabilities**	**(285)**
2,515,189	**Net investment assets**	**2,761,289**

NOTE 14a – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2021/22	Market value at 1 April 2021	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Pooled investments	2,108,945	151,612	(116,647)	138,712	2,282,622
Pooled property investments	194,581	19,038	0	38,902	252,521
Private equity / infrastructure	211,643	38,945	(56,756)	32,296	226,128
	2,515,169	209,595	(173,403)	209,910	2,761,271
Cash deposits	146				303
Amounts payable for purchases of investments	(126)				(285)
Fees within pooled vehicles				13,100	
Net investment assets	**2,515,189**			**223,010**	**2,761,289**

2020/21	Market value at 1 April 2020	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2021
	£'000	£'000	£'000	£'000	£'000
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
	1,928,515	792,720	(752,105)	546,039	2,515,169
Cash deposits	783				146
Amounts payable for purchases of investments	0				(126)
Fees within pooled vehicles				19,472	
Net investment assets	**1,929,298**			**565,511**	**2,515,189**

NOTE 14b – ANALYSIS OF INVESTMENTS

Investments analysed by fund manager

Market Value at 31 March 2021 £'000	%		Market Value at 31 March 2022 £'000	%
1,360,124	54.1	Wales Pension Partnership	1,496,425	54.2
735,481	29.2	BlackRock	851,675	30.9
211,643	8.4	Partners Group	226,128	8.2
47,627	1.9	UBS	75,739	2.7
61,338	2.4	Lothbury	72,139	2.6
31,904	1.3	Threadneedle	39,450	1.4
20	0.0	Veritas	18	0.0
67,178	2.7	Fidelity	0	0.0
2,515,315	**100.0**		**2,761,574**	**100.0**

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

Market Value at 31 March 2021 £'000	%		Market Value at 31 March 2022 £'000	%
442,964	17.5	WPP Global Opportunities Fund	454,098	16.4
432,845	17.1	WPP Global Growth Fund	430,749	15.5
307,181	12.2	WPP Absolute Return Bond	353,857	12.7
297,967	11.8	Black Rock ACS World Low Carbon Fund	346,072	12.5
211,625	8.4	Black Rock Aquila Life UK Equity Index Fund	239,314	8.6
172,052	6.8	Black Rock Aquila Life Gl Dev Fundamental Fund	200,811	7.2
177,134	7.0	WPP Multi Asset Credit Fund	197,920	7.1

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 £126,800 (£94,796 in 2020/21). Currently the Fund has total quoted equities of £35.8m on loan. These equities continue to be recognised in the 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)	• EBITDA multiple • Revenue multiple • Discount for lack of marketability • Control premium	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 2022. 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 2021/22.

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.

Values at 31 March 2022	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total £'000**
Financial assets at fair value through profit and loss				
Fixed income	0	551,777	0	551,777
Equities	0	1,730,845	0	1,730,845
Pooled property investments	0	252,521	0	252,521
Private equity	0	0	158,711	158,711
Infrastructure	0	0	67,417	67,417
Cash deposits	303	0	0	303
	303	**2,535,143**	**226,128**	**2,761,574**
Financial liabilities at fair value through profit and loss				
Payables for investment purchases	(285)	0	0	(285)
Total	**18**	**2,535,143**	**226,128**	**2,761,289**

NOTE 15a – FAIR VALUE HIERARCHY (CONTINUED)

Values at 31 March 2021	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss				
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
	146	**2,303,526**	**211,643**	**2,515,315**
Financial liabilities at fair value through profit and loss				
Payables for investment purchases	(126)	0	0	(126)
Total	**20**	**2,303,526**	**211,643**	**2,515,189**

NOTE 15b – RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2021 £'000	Transfers out of Level 3 £'000	Purchases during the year £'000	Sales during the year £'000	Unrealised gains/ (losses) £'000	Realised (gains)/ losses £'000	Market Value 31 March 2022 £'000
Property Unit Trusts	0	0	0	0	0	0	0
Private Equity	165,423	0	23,050	(22,550)	23,275	(30,487)	158,711
Infrastructure	46,220	0	15,895	(3,488)	9,021	(231)	67,417
Total Level 3	**211,643**	**0**	**38,945**	**(26,038)**	**32,296**	**(30,718)**	**226,128**

	Market Value 1 April 2020 £'000	Transfers out of Level 3 £'000	Purchases during the year £'000	Sales during the year £'000	Unrealised gains/ (losses) £'000	Realised (gains)/ losses £'000	Market Value 31 March 2021 £'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
Total Level 3	**348,486**	**(191,256)**	**29,249**	**(15,067)**	**49,447**	**(9,216)**	**211,643**

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.

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 2021				As at 31 March 2022		
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**
			Financial assets			
2,108,945			Pooled investments	2,282,622		
194,581			Pooled property investments	252,521		
165,423			Private equity	158,711		
46,220			Infrastructure	67,417		
	12,282		Cash		14,481	
	4,017		Debtors		3,650	
2,515,169	**16,299**	**0**		**2,761,271**	**18,131**	**0**
			Financial liabilities			
		(3,339)	Creditors			(3,641)
0	**0**	**(3,339)**		**0**	**0**	**(3,641)**
2,515,169	**16,299**	**(3,339)**		**2,761,271**	**18,131**	**(3,641)**

NOTE 16a – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2021		**31 March 2022**
Fair value		**Fair value**
£'000		£'000
	Financial assets	
546,039	Fair value through profit and loss	209,909
0	Loans and receivables	0
546,039	**Total financial assets**	**209,909**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	**Total financial liabilities**	**0**
546,039	**Net financial assets**	**209,909**

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 (pricerisk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fundmanages 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 and 2021/22 reporting period.

Asset type	**Potential market movement (+/-)**	
	31 March 2021	**31 March 2022**
	%	%
UK Equities	16.7	19.9
Global Equities	17.4	20.1
Emerging Markets Equities	22.1	27.0
Private Equity	28.5	31.2
Absolute Return Bond	2.1	2.8
Infrastructure	21.0	14.6
Property	14.2	15.0
Diversified Credit	6.2	7.4
Cash	0.3	0.3
Total Fund	**11.7**	**14.3**

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:

Asset type	Value as at 31 March 2022 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	239,314	19.9	286,937	191,690
Global Equities	1,431,729	20.1	1,719,508	1,143,952
Emerging Markets Equities	59,802	27.0	75,948	43,655
Private Equity*	158,711	31.2	208,228	109,193
Absolute Return Bonds	353,857	2.8	363,765	343,949
Infrastructure*	67,417	14.6	77,260	57,574
Property	252,521	15.0	290,399	214,643
Diversified Credit	197,920	7.4	212,566	183,274
Cash	14,481	0.3	14,525	14,438
Debtors and Creditors	9	0.0	9	9
Total assets available to pay benefits	**2,775,761**		**3,249,145**	**2,302,377**
*Level 3 assets	226,128		285,488	166,767

Asset type	Value as at 31 March 2021 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
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
Total assets available to pay benefits	**2,528,129**		**2,914,441**	**2,141,814**
*Level 3 assets	211,643		268,494	154,791

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 2021 and 31 March 2022 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 2021	As at 31 March 2022
	£'000	£'000
Cash and cash equivalents	12,136	14,178
Cash balances	146	303
Pooled Fixed Income	484,315	551,777
Total	**496,597**	**566,258**

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 2022	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	14,178	142	(142)
Cash balances	303	3	(3)
Pooled Fixed Income *	551,777	5,518	(5,518)
Total change in assets available	**566,258**	**5,663**	**(5,663)**

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

* 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 0.10% amounting to interest of £14,183 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 (€363.2 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 2022 is 9.5%. The equivalent rate for the year ended 31 March 2021 was 9.8%. This analysis assumes that all other variables, inparticular 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 2022 and at the end of the previous financial year:

Currency exposure - by asset type	**Carrying amount as at 31 March 2022**	**Change in year in the net assets available to pay benefits**	
		Value on increase	**Value on decrease**
	£'000	**£'000**	**£'000**
Global Equities	1,431,729	1,567,744	1,295,716
Emerging Markets Equities	59,802	65,483	54,120
Private Equity	158,711	173,788	143,633
Absolute Return Bonds	353,857	387,473	320,240
Infrastructure	67,417	73,822	61,013
Diversified Credit	197,920	216,722	179,118
Total change in assets available	**2,269,436**	**2,485,032**	**2,053,840**

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
Total change in assets available	**2,108,963**	**2,315,642**	**1,902,284**

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:

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Wales Pension Partnership Emerging Markets	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.

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.

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 2022 the value of illiquid assets was £479m, which represented 17.2% of the total Fund assets (31 March 2021: £406m, which represented 16.1% 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 2022 are due within one year as was the case at 31 March 2021.

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 byrecognising the link between assets and liabilities and adopting an investment strategy whichbalances 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 Years	Female 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.gwyneddpensionfund.wales

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020/21 and 2021/22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better that that reported at the previous valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year's annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statements will also be reviewed as part of the triennial funding valuation exercise.

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 2021 and 2022 are shown below:

	31 March 2021 £m	31 March 2022 £m
Active members	1,939	1,929
Deferred members	631	583
Pensioners	882	818
Total	**3,452**	**3,330**

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 2021 and 2022. The actuary estimates that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £281m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £18m.

Assumption	31 March 2021 %	31 March 2022 %
Pension increase rate	2.85	3.20
Salary increase rate	3.15	3.50
Discount rate	2.00	2.70

The life expectancy for the longevity assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% 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 Years	Female Years
Current pensioners	21.3	23.7
Future pensioners (aged 45 at the 2019 valuation)	22.4	25.7

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:

Sensitivity to the assumptions for the year ended 31 March 2022	Approximate increase to liabilities %	Approximate monetary amount £m
0.1% p.a. increase in the pension increase rate	2	63
0.1% p.a. increase in the salary increase rate	0	8
0.1% p.a. decrease in the real discount rate	2	72
1 year increase in member life expectancy	4	133

NOTE 20 – CURRENT ASSETS

31 March 2021 £'000		31 March 2022 £'000
421	Contributions due – employees	483
1,402	Contributions due – employers	1,597
2,194	Sundry debtors	1,570
4,017	**Total debtors**	**3,650**
12,136	Cash	14,178
16,153	**Total**	**17,828**

NOTE 21 – CURRENT LIABILITIES

31 March 2021 £'000		31 March 2022 £'000
1,671	Sundry creditors	1,697
1,542	Benefits payable	1,659
3,213	**Total**	**3,356**

NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The market value of the funds is stated below:

	Market value at 31 March 2021 £'000	Market value at 31 March 2022 £'000
Clerical Medical	4,372	4,670
Utmost Life	193	182
Standard Life	5	5
Total	**4,570**	**4,857**

AVC contributions were paid directly to the following manager:

	2020/21 £'000	2021/22 £'000
Clerical Medical	597	645
Total	**597**	**645**

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 £1,318,514 (£1,231,146 in 2020/21) 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 £27.65m to the Fund in 2021/22 (£25.33m in 2020/21). At the end of the year, the Council owed £0.32m to the Fund which was primarily in respect of interest paid on the Pension Fund's balances and contributions for March 2022 and the Fund owed £1.31m 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 2021/22, the Fund received interest of £14,183 (£88,037 in 2020/21) 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 2021/22 (committee members P. Jenkins and J.B. Hughes). In addition, committee members 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.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2021/22 (board members H.E. Jones and S. Warnes). In addition, Board members A.Ll. 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 Fund Director and Head of Finance (s151).

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

31/03/2021 £'000		31/03/2022 £'000
8	Short-term benefits	7
2	Post-employment benefits	1
10		8

NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2021	Commitment at 31 March 2022
	€'000	**€'000**	**€'000**
P.G. Direct 2006	19,224	776	0
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	7,019	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	23,120	17,870
P.G. Global Infrastructure 2018	28,000	21,516	14,379
P.G. Direct Equity 2019	48,000	30,964	18,432
PG Direct Infrastructure 2020	32,000	29,602	24,800
Total Euros	**363,224**	**126,068**	**95,571**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	7,000	1,082	1,082
P.G Secondary 2015	38,000	17,640	15,740
P.G Direct Infrastructure 2015	43,600	13,780	9,598
Total Dollars	**88,600**	**32,502**	**26,420**

'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

There are no impairment losses identified.

Archwilio Cymru
Audit Wales

Audit of Accounts Report – Gwynedd Pension Fund

Audit year: 2021-22

Date issued: November 2022

Document reference: 3245A2022

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.

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.

Contents

We intend to issue an unqualified audit report on your Accounts.

Audit of Accounts Report

Introduction

1 We summarise the main findings from our audit of your 2021-22 annual report and accounts in this report.

2 We have already discussed these issues with the Pension Fund Director 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 £27.794 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 ourselves 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 continuing impact on how our audit has been conducted. 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

Timetable	• We received the draft accounts on 27 June 2022 as planned. This complies with regulatory deadlines. • We expect your audit report to be signed in November 2022.
Electronic signatures	Given ongoing remote working, we will use electronic signatures for the approval and certification of this year's accounts.
Audit evidence	The audit of the financial statements was undertaken remotely again this year by: • holding Microsoft Teams meetings with officers throughout the audit to discuss progress and emerging issues; and • utilising our remote access to enable the audit team to access the Pension Fund financial records and systems.

Proposed audit opinion

8 **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**.

9 We issue a 'qualified' audit opinion where we have material concerns about some aspects of your accounts; otherwise we issue an unqualified opinion.

10 The Letter of Representation contains certain confirmations we are required to obtain from you under auditing standards along with confirmation of other specific information you have provided to us during our audit.

11 Our proposed audit report is set out in **Appendix 2**.

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

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

Other significant issues arising from the audit

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

Recommendations

15 We intend on making a small number of recommendations in a separate report to the management. The recommendations do not have any impact on our opinion over the financial statements

Appendix 1

Final Letter of Representation

Audited body's letterhead

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

Representations regarding the 2021-22 financial statements

This letter is provided in connection with your audit of the financial statements of the Gwynedd Pension Fund for the year ended 31 March 2022 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 Code of Practice on Local Authority Accounting; 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 the 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; and
- 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. There are no uncorrected misstatements.

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 the Pensions Committee of Gwynedd Pension Fund on 21 November 2022.

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:
Dewi Aeron Morgan	Stephen Churchman
Head of Finance	Chair of Pensions Committee
21 November 2022	21 November 2022

Proposed Audit Report

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

Opinion on financial statements

I have audited the financial statements of the Gwynedd Pension Fund for the year ended 31 March 2022 under the Public Audit (Wales) Act 2004. The 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 2022.

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 2022, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and UK adopted international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022.

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 Gwynedd 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 twelve 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 Gwynedd 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 Gwynedd 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 and those charged with governance, including obtaining and reviewing supporting documentation relating to the 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 management override; and
- Obtaining an understanding of the Gwynedd Pension Fund's framework of authority as well as other legal and regulatory frameworks that the 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 the 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 Pension 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 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. 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 the 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.

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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.

MEETING	**PENSIONS COMMITTEE**
DATE	**21 NOVEMBER 2022**
TITLE	**CURRENCY HEDGING**
PURPOSE	**TO RECEIVE THE COMMITTE'S APPROVAL FOR THE FUND TO PERFORM CURRENCY HEDGING**
RECOMMENDATION	**ALLOW THE FUND TO PERFORM CURRENCY HEDGING**
AUTHOR	**DAFYDD L EDWARDS, FUND DIRECTOR** **DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

The Gwynedd Pension Fund has a global investment portfolio and this is beneficial in times of a weakened currency. During June 2022 UK sterling had fallen by 10% compared to the US dollar, and by a further 17% during September 2022.

The Fund therefore needs to ensure that its protected from any future rises against the sterling and therefore in conjunction with the Fund advisors, Hymans Robertson have explored the possible impact of currency hedging.

2. CURRENCY HEDGING

The paper in Appendix 1 sets out the impact of currency hedging on the Fund in terms of options, proportion and risks.

The proposed option available to the Fund is as follows:

- Hedge a proportion of the currency risk by switching BlackRock global equity funds to currency hedged basis

This would hedge the currency risk of c40% of the Fund's global equities allocation. The hedge would need to be removed when the Sterling moves to within perhaps 20% of its long-term average exchange rate. This would correspond to an exchange rate of $1.30 to $1.35 (about 15% to 20% above current levels).

3. RECOMMENDATION

The Pensions Committee is asked to allow the Fund to perform currency hedging.

Hedging foreign currency risk

Introduction

This paper is addressed to the Pensions Committee (the "Committee") and Officers of the Gwynedd Pension Fund (the "Fund"). It sets out the rationale for hedging a proportion of the Fund's foreign currency exposure, discusses implementation options and provides our recommendations on next steps.

Background

A large proportion of the Fund's assets are invested overseas, with around 50% of assets invested in global equities. A summary of the Fund's assets and associated currency exposures are shown in the appendix.

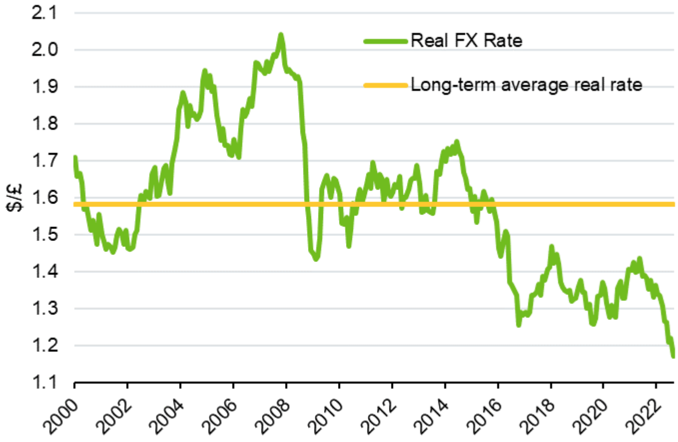
The returns from overseas investments are impacted by changes in the value of Sterling relative to foreign currencies. Currency movements have generally had a beneficial impact on Fund returns this year. This is illustrated by the example below, which shows that while returns on the US stock market have been significantly negative this year (-23.9%), the fall in the value of Sterling against the Dollar over the same period has helped to protect the value of these investments in Sterling terms (-7.6%). In this way, foreign currency exposure has provided a valuable source of diversification for the Fund this year.

This example is based on an investment of $1,000 in the US S&P 500 index at 1 January 2022.

	1 January 2022	30 September 2022
US Dollar value of investment	$1,000	$760 (down 23.9%)
USD:GBP exchange rate	$1.35	$1.12
Equivalent Sterling value of investment	£740	£680 (down c7.6%)

Source: spglobal.com, Bloomberg. Note Sterling return is not exactly -7.6% due to rounding.

The chart below shows Sterling is significantly below its long-term average exchange rate against Dollar. We can't say which direction the exchange rate will move in future but if Sterling were to increase in value (i.e. move back towards the long-term average), this would have a negative impact on returns, all else being equal. Hedging a proportion of the Fund's currency risk now would help to "lock in" some of the gains the Fund has made from currency movements this year.



Source: Datastream, to end August 2022

Strategic context

Currency exposure is not expected to be a long-term source of growth; it is a risk with no expected long-term benefit. Therefore, it is sensible to consider reducing this exposure if it can be achieved at low cost. The other point of view is that currency exposure provides a source of diversification and we have seen the benefits of this this year, as discussed above. More fundamentally, currency matters for a Sterling investor implementing a low risk investment strategy. However, for most LGPS funds it will look like a marginal risk over the longer term.

This said, the value of Sterling is low relative to long-term averages, particularly against the Dollar. We would support the Fund taking a tactical approach, which involves hedging a proportion of the Fund's currency exposure, provided this is supported by a clear strategy for removing the hedge as Sterling moves closer to its long-term average exchange rate.

What options are there to hedge currency risk within the Fund?

Currency hedging can be implemented at a total Fund level although this approach would likely require a specialist manager to look across all of the Fund's currency exposures. Given the Fund's objectives (which are to increase the level of currency hedging on a shorter term, tactical basis), we believe a more suitable and straightforward approach is to switch the BlackRock global equity funds to a currency hedged basis. Under this approach, BlackRock would implement currency hedging as part of their pooled fund structure.

What proportion of the Fund's currency risk should be hedged?

As noted above, currency risk is a source of diversification and this has proved beneficial this year. As such, we would not recommended to hedging all of the Fund's currency risk. Switching the BlackRock global equity funds to a currency hedged basis would allow the Fund to hedge c40% of its global equities allocation.

What are the risks associated with the proposed approach?

If Sterling were to fall in value from current levels, the Fund would not benefit from any foreign currency gains on the assets that are hedged. The operational aspects of the currency hedged versions of the BlackRock global equity funds will also need to be reviewed to determine whether these introduce any additional risks (although we do not anticipate any significant issues).

Next steps

We propose to work with Officers to expand on the high level comments set out in this paper to develop and implement a solution built around the following parameters:

- Hedge a proportion of the currency risk by switching BlackRock global equity funds to currency hedged basis.
- This would hedge the currency risk of c40% of the Fund's global equities allocation.
- Remove hedging when the Sterling moves to within perhaps 20% of its long-term average exchange rate. This would correspond to an exchange rate of $1.30 to $1.35 (about 15% to 20% above current levels).
- Recognising that the Fund also invests outside the US, we recommend the exchange rate is measured using the Purchasing Power Parity method, which looks at values of a range of currencies relative to Sterling.

We look forward to discussing this paper with the Committee and Officers.

Prepared by:-

Kenneth Taylor, Senior Investment Consultant

Rishi Muddha, Investment Analyst

For and on behalf of Hymans Robertson LLP

November 2022

General Risk Warning
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix – summary of Fund's currency exposures

This table provides a summary of the Fund's assets and associated currency exposures. Most of the currency exposure comes from the Fund's overseas equities, which represent c50% of total assets. These are classed as "primary" currency exposures where the assets are denominated in overseas currencies. The Fund also has "secondary" exposures, e.g. a UK company that has material revenues from overseas and is therefore impacted by movements in Sterling. The Partners private equity and infrastructure mandates will likely have a mixture of primary and secondary exposures. The WPP absolute return bond fund employs currency hedging and this is implemented by the investment manager.

Fund	Current target allocation	Currency exposure
BlackRock UK equities	10.5%	Sterling denominated
BlackRock global equities (Fundamental Weighted)	7.0%	Unhedged
BlackRock global equities (World Low Carbon)	12.0%	Unhedged
WPP emerging markets	2.5%	Unhedged
WPP Global Growth	14.0%	Unhedged
WPP Global Opportunities	14.0%	Unhedged
Partners private equity	5.0%	Unhedged
Partners infrastructure	2.5%	Unhedged
UK property (UBS, Lothbury, BlackRock, Threadneedle)	10.0%	Sterling denominated
WPP multi-asset credit	7.5%	Unhedged
WPP absolute return bonds	15.0%	Currency hedged
Total	100.0%	