Complete Agenda

Democratic Service
Swyddfa'r Cygnor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, MONDAY, 26TH JUNE, 2023

Location

Virtual Meeting

NOTE

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

Contact Point

Lowri Haf Evans

01286 679878

lowrihafevans@gwynedd.llyw.cymru

(DISTRIBUTED 16/06/23)

PENSIONS COMMITTEE

MEMBERSHIP (9)

Plaid Cymru (4)

Councillors

Iwan Huws	R Medwyn Hughes	Elin Hywel
Ioan Thomas		

Independent (2)

Councillors

John Pughe Roberts	John Brynmor Hughes

Lib / Lab (1)

Councillor Stephen Churchman

Co-opted Members (2)

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

Ex-officio Members

Chair and Vice-Chair of the Council

A G E N D A

1. ELECT CHAIR

To elect Chair for 2023 / 2024

2. ELECT VICE CHAIR

Iousil ethol Cadeirydd ar gyfer 2023 / 2024

3. APOLOGIES

To receive any apologies for absence

4. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

5. URGENT ITEMS

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

6. MINUTES 5 - 9

The Chairman shall propose that the minutes of the meeting of this committee held on 27th March 2023 to be signed as a true record

7. GWYNEDD PENSION FUND'S DRAFT STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023 10 - 54

To receive and note the Pension Fund Statement of Accounts (subject to audit) for 2022/23

8. GWYNEDD PENSION FUND AUDIT PLAN 2023 55 - 65

To consider and accept the plan

9. WALES PENSION PARTNERSHIP BUSINESS PLAN 66 - 82

To consider and approve the Business Plan

10. WALES PENSION PARTNERSHIP UPDATE MARCH 2023 83 - 101

To consider and note the information

11. PENSION FUND EARLY RETIREMENT STRAIN COST FACTORS 102 - 119

To consider and approve the strain costs proposed by Hymans Robertson, to be used for the calculation of strain costs going forward

12. PENSION ADMINISTRATION 120 - 129

To consider and accept the report

PENSIONS COMMITTEE 27-03-23

Present:

Councillors:

Stephen Churchman (Chair), Goronwy Edwards (Conwy County Borough Council), John Brynmor Hughes, Richard Medwyn Hughes, Iwan Huws, Elin Hywel, John Pughe Roberts, Ioan Thomas and Robin Williams (Isle of Anglesey County Council)

Officers:

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

Others invited:

Osian Richards (Pensions Board - observing)
Yvonne Thomas (Audit Wales)

1. APOLOGIES

None to note

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

None to note

4. MINUTES

The Chair accepted the minutes of the meeting held on 18 January 2023 as a true record.

5. INVESTMENT STRATEGY STATEMENT

The Investment Manger submitted a report seeking the Committee's formal approval to adopt the Investment Strategy. It was highlighted that the Fund was required to publish the Strategy Statement and that it was intended to do so and set the new strategic assets allocation following the triennial valuation.

It was added that Kenny Taylor from Hyman Robertson had already presented the strategy to the Committee in detail at a recent meeting of the Investment Panel and had outlined that the strategy underlined the balance between risk and returns that the fund required. Reference was made to information about the Wales Pension Partnership, Responsible Investment, voting rights and engagement - important elements in the Fund's implementation.

Gratitude was expressed for the report.

RESOLVED

To accept and adopt the Investment Strategy Statement.

6. FUNDING STRATEGY STATEMENT

Submitted - the report of the Investment Manager explaining the requirement for the Fund to review the Funding Strategy Statement every three years, following the triennial valuation. The intention was to publish the Funding Strategy Statement before 31 March 2023. It was highlighted that the main purpose of the statement was to reflect the valuation's factors and weigh up the affordability to the employers, with the long-term liquidity objectives of the Fund.

It was noted that the Statement was a long and technical document and had been prepared in detailed consultation with Hymans and the Fund officers. Reference was made to the statement as well as a number of accompanying policies. It was explained that the accompanying policies had previously been incorporated in the document, but by now, the Strategy referenced the policies as appendices. This would make it easier to find / amend them, when information would need to be accessed or policies updated, without having to adapt the entire Strategy.

It was explained, as part of the review, that the administrative authority was required to consult with every employer that was a part of the plan, with the fund actuary and advisors, and any other persons considered to be suitable. As required, a copy of the draft Statement was submitted to the Pension Board and to all Fund employers. It was reported that positive responses had been received by the Board and by many employers, with some appreciating that the Gwynedd Pension Fund took a long-term view on investment to secure stable contributions and supported the strategy. Following a suggestion made by the Board, it was confirmed that responsible investment was now highlighted within the strategies. It was noted that there were no further amendments to that which had been submitted to the Committee at its meeting on 18 January 2023.

Members gave thanks for the report.

During the ensuing discussion, the following observations were made by Members:
- The Board's observations were to be welcomed.
- That attending information and basic skills courses on pensions administration was imperative so that members understood the importance of the different strategies to deliver their duties efficiently.
- That the document was valuable.
- Welcomed the response from some of the Fund's largest employers - GwE, North Wales Police, Eryri National Park and Isle of Anglesey County Council

RESOLVED

To accept and adopt the Funding Strategy Statement.

7. RISK REGISTER

Submitted to the Committee - the risk register highlighting that although the register had been scrutinised in detail by the Pension Board, the main owner of the register, that it was the responsibility of the Committee to act on some of the steps in the register, and to understand the risks that were relevant to the Pension Fund. It was reported, following a number of recent changes in the pensions world that the register had received an in-depth review recently which involved amending some scores, introducing new risks and archiving some historical risks. It was reiterated that the register was an operational document and although there were some matters that were beyond the Fund's control, it was possible to manage other matters by following the identified actions.

The members expressed their thanks for the report and the detailed review of the register was welcomed

RESOLVED:

To accept and note the information

8. THE PENSION FUND VALUATION REPORT

Submitted – for information, the valuation report (draft). Hymans Robertson had been commissioned to carry out a valuation of the Gwynedd Pension Fund as at 31 March 2022. It was explained that the purpose of the valuation, which was undertaken every three years, was to ensure that the Fund has a contribution plan and an investment strategy that would deliver the objectives of the Funding Strategy Statement.

There was satisfaction that the Fund took a long-term view of investment reducing the level of contributions but without risking future levels. Reference was made to the employer contribution rate levels which varied according to each employer - the contribution rate reflected the employers' membership and experiences.

The Fund Director noted that the report confirmed that the situation was robust and positive, and set a good foundation for the next three years.

The officer was thanked for the report.

During the ensuing discussion, Members noted the following observations

- Much work had been achieved in a challenging time
- The core work had formed the basis to a detailed and clear report
- The report was well presented
- That wise decisions had affected the situation positively
- Reiterated gratitude to the Funds' actuary, Hymans Robertson for their contribution

RESOLVED

- **To thank officers for presenting information during a challenging time.**
- **Thank you to Hymans Robertson for their advice and support.**
- **To accept and note the information.**

9. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2023/24

A report was submitted by the Investment Manager noting, in accordance with Welsh Government's Statutory Guidance on Local Government Investments, that the Council was required to prepare an Annual Investment Strategy as part of its treasury management role. As good practice, it was considered that the Gwynedd Pension Fund (the "Fund"), should adopt Cyngor Gwynedd's Treasury Management Strategy Statement (TMSS) for 2023/2024, as revised for the purpose of the Pensions Fund. Cyngor Gwynedd's TMSS for 2023/24 was approved by the full Council on 2 March 2023.

It was explained that currently, all the Fund's surplus cash was pooled with the cash balances of Cyngor Gwynedd and invested with counterparties in accordance with Cyngor Gwynedd's Treasury Management Strategy Statement. At the end of the financial year, Cyngor Gwynedd paid interest to the Pension Fund based on the Fund's daily balances over the year. It was noted that in line with legal advice, it was beneficial to approve this practice on an annual basis, and to seek returns within secure boundaries and reduce risk by pooling money with the Council's funds.

Members expressed their thanks for the report.

During the ensuing discussion, Members noted the following observations

- That the report was now a regular item on the Committee's work programme
- That the arrangement had already been approved by the Full Council
- It would be unwise to keep money separate - made sense to stick to the arrangement

RESOLVED:

- **To accept and note the information**
- **To adopt the Treasury Management Strategy Statement for 2023/24 as adapted for the purpose of the Pensions Fund.**
- **To request that the Council allow the Pension Fund's reserves to continue to be pooled with the Council's general cash flow from 1 April 2023 onwards.**

10. REPORT ON CASH FLOW MODELLING PROJECTIONS

The Investment Manager submitted a report in response to the need to project the expected cash flow of the Fund over a long-term period, so that it was possible to understand the sensitivity of the Fund's net cash flow position in a number of inflation scenarios.

Attention was drawn to the types of income and regular expenditure occurring within the Fund, as well as the cash flow position of recent years, which highlighted the positive position.

Reference was made to the report provided by Hymans Robertson assessing the situation as well as *a scenario analysis* that they had created to identify when the Fund was likely to be in a negative cash flow position. Three different scenarios had been considered, and it was concluded that the first year when the Fund could face a negative position was 2029, provided that inflation would continue at a very high level. It was noted that this was a better position than the majority of other LGPS funds and was good news for the Fund, although they were fully aware of the need to be cautious of the risks (such as monitoring changes in membership, considering inflation and keeping the cash flow in mind when considering the investment strategy).

Members expressed their thanks for the report, and the exercise carried out by Hymans Robertson was appreciated.

RESOLVED

To accept and note the information

11. POLICY ON REPORTING BREACHES OF THE LAW

Submitted – the report of the Pensions Manager expressing, as part of the Good Governance project, that the Fund was required to produce a policy in relation to

Recording Breaches of the Law (in the pensions field only). It was noted that the policy had been drafted by Hymans Robertson jointly with Fund officers, and a consultation was held with the Cyngor Gwynedd Monitoring Officer. It was added that the Pension Board had also scrutinised the content of the policy and had offered minor observations.

It was highlighted that the report included information about the policy and procedures for identifying, monitoring and, where appropriate, reporting cases of breaches of the law as required in the Pensions Act 2004 and detailed in the Pensions Regulator Code of Practice 14 - Governance and administration of public service pension schemes. Although there was no cause for concern, it was noted that the policy was part of the preparation work to ensure order and assurance in any situation of a pensions breach of the law.

The officer was thanked for the report.

During the ensuing discussion, Members noted the following observations

- That the policy highlighted the main functions and responsibilities with clarity
- The roles of Councillors had also been noted
- That the document outlined the responsibilities in an intelligent manner
- Welcomed that the Monitoring Officer and the Pension Board approved the policy

RESOLVED

To accept and approve the Policy on Reporting Breaches of the Law

12. TRAINING PLAN

The Investment Manager submitted a report, providing a summary of the training given to Members during 2022/23, as well as a request to approve the 2023/24 Training Plan for the Gwynedd Pension Fund.

It was considered that the 2022/23 Training Plan had been successful and the Members were thanked for attending the various conferences and training sessions of the Wales Pensions Partnership - it was considered that all sessions had been very useful and timely. It was reiterated that the 2023/24 Training Plan followed the same process as the previous year and that every effort would be made to identify the relevant and appropriate training needs - invitations to be sent out to Members soon.

Members expressed their thanks for the report and the Chair noted that the WPP sessions had been very good and were open to any Members – it was worth participating in them.

RESOLVED

To receive an update on the success of the 2022/23 Training Programme and approve the 2023/24 Training Programme

The meeting commenced at 14:00 and concluded at 14:50

Agenda Item 7

MEETING	**PENSIONS COMMITTEE**
DATE	**26 JUNE 2023**
TITLE	**GWYNEDD PENSION FUND'S DRAFT STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023**
PURPOSE	**To receive and note –** • **Draft Statement of Accounts**
RECOMMENDATION	**Receive the information**
AUTHOR	**Dafydd L Edwards, Fund Directors**

1. INTRODUCTION

This report introduces the statutory Statement of Accounts for the 2022/23 financial year, which provides details of the Pension Fund's financial activities during the year which ended on 31 March 2023.

The document in Appendix A is the draft Statements of Accounts in the statutory format.

2. AUDIT BY AUDIT WALES

The draft accounts here are currently subject to audit by Audit Wales. It is possible that some changes will be necessary before a final version is submitted for approval

3. RECOMMENDATION

The Pensions Committee is asked to receive and note the Pension Fund Statement of Accounts (subject to audit) for 2022/23.

Gwynedd Pension Fund

STATEMENT OF ACCOUNTS 2022/23

NARRATIVE REPORT

Introduction

Gwynedd Pension Fund's accounts and notes for the year 2022/23 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 2022 and any changes to employers' contributions will be made from 1 April 2023 onwards.

Further information relating to the accounts is available from:

Delyth Jones-Thomas
Investment Manager
01286 679128

Finance Department
Cyngor Gwynedd
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

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

26th June 2023

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 2023 and the Pension Fund's income and expenditure for the year then ended.

16th June 2023

Dewi Morgan CPFA

Head of Finance, Cyngor Gwynedd

GWYNEDD PENSION FUND ACCOUNTS

THE FUND ACCOUNT

31 March 2022 £'000		Notes	31 March 2023 £'000
	Dealings with members, employers and others directly involved in the Fund		
82,971	Contributions	7	89,762
4	Other Income	8	4
2,664	Transfers in from other pension funds	9	6,773
85,639			**96,539**
(66,979)	Benefits	10	(72,108)
(3,683)	Payments to and on account of leavers	11	(3,121)
(70,662)			**(75,229)**
14,977	**Net additions/ (withdrawals) from dealings with members**		**21,310**
(16,525)	Management Expenses	12	**(12,729)**
(1,548)	**Net additions/ (withdrawals) including fund management expenses**		**8,581**
	Returns on investments		
26,170	Investment income	13	30,940
223,010	Profit and losses on disposal of investments and changes in the market value of investments	14	(53,153)
249,180	**Net returns on investments**		**(22,213)**
247,632	**Net Increase/ (Decrease) in the net assets available for benefits during the year**		**(13,632)**
2,528,129	**Opening net assets of the scheme**		**2,775,761**
2,775,761	**Closing net assets of the scheme**		**2,762,129**

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

NET ASSETS STATEMENT

31 March 2022 £'000		Notes	31 March 2023 £'000
2,761,271	Investment assets	14	2,742,933
303	Cash deposits	14	963
(285)	Investment liabilities	14	(960)
2,761,289	**Total net investments**		**2,742,936**
17,828	Current assets	20	22,454
(3,356)	Current liabilities	21	(3,261)
2,775,761	**Net assets of the fund available to fund benefits at the end of the reporting period**		**2,762,129**

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 2022) 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 Cyngor Gwynedd.

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 Cyngor Gwynedd to provide pensions and other benefits for pensionable employees of Cyngor Gwynedd, 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 Cyngor Gwynedd.

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	
Cyngor Gwynedd	Snowdonia National Park Authority
Conwy County Borough Council	Bryn Elian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GwE	North and Mid Wales Trunk Road Agency
North Wales Economic Ambition Board	
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	Llanrwst Town Council (joined 26/09/2022)
Admission Bodies	
Adult Learning Wales	North Wales Society for the Blind
Adferiad Recovery	Community and Voluntary Support Conwy
Holyhead Joint Burial Committee	Careers Wales North West
Cwmni'r Fran Wen	Mantell Gwynedd
Menter Môn	Medrwn Môn
Ynysmaengwyn	
Community Admission Bodies	
Cartrefi Conwy	Adra
Byw'n Iach	
Transferee Admission Bodies	
ABM Catering	A E & A T Lewis
Kingdom Services Group	Chartwells

NOTE 1 – DESCRIPTION OF FUND (continued)

Membership details are set out below:

	31 March 2022	31 March 2023
Number of employers	46	47
Number of employees in scheme		
County Council	14,691	15,246
Other employers	3,966	4,058
Total	**18,657**	**19,304**
Number of pensioners		
County Council	9,281	9,647
Other employers	2,017	2,133
Total	**11,298**	**11,780**
Deferred pensioners		
County Council	10,512	11,019
Other employers	2,028	2,141
Total	**12,540**	**13,160**
Unclaimed benefits		
County Council	2,142	2,595
Other employers	283	378
Total	**2,425**	**2,973**
Undecided Leavers		
County Council	5,455	4,480
Other employers	737	513
Total	**6,192**	**4,993**
Total number of members in pension scheme	**51,112**	**52,210**

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 2023. Employer contributions are set based on triennial actuarial funding valuations. The valuation relating to this year was at 31 March 2019. The 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 Cyngor Gwynedd's Pensions Section.

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2022/23 financial year and its position at year-end as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022/23.

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 2023 was £234.2 million (£226.1 million at 31 March 2022).

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 £234.2 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

2021/22 £'000		2022/23 £'000
19,703	Employees' contributions	21,519
	Employers' contributions:	
63,233	• Normal contributions	68,243
35	• Deficit recovery contributions	0
63,268	**Total employers' contributions**	**68,243**
82,971	**Total contributions receivable**	**89,762**

By type of employer

2021/22 £'000		2022/23 £'000
27,650	Cyngor Gwynedd	29,489
50,205	Other scheduled bodies	54,733
1,716	Admission bodies	1,901
2,892	Community admission bodies	3,087
161	Transferee admission bodies	154
313	Resolution bodies	398
34	Closed funds*	0
82,971		**89,762**

* 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

2021/22 £'000		2022/23 £'000
2	Interest on deferred contributions	2
2	Income from divorce calculations	2
4		**4**

NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2021/22 £'000		2022/23 £'000
2,664	Individual transfers	6,773
2,664		**6,773**

NOTE 10 - BENEFITS PAID

By category

2021/22		2022/23
£'000		**£'000**
52,087	Pensions	56,010
13,123	Commutation and lump sum retirement benefits	13,789
1,769	Lump sum death benefits	2,309
66,979		**72,108**

By type of employer

2021/22		2022/23
£'000		**£'000**
20,183	Cyngor Gwynedd	21,934
31,868	Other scheduled bodies	34,788
1,651	Admission bodies	1,384
1,217	Community admission bodies	1,365
104	Transferee admission bodies	59
109	Resolution bodies	273
11,847	Closed funds	12,305
66,979		**72,108**

NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2021/22		2022/23
£'000		**£'000**
138	Refunds to members leaving service	172
3,545	Individual transfers	2,949
3,683		**3,121**

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NOTE 12 – MANAGEMENT EXPENSES

2021/22		2022/23
£'000		**£'000**
14,788	Investment management expenses	10,593
1,373	Administrative costs	1,588
364	Oversight and governance costs	548
16,525		**12,729**

NOTE 12a – INVESTMENT MANAGEMENT EXPENSES

2022/23	Management Fees £'000	Transaction Costs £'000	Total £'000
Pooled Funds			
Fixed Income	332	0	**332**
Equities	2,001	551	**2,552**
Other Investments			
Pooled Property	1,974	0	**1,974**
Private Equity	2,062	0	**2,062**
Infrastructure	3,401	0	**3,401**
	9,770	551	**10,321**
Custody Fees			**272**
Total			**10,593**

2021/22	Management Fees £'000	Transaction Costs £'000	Total £'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**

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 2022/23 were £2,366,210 (£1,881,000 in 2021/22).

NOTE 12b- ADMINISTRATIVE COSTS

2021/22		2022/23
£'000		**£'000**
652	Direct employee costs	686
344	Other direct costs	449
377	Support services, including IT	453
1,373		**1,588**

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

NOTE 12c- OVERSIGHT AND GOVERNANCE COSTS

2021/22		2022/23
£'000		**£'000**
117	Actuarial fees	234
49	Investment consultancy fees	72
9	Performance monitoring service	11
36	External audit fees	40
18	Pensions Committee and Local Pension Board	33
135	Wales Pensions Partnership	158
364		**548**

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.

	2021/22	2022/23
	£'000	**£'000**
Investment Management Expenses		
Fund Manager fees	2,286	2,268
Transaction costs	693	551
Custody fees	227	247
	3,206	**3,066**
Oversight and governance costs		
Running Costs	135	158
Total	**3,341**	**3,224**

NOTE 13 – INVESTMENT INCOME

2021/22		2022/23
£'000		£'000
4,430	Fixed Income	6,581
12,141	Equities	13,109
2,090	Private Equity	3,182
280	Infrastructure	0
7,213	Pooled property investments	7,817
16	Interest on cash deposits	251
26,170	**Total before taxes**	**30,940**

The Gwynedd Pension Fund has two bank accounts which are held as part of Cyngor Gwynedd'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, Cyngor Gwynedd 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 2022		31 March 2023
£'000		£'000
	Investment assets	
	Pooled Funds	
551,777	Fixed income	586,703
1,730,845	Equities	1,700,745
	Other Investments	
252,521	Pooled property investments	221,297
158,711	Private equity	166,622
67,417	Infrastructure	67,566
2,761,271		**2,742,933**
303	Cash deposits	963
2,761,574	**Total investment assets**	**2,743,896**
	Investment liabilities	
(285)	Amounts payable for purchases	(960)
(285)	**Total investment liabilities**	**(960)**
2,761,289	**Net investment assets**	**2,742,936**

NOTE 14a – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2022/23	Market value at 1 April 2022	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Pooled investments	2,282,622	59,691	(25,000)	(29,865)	2,287,448
Pooled property investments	252,521	18,715	0	(49,939)	221,297
Private equity / infrastructure	226,128	25,540	(35,240)	17,760	234,188
	2,761,271	103,946	(60,240)	(62,044)	2,742,933
Cash deposits	303				963
Amounts payable for purchases of investments	(285)				(960)
Fees within pooled vehicles				8,891	
Net investment assets	**2,761,289**			**(53,153)**	**2,742,936**

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**

NOTE 14b – ANALYSIS OF INVESTMENTS

Investments analysed by fund manager

Market Value at 31 March 2022 £'000	%		Market Value at 31 March 2023 £'000	%
1,496,425	54.2	Wales Pension Partnership	1,501,286	54.8
851,675	30.9	BlackRock	842,157	30.7
226,128	8.2	Partners Group	234,188	8.5
75,739	2.7	UBS	74,865	2.7
72,139	2.6	Lothbury	57,297	2.1
39,450	1.4	Threadneedle	34,103	1.2
18	0.0	Veritas	0	0.0
2,761,574	**100.0**		**2,743,896**	**100.0**

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

Market Value at 31 March 2022 £'000	%		Market Value at 31 March 2023 £'000	%
454,098	16.4	WPP Global Opportunities Fund	430,059	15.6
430,749	15.5	WPP Global Growth Fund	426,908	15.5
353,857	12.7	WPP Absolute Return Bond	386,103	14.0
346,072	12.5	Black Rock ACS World Low Carbon Fund	331,802	12.0
239,314	8.6	Black Rock Aquila Life UK Equity Index Fund	246,433	8.9
200,811	7.2	Black Rock Aquila Life Gl Dev Fundamental Fund	207,927	7.5
197,920	7.1	WPP Multi Asset Credit Fund	200,600	7.3

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 £109,916 (£126,800 in 2021/22). Currently the Fund has total quoted equities of £40.6m 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 2023. 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 2022/23.

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 2023	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	586,703	0	586,703
Equities	0	1,700,745	0	1,700,745
Pooled property investments	0	221,297	0	221,297
Private equity	0	0	166,622	166,622
Infrastructure	0	0	67,566	67,566
Cash deposits	963	0	0	963
	963	**2,508,745**	**234,188**	**2,743,896**
Financial liabilities at fair value through profit and loss				
Payables for investment purchases	(960)	0	0	(960)
Total	**3**	**2,508,745**	**234,188**	**2,742,936**

NOTE 15a – FAIR VALUE HIERARCHY (CONTINUED)

Values at 31 March 2022	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£'000	£'000	£'000	£'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 15b – RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2022	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/ (losses)	Realised (gains)/ losses	Market Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity	158,711	0	14,620	(4,852)	6,675	(8,532)	166,622
Infrastructure	67,417	0	10,920	(12,481)	11,085	(9,375)	67,566
Total Level 3	**226,128**	**0**	**25,540**	**(17,333)**	**17,760**	**(17,907)**	**234,188**

	Market Value 1 April 2021	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/ (losses)	Realised (gains)/ losses	Market Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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**

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 2022				As at 31 March 2023		
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			
2,282,622			Pooled investments	2,287,448		
252,521			Pooled property investments	221,297		
158,711			Private equity	166,622		
67,417			Infrastructure	67,566		
	14,481		Cash		19,255	
	3,650		Debtors		4,163	
2,761,271	**18,131**	**0**		**2,742,933**	**23,418**	**0**
		(3,641)	Creditors			(4,222)
0	**0**	**(3,641)**		**0**	**0**	**(4,222)**
2,761,271	**18,131**	**(3,641)**		**2,742,933**	**23,418**	**(4,222)**

NOTE 16a – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2022		31 March 2023
Fair value		**Fair value**
£'000		£'000
	Financial assets	
209,909	Fair value through profit and loss	(62,044)
0	Loans and receivables	0
209,909	**Total financial assets**	**(62,044)**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	**Total financial liabilities**	**0**
209,909	**Net financial assets**	**(62,044)**

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 2021/22 and 2022/23 reporting period.

Asset type	**Potential market movement (+/-)**	
	31 March 2022	**31 March 2023**
	%	%
UK Equities	19.9	18.2
Global Equities	20.1	19.0
Emerging Markets Equities	27.0	24.4
Private Equity	31.2	31.2
Absolute Return Bond	2.8	2.7
Infrastructure	14.6	16.0
Property	15.0	15.5
Diversified Credit	7.4	7.8
Cash	0.3	0.3
Total Fund	**14.3**	**13.3**

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 2023 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK Equities	246,433	18.2	291,284	201,583
Global Equities	1,396,696	19.0	1,662,068	1,131,324
Emerging Markets Equities	57,616	24.4	71,674	43,557
Private Equity*	166,622	31.2	218,608	114,636
Absolute Return Bonds	386,103	2.7	396,528	375,679
Infrastructure*	67,566	16.0	78,377	56,756
Property	221,297	15.5	255,598	186,996
Diversified Credit	200,600	7.8	216,246	184,953
Cash	19,255	0.3	19,313	19,197
Debtors and Creditors	(59)	0.0	(59)	(59)
Total assets available to pay benefits	**2,762,129**		**3,209,637**	**2,314,622**
*Level 3 assets	234,188		296,985	171,392

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

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 2022 and 31 March 2023 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 2022**	**As at 31 March 2023**
	£'000	**£'000**
Cash and cash equivalents	14,178	18,292
Cash balances	303	963
Pooled Fixed Income	551,777	586,703
Total	**566,258**	**605,958**

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 2023**	**Change in year in the net assets available to pay benefits**	
		+1%	**-1%**
	£'000	**£'000**	**£'000**
Cash and cash equivalents	18,292	183	(183)
Cash balances	963	10	(10)
Pooled Fixed Income *	586,703	5,867	(5,867)
Total change in assets available	**605,958**	**6,060**	**(6,060)**

* 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 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.

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 2.04% amounting to interest of £210,338 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 (€393.2 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 2023 is 9.9%. The equivalent rate for the year ended 31 March 2022 was 9.5%. 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 2023 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2023	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Global Equities	1,396,696	1,534,969	1,258,423
Emerging Markets Equities	57,616	63,320	51,912
Private Equity	166,622	183,118	150,127
Absolute Return Bonds	386,103	424,328	347,879
Infrastructure	67,566	74,255	60,877
Diversified Credit	200,600	220,459	180,740
Total change in assets available	**2,275,203**	**2,500,449**	**2,049,958**

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**

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 2023 the value of illiquid assets was £455m, which represented 16.4% of the total Fund assets (31 March 2022: £479m, which represented 17.2% 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 2023 are due within one year as was the case at 31 March 2022.

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 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 2022 valuation.

The key elements of the funding policy are:

- to take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- to use a balanced investment strategy to minimize long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- to reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- to use reasonable measures to reduce the risk of 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 at least a 70% likelihood that the Fund will achieve the funding target over 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £2,776 million, were sufficient to meet 120% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £468 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and probability measure as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 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 2022 valuation report and Funding Strategy Statement.

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 2022 valuation were as follows:

Financial assumptions	**31 March 2022**
Discount rate	4.1% pa
Salary increase	3.2% pa
Benefit increase (CPI)	2.7% pa

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 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 1.50% pa. 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	21.1	24.0
Future pensioners (aged 45 at the 2022 valuation)	22.3	25.8

Copies of the 2022 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 2022
Markets continues to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investments returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience) have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2022 funding valuation due to significant increases in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

NOTE 19 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18) and has also used them to provide the IAS19 and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2022 and 2023 are shown below:

	31 March 2022 £m	31 March 2023 £m
Active members	1,929	1,084
Deferred members	583	387
Pensioners	818	864
Total	**3,330**	**2,335**

As noted above, the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2022 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 2022 and 2023. The actuary estimates that the impact of the change in financial assumptions to 31 March 2023 is to decrease the actuarial present value by £1,422m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £55m.

Assumption	31 March 2022 %	31 March 2023 %
Pension increase rate	3.20	2.95
Salary increase rate	3.50	3.45
Discount rate	2.70	4.75

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 10% 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	20.9	23.9
Future pensioners (assumed to be aged 45 at the latest valuation date)	21.9	25.6

All other demographic assumptions have been updated since last year and as per the latest funding valuation of the fund.

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 2023	Approximate increase to liabilities %	Approximate monetary amount £m
0.1% p.a. increase in the pension increase rate	2	41
0.1% p.a. increase in the salary increase rate	0	7
0.1% p.a. decrease in the real discount rate	2	47
1 year increase in member life expectancy	4	93

NOTE 20 – CURRENT ASSETS

31 March 2022 £'000		31 March 2023 £'000
483	Contributions due – employees	495
1,597	Contributions due – employers	1,617
1,570	Sundry debtors	2,050
3,650	**Total debtors**	**4,162**
14,178	Cash	18,292
17,828	**Total**	**22,454**

NOTE 21 – CURRENT LIABILITIES

31 March 2022 £'000		31 March 2023 £'000
1,697	Sundry creditors	2,078
1,659	Benefits payable	1,183
3,356	**Total**	**3,261**

NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The market value of the funds is stated below:

	Market value at 31 March 2022 £'000	Market value at 31 March 2023 £'000
Clerical Medical	4,670	4,576
Utmost Life	182	162
Standard Life	5	5
Total	**4,857**	**4,743**

AVC contributions were paid directly to the following manager:

	2021/22 £'000	2022/23 £'000
Clerical Medical	645	797
Total	**645**	**797**

NOTE 23 - RELATED PARTY TRANSACTIONS

Cyngor Gwynedd

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

The Council incurred costs of £1,474,104 (£1,318,514 in 2021/22) 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 £29.49m to the Fund in 2022/23 (£27.65m in 2021/22). At the end of the year, the Council owed £0.53m to the Fund which was primarily in respect of interest paid on the Pension Fund's balances and contributions for March 2023 and the Fund owed £1.47m 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 Cyngor Gwynedd'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, Cyngor Gwynedd pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2022/23, the Fund received interest of £210,338 (£14,183 in 2021/22) from Cyngor Gwynedd.

Governance

There is one member of the Pensions Committee who is in receipt of pension benefits from the Gwynedd Pension Fund during 2022/23 (committee member J.B. Hughes). In addition, committee members S.W. Churchman, R.W. Williams, J.B. Hughes, I. Thomas, G. Edwards, J.P. Roberts and R.M.Hughes 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 2022/23 (board members H.E. Jones and S. Warnes). In addition, Board members B.Roberts, 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 are the Fund Director and Head of Finance (s151).

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

31/03/2022 £'000		31/03/2023 £'000
7	Short-term benefits	38
1	Post-employment benefits	7
8		45

NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2022	Commitment at 31 March 2023
	€'000	**€'000**	**€'000**
P.G. Direct 2006	19,224	0	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	17,870	11,570
P.G. Global Infrastructure 2018	28,000	14,379	8,131
P.G. Direct Equity 2019	48,000	18,432	8,352
P.G. Direct Infrastructure 2020	32,000	24,800	20,320
P.G. Direct Equity V	30,000	0	30,000
Total Euros	**393,224**	**95,571**	**98,463**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	7,000	1,082	1,082
P.G Secondary 2015	38,000	15,740	15,220
P.G Direct Infrastructure 2015	43,600	9,598	7,640
Total Dollars	**88,600**	**26,420**	**23,942**

'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

MEETING:	**PENSIONS COMMITTEE**
DATE:	**26 JUNE 2023**
TITLE:	**GWYNEDD PENSION FUND AUDIT PLAN 2023**
PURPOSE:	**To accept the plan**
RECOMMENDATION:	**ACCEPT THE PLAN**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

The audit for the Gwynedd Pension Fund financial statements for year ending 31 March 2023 will be completed by Audit Wales. Please see the Audit Plan in Appendix 1.

2. AUDIT PLAN

The plan details the work to be performed by the auditors in order to fulfill their statutory duty by highlighting the main risks.

3. RECOMMENDATION

The Plan is accepted.

Gwynedd Pension Fund

Outline Audit Plan 2023

Audit year: 2022-2023

Date issued: June 2023

This document is a draft version pending further discussions with the audited and inspected body. Information may not yet have been fully verified and should not be widely distributed.

This document has been prepared as part of work performed in accordance with statutory functions. Further information can be found in our Statement of Responsibilities.

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Mae’r ddogfen hon hefyd ar gael yn Gymraeg.

About Audit Wales

Our aims:

Assure

the people of Wales that public money is well managed

Explain

how public money is being used to meet people's needs

Inspire

and empower the Welsh public sector to improve

Our ambitions:

Fully exploit our unique perspective, expertise and depth of insight

Strengthen our position as an authoritative, trusted and independent voice

Increase our visibility, influence and relevance

Be a model organisation for the public sector in Wales and beyond

Contents

Introduction

This Outline Audit Plan specifies my statutory responsibilities as your external auditor and to fulfil my obligations under the Code of Audit Practice. It also sets out details of my audit team and key dates for delivering my audit team's activities and planned outputs. I intend sharing a Detailed Audit Plan later in the year following the completion of my planning work. It will set out my estimated audit fee and the work my team intends undertaking.

Adrian Crompton

Auditor General for Wales

My audit responsibilities

I am required to certify whether the Gwynedd Pension Fund's (the Pension Fund) financial statements are 'true and fair'. The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund's financial statements as a whole.

I also have responsibility to receive questions and objections to the financial statements from local electors.

I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to you in my Detailed Audit Plan.

I will report by exception on a number of matters which are set out in more detail in our Statement of Responsibilities.

Fees and audit team

In January 2023 I published the fee scheme for the year, approved by the Senedd Finance Committee. This sets out my fee rates and also highlights the impact of the revised auditing standard ISA 315 on my financial audit approach. More details of the revised auditing standard and what it means for the audit I undertake is set out in **Appendix 1**.

I will provide an estimate of your fee in my Detailed Audit Plan following completion of my detailed risk assessment.

Your engagement team:

Matthew Edwards	**Engagement Director**
Yvonne Thomas	**Audit Manager**
Ben Hughes	**Senior Auditor**

The only known threat to independence that I need to bring to your attention relate to the Audit Manager who has friends and relatives who contributes to or receive a pension from the Pension Fund. As a result, appropriate steps will be implemented to ensure that any potential conflicts are managed.

Audit timeline

We set out below key dates for delivery of our audit work and planned outputs.

Planned output	Work undertaken	Report finalised
Outline Audit Plan 2023	June 2023	June 2023
Detailed Audit Plan 2023	August to September 2023	September 2023
Audit of financial statements work: • Audit of Financial Statements Report • Opinion on the Financial Statements	October 2023	November 2023

Audit quality

My commitment to audit quality in Audit Wales is absolute.

I believe that audit quality is about getting things right first-time.

We use a three lines of assurance model to demonstrate how we achieve this.

We have established an Audit Quality Committee to co-ordinate and oversee those arrangements. We subject our work to independent scrutiny by QAD[1] and our Chair acts as a link to our Board on audit quality. For more information see our Audit Quality Report 2022.

Our People

The first line of assurance is formed by our staff and management who are individually and collectively responsible for achieving the standards of audit quality to which we aspire.

- Selection of right team
- Use of specialists
- Supervisions and review

Arrangements for achieving audit quality

The second line of assurance is formed by the policies, tools, learning & development, guidance, and leadership we provide to our staff to support them in achieving those standards of audit quality.

- Audit platform
- Ethics
- Guidance
- Culture
- Learning and development
- Leadership
- Technical support

Independent assurance

The third line of assurance is formed by those activities that provide independent assurance over the effectiveness of the first two lines of assurance.

- EQCRs
- Themed reviews
- Cold reviews
- Root cause analysis
- Peer review
- Audit Quality Committee
- External monitoring

[1] QAD is the Quality Assurance Department of ICAEW.

Appendix 1 – the key changes to ISA315 and the potential impact on your organisation

Page 64

Key change	Potential impact on your organisation
More detailed and extensive risk identification and assessment procedures	Your finance team and others in your organisation may receive a greater number of enquiries from our audit teams at the planning stage of the audit. Requests for information may include: • information on your organisation's business model and how it integrates the use of information technology (IT); • information about your organisation's risk assessment process and how your organisation monitors the system of internal control; • more detailed information on how transactions are initiated, recorded, processed, and reported. This may include access to supporting documentation such as policy and procedure manuals; and • more detailed discussions with your organisation to support the audit team's assessment of inherent risk.
Obtaining an enhanced understanding of your organisation's environment, particularly in relation to IT	Your organisation may receive more enquiries to assist the audit team in understanding the IT environment. This may include information on: • IT applications relevant to financial reporting; • the supporting IT infrastructure (eg the network, databases); • IT processes (eg managing program changes, IT operations); and • the IT personnel involved in the IT processes.

Key change	Potential impact on your organisation
	Audit teams may need to test the general IT controls and this may require obtaining more detailed audit evidence on the operation of IT controls within your organisation. On some audits, our audit teams may involve IT audit specialists to assist with their work. Our IT auditors may need to engage with members of your IT team who have not previously been involved in the audit process.
Enhanced requirements relating to exercising professional scepticism	Our audit teams may make additional inquiries if they identify information which appears to contradict what they have already learned in the audit.
Risk assessments are scalable depending on the nature and complexity of the audited body	The audit team's expectations regarding the formality of your organisation's policies, procedures, processes, and systems will depend on the complexity of your organisation.
Audit teams may make greater use of technology in the performance of their audit	Our audit teams may make use of automated tools and techniques such as data analytics when performing their audit. Our teams may request different information or information in a different format from previous audits so that they can perform their audit procedures.

Agenda Item 9

MEETING:	**PENSIONS COMMITTEE**
DATE:	**26 JUNE 2023**
TITLE:	**WALES PENSION PARTNERSHIP BUSINESS PLAN**
PURPOSE:	**To approve the Business Plan**
RECOMMENDATION:	**APPROVE BUSINESS PLAN**
AUTHOR:	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

The Wales Pension Partnership has updated its Business Plan and is seeking approval from the individual committees within the partnership.

The Business Plan was introduced to the Joint Governance Committee for approval on March 29th.

2. BUSINESS PLAN

The Wales Pension Partnership business plan details how the partnership is going to achieve its goals. The business plan is constantly monitored and is formally reviewed and agreed every year. The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives over the next three years
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

It lays out the plan from a marketing, financial and operational viewpoint, outlining the priorities for the partnership during 2023-2026 and ensuring that resources are allocated to meet its objectives.

The Business Plan is attached for your review in Appendix 1.

3. RECOMMENDATION

To approve the Business Plan.

Wales Pension Partnership

Business Plan

2023-2026

Contents

Introduction

This is the business plan for the Wales Pension Partnership ('WPP'), the business plan details the WPP's priorities and areas of focus for 2023/24, 2024/25 and 2025/26. The business plan is constantly monitored and will be formally reviewed and agreed every year. The purpose of the business plan is to:

- Explain the background and governance structure of the WPP
- Outline the priorities and objectives of the WPP over the next three years
- Outline the financial budget for the relevant Business Plan period
- Summarise the WPP's Investments & Performance Objectives

About the Wales Pension Partnership

Established in 2017, the WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. We have a long, successful history of collaboration, including examples that pre-date the Government's pooling initiative. We are proud of our unique identity as a Pool – our Constituent Authorities represent and span the entirety of Wales. Being democratically accountable means, we provide the best of strong public sector governance and transparency.

Our operating model is designed to be flexible and deliver value for money. We appointed an external fund Operator and make use of external advisers to bring best of breed expertise to support the running of the Pool, this includes Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions with the aim of achieving strong net of fee performance for all the Constituent Authorities. We have a shared vision and agreement on the means and pace at which this vision will be achieved. The eight LGPS Funds (Constituent Authorities) of the Wales Pension Partnership are:

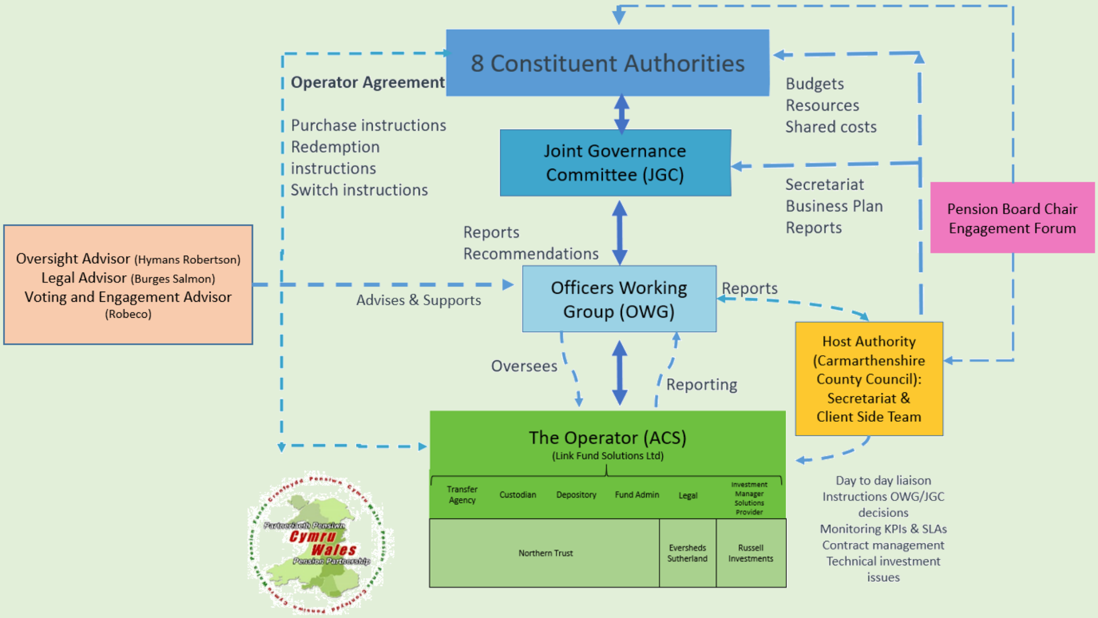
Governance

The WPP is responsible for ensuring that its business is conducted in accordance with regulation and guidance. We must also ensure that: public money is safeguarded and properly accounted for, used economically, efficiently and effectively to ensure value for money. We also strive for continuous improvement and to conform with industry best practice.

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA), which defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers. The IAA includes a Scheme of Delegation outlining the decision-making process, taking into account the relevant legislation. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure, which has been designed to:

- Deliver on its objectives
- Be flexible and adaptive
- Demonstrate its commitment to the highest standards of governance
- Meet the needs of its stakeholders
- Foster collaboration and communication within the WPP
- Be transparent
- Be cost effective

The diagram below shows WPP's governance structure:



The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving this Business Plan, which outlines the WPP's budget and workplan, as well at its beliefs and objectives. The Constituent Authorities are heavily involved in all aspects of the WPP's governance structure, while the WPP's Joint Governance Committee and Officers Working Group are comprised respectively of elected councillors, scheme member representative and officer representatives from the Constituent Authorities.

The WPP believes in being open and transparent as well as regularly engaging with its key stakeholders. As such the WPP ensures the meetings of the Joint Governance Committee are accessible to the public via a live webcast stream. Meeting papers are also made publicly available. Local Pension Board engagement days are also held regularly as a means of fostering stakeholder engagement. The WPP recognises the importance of all of its stakeholders to reflect this the WPP has put in place an Engagement Protocol Framework, this is carried out via the following engagement mechanisms:

Engagement mechanisms and Frequency:

• Strategic Relationship Review meeting	Bi-Annual
• JGC Engagement	Quarterly
• Manager Performance Meetings/ Calls	Quarterly
• Training Events	Quarterly
• OWG Engagement	Quarterly
• Bi-weekly meetings	Every 2 weeks
• Pension Fund Committees	Annual
• Manager Engagement Days	Annual
• Member Communications	Annual
• Pension Board Engagement	Every 6 months
• Engagement via the website & LinkedIn	Continuous
• Constituent Authority Annual Requirements & Ambitions Questionnaire	Annual

Risk Management

The Wales Pension Partnership ('WPP') recognises that it faces numerous risks which, if left unmanaged, can limit the WPP's ability to meet its objectives and to act in the best interest of its stakeholders and beneficiaries. However, the WPP also understands that some risks cannot be fully mitigated and that in these instances' risks need to be embraced through active and effective management.

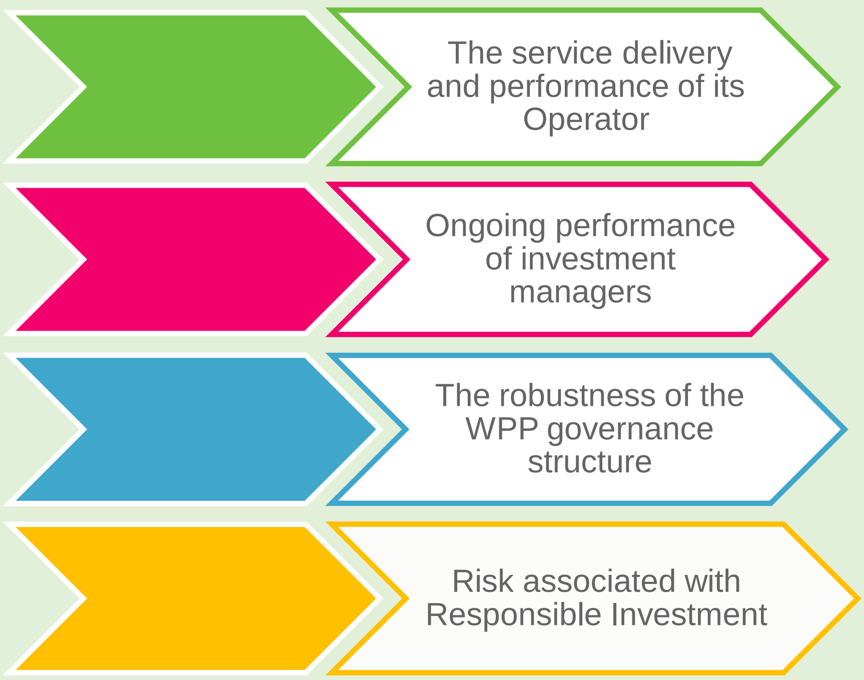
Risk management is a critical element of WPP's commitment to good governance, the WPP has developed a structured, extensive and robust risk strategy. This strategy will be embedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.

The WPP's risk strategy seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without warning. To reflect this belief, the WPP's Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to risk. The extent to which the WPP is able to effectively balance risk and return will depend on the success of its Risk Policy. It is critical that prior to making decisions the WPP understands the associated risks and considers the means by which these risks could be managed.

The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives. The WPP's Business Plan is an additional means through which the WPP will give special recognition to risks that pose a material threat to the delivery of its objectives and the actions required to manage these risks.

During the course of this business plan the WPP will seek to develop mechanisms, frameworks and process for managing the following key risks:



Objectives

The WPP is proud to represent the eight Constituent Authorities and recognises its duty to ensure the needs and requirements of all stakeholders are met. The WPP, through consultation with all eight Constituent Authorities, has formulated a list of primary objectives these can be summarised as follows:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical)
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments
- To deliver an investment framework that achieves the best outcomes for its key stakeholders; the Constituent Authorities. The Constituent Authorities will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers
- To embed the delivery of long-term, sustainable investment outcomes into decision making, through capital allocation, the ongoing scrutiny of asset managers, and the exercise of the rights and responsibilities that arise as asset owners.

The eight Constituent Authorities recognise that their strength derives from their shared beliefs and their ability to work together to deliver on their unified objectives for the benefit of all WPP stakeholders.

Beliefs

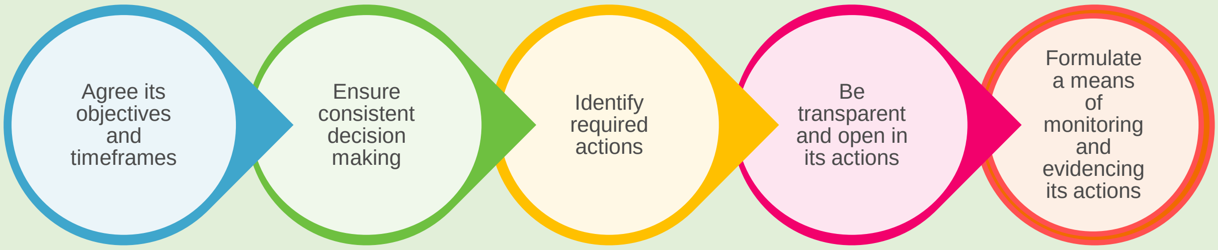
The WPP's Beliefs reflect the collaborative nature and shared values of the Constituent Authorities, they are as follows:

- The WPP's role is to facilitate and provide an investment pooling platform through which the interests of the Constituent Authorities can be implemented
- Good governance should lead to superior outcomes for the WPP's stakeholders
- Internal collaboration between the Host and Constituent Authorities is critical to achieving the WPP's objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders
- Responsible Investment and effective Climate Risk mitigation strategies, alongside consideration and evidential management of broader Environmental, Social and Governance issues, should result in better outcomes for the WPP's stakeholders
- Effective internal and external communication is vital to achieving the WPP's objectives
- External suppliers can be a cost-effective means of enhancing the WPP's resources, capabilities and expertise
- Fee and cost transparency will aid decision making and improve stakeholder outcomes
- Continuous learning, innovation and development will help the WPP and its Constituent Authorities to evolve
- flexible approach to the WPP pool structure and implementation methods will enable the WPP pool to adapt in future and continue to meet the needs of its stakeholders.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies.

Policies

The WPP believes that good governance should lead to superior outcomes for the WPP's stakeholders. In recognition of this belief, the WPP, in consultation with the Constituent Authorities, has developed a robust governance structure and framework and a set of governing policies. In all instances the WPP's policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP understands the importance of formulating and codifying its policies and procedures. This process allows the WPP and the Constituent Authorities, to:



The WPP's key policies, registers and plans are listed below and can be found on the WPP website.

Overarching Principles

WPP Objectives

WPP Beliefs

Investment

Responsible Investment Policy

Climate Risk Policy

Voting Policy

Rebalancing & Alteration Policy

Training & Communication

Training Policy & Plan

Communication Policy

Governance

Governance Manual

Governance Decision Matrix

Risk Policy

Risk Register

Conflict of Interest and Procedure Policy

Business Continuity Plan

Complaints Policy

Whistleblowing Policy

The WPP's policies are reviewed on a regular basis and the WPP will continually assess whether any additional policies, registers or plans are required. The WPP workplan includes a number of additional governance documents that will be developed, these will be made available on the WPP website once completed. The policies play a vital role in the WPP's governance arrangements and have been formulated with the sole purpose of providing a codified framework which will ensure that the WPP achieves its objectives in an effective and transparent means.

Work Plan

The tables below shows key priorities and objectives that the WPP aims to complete over the next three years. The workplan has been broken down into a number of key sections which are all vital to the continued success of the WPP

- **Governance** - The WPP believes that good governance leads to better outcomes for its stakeholders, as such it will further develop its governance framework by developing additional policies, registers, plans and carry out ongoing reviews of its existing governance documents and structure.
- **Ongoing Sub-Fund development** – To date the WPP has pooled c72% of its assets and a number of other sub funds are in the process of being developed. The WPP will continue to consult with the Constituent Authorities to ensure that all suitable assets are pooled.
- **Operator Services** - The Operator, alongside the third parties that it employs on behalf of the WPP, are critical to the ongoing activities of the WPP, therefore service delivery of the Operator and third-party suppliers are crucial. The current operator contract comes to an end in December 2024.
- **Investments and Reporting** - The WPP recognises the importance of ensuring that existing investment solutions remain optimal and aligned to Constituent Authority requirements, while also delivering the investment return expectations of the Constituent Authorities. The WPP will continue to deliver on its reporting requirements and will develop further reporting, as and when required.
- **Communication and Training** - The WPP wants to ensure that internal stakeholders and external parties are aware of the WPP's progress and publishes numerous report and updates to ensure that it proactively communicates its progress to stakeholders. These can all be found on the WPP website.
- **Resources, Budget and Fees** - The WPP recognises that insufficient resources poses a significant risk to its ability to deliver an investment framework that achieves the best outcomes for its key stakeholders, the WPP carries out a number of reviews to guarantee that it has suitable resources to deliver on this commitment.

Work to be completed	2023 - 2024	2024 - 2025	2025 - 2026
Governance			
Development of a WPP Breaches and Errors Policy	✓		
Legal Services provider contract (initial 3 year review)	✓		
Oversight Advisor procurement process		✓	
Voting & Engagement Service provider procurement process		✓	
Ongoing review of Inter Authority Agreement	✓	✓	✓
Annual review of WPP's policies and plans	✓	✓	✓
Quarterly reviews of the Risk Register	✓	✓	✓
Respond to any pooling related consultations and carry out any necessary changes as a result of consultation outcomes	✓	✓	✓
Ongoing Sub-Fund development			

Launch of Private Debt & Infrastructure Sub-Funds	✓		
Launch Sustainable Equities Sub-Fund	✓		
Launch of Private Equity Sub-Fund	✓		
Formulate the WPP's Property requirements and optimal means of implementation & launch the property Sub-funds	✓	✓	
Consideration of WPP's Levelling up / impact requirements	✓	✓	
Launch of other Private Market sub-funds (TBC)	✓	✓	✓
Consultation with CAs on need for further sub-funds, review and develop a mechanism to pool any suitable non-pooled assets	✓	✓	✓
Consideration of Local Investment opportunities	✓	✓	✓
Operator Services			
Operator contract / procurement process	✓	✓	
New Operator Contract		✓	
Operator Oversight	✓	✓	✓
Investments and Reporting			
Review Sub-Fund mandates to ensure compatibility with WPP's Responsible Investment and Climate Risk Beliefs	✓	✓	✓
Task Force on Climate-related Financial Disclosures (TCFD) reporting	✓	✓	✓
Stewardship Code reporting	✓	✓	✓
Consider additional reporting that demonstrates WPP's commitment to Responsible Investment	✓	✓	✓
On-going Investment Manager performance reporting, scrutiny and challenge	✓	✓	✓
Annual review of WPP's Cost Transparency Requirements	✓	✓	✓
Annual performance review of WPP Sub Funds (Equity and Fixed Income)	✓	✓	✓
On-going engagement with Constituent Authorities regarding minimum ESG / RI standards and their climate ambitions	✓	✓	✓
Communication and Training			
Formulation of WPP's Annual Responsible Investment Progress Report	✓	✓	✓
Formulation of the WPP's Annual Training Plan	✓	✓	✓
Formulation of the WPP's Annual Update	✓	✓	✓
Formulation of the WPP's Annual Report	✓	✓	✓
Resources, Budget and Fees			
Annual review of resources and capacity	✓	✓	✓
Formulation of Annual WPP Budget	✓	✓	✓
Review and Monitoring of Operator / external provider fees	✓	✓	✓

Training Plan

It is best practice for WPP personnel to have appropriate knowledge and understanding of:

- the regulations and markets relating to pensions;
- the pooling of Local Authority Pension Schemes; and
- relevant investment opportunities.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

WPP personnel should obtain a degree of knowledge and understanding that ensures they are able to carry out their duties associated with the WPP. WPP personnel should also be aware of the WPP's framework, beliefs, polices, governance matrix, the decision-making process and decision logging process.

To aid WPP personnel, the Host Authority will arrange quarterly training sessions which will cover major areas such as investments, administration, regulation requirements, government guidance and market developments. The WPP's training events will primarily focus on meeting the training needs of members of the OWG and JGC, however Constituent Authorities are encouraged to invite Pension Committee Members, as well as Pension Board Representatives if they believe that the training would be beneficial to these individuals.

We have set out below a list of training topics which the Host Authority will arrange training for during the 2022/2023 financial year. WPP's training topics are based on current WPP topical priorities and from an analysis of the WPP training requirements questionnaire/ assessment responses, completed by members of the Joint Governance Committee ('JGC') and Officers Working Group ('OWG').

Product Knowledge

- Private Market Asset Classes – Private Equity / Property
- Levelling up / development opportunities

Reporting

- TCFD reporting
- Performance reporting

Responsible Investment

- Voting & Engagement
- RI within the WPP sub funds

Market Understanding & Regulatory Requirements

- Progress of other LGPS pools & Collaboration Opportunities
- Pooling Guidance

Budget

The table below outlines the WPP's budget for the next three years.

	2023-24	2024-25	2025-26
	£'000	£'000	£'000
Host Authority *	200	205	209
External Advisors *	1,448	1,130	1,040
TOTAL to be recharged	**1,648**	**1,335**	**1,249**
Operator / Allocator Services **	37,257	40,982	45,080
TOTAL to be deducted from the NAV	**37,257**	**40,982**	**45,080**

**Host Authority and External Advisor costs are to be funded equally by all eight of the WPP's Constituent Authorities and these will be recharged on an annual basis.*

***Operator / Allocator Services costs are based on each Constituent Authority's percentage share of WPP assets and are deducted directly from the Net Asset Value (NAV) of the Constituent Authority's assets.*

Investments & Performance

The WPP's Constituent Authorities have total assets of circa £23bn (as at 31 March 2022). The Constituent Authorities' passive investments are effectively within the Pool but are held by the respective WPP authorities in the form of insurance policies.

The Officers Working Group receives quarterly, six monthly and annual performance reports, the group reviews and challenges the performance of Investment Managers on behalf of the WPP. The WPP hosts annual manager engagement days, which are used to challenge managers and to facilitate engagement with Constituent Authority Pension Committee and Board Members and the WPP's Investment Managers. The Constituent Authorities also carry out their own analysis of WPP's investment performance at local level, this will include manager attendance at Pension Committees. Below we outline the WPP's existing Sub-Funds.

Equity Sub-Funds

Global Growth Fund

Managed by Link

Portfolio Value: £2bn

Global Opportunities Fund

Managed by Russell Investments

Portfolio Value: £2bn

UK Opportunities Fund

Managed by Russell Investments

Portfolio Value: £0.6bn

Emerging Markets Fund

Managed by Russell Investments

Portfolio Value: £0.6bn

* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Growth	MSCI ACWI ND	RCT, Dyfed, Gwynedd, Cardiff and Powys	Baillie Gifford, Veritas and Pzena	Feb 19
Global Opportunities	MSCI ACWI ND	Swansea, Torfaen, Gwynedd, RCT, Cardiff and Clwyd	Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, Nissay, Intermede and Oaktree	Feb 19
UK Opportunities	FTSE All Share	Cardiff and Torfaen	Liontrust (Majedie), Lazard, Baillie Gifford, Ninety-One, J O Hambro and Liontrust	Sept 19
Emerging Markets	MSCI Emerging Markets Index	Cardiff, Clwyd, Gwynedd and Torfaen	Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree	Oct 21

Fixed Income Sub-Funds

Absolute Return Bond Fund

Managed by Russell Investments

Portfolio Value: £0.4bn

Global Government Bond Fund

Managed by Russell Investments

Portfolio Value: £0.5bn

Multi-Asset Credit Fund

Managed by Russell Investments

Portfolio Value: £0.6bn

Global Credit Fund

Managed by Russell Investments

Portfolio Value: £0.8bn

UK Credit Fund

Managed by Link

Portfolio Value: £0.5bn

* Portfolio Values as at launch date

Sub Fund	Performance Benchmark	Participating Funds	Underlying Investment Managers	Launch Date
Global Credit	Bloomberg Barclays Global Aggregate Credit Index (GBP Hedged)	Cardiff, Dyfed, Powys and Torfaen	Western, Metlife, Fidelity and T Rowe Price	July 20
Global Government	FTSE WGBI Index	Cardiff and Torfaen	Bluebay and Colchester	July 20
Multi-Asset Credit	3 Month GBP SONIA plus 4%	Cardiff, Clwyd, Gwynedd, Powys, and Swansea	ICG, Man GLG, BlueBay, Barings and Voya	July 20
Absolute Return Bond Fund	3 Month GBP SONIA plus 2%	Gwynedd, Powys and Swansea	Wellington, Putnam, Aegon and Insight	Sept 20
UK Credit Fund	ICE BofA ML Eur-Stg plus 0.65%	RCT	Fidelity	July 20

Contact Details

If you require further information about anything in or related to this business plan, please contact the Wales Pension Partnership:

Postal Address - Wales Pension Partnership

Carmarthenshire County Council

Treasury & Pension Investments Section

County Hall

Carmarthen

SA31 1JP

E-mail - WalesPensionPartnership@carmarthenshire.gov.uk

Telephone - (01267) 224136

Further information on the WPP and ongoing updates on the WPP's progress can be found on the website and LinkedIn page.

The website can be found here:

https://www.walespensionpartnership.org/

MEETING	**PENSIONS COMMITTEE**
DATE	**26th JUNE 2023**
TITLE	**WALES PENSION PARTNERSHIP UPDATE**
PURPOSE	**To receive and note a quarterly update from Wales Pension Partnership**
RECOMMENDATION	**Receive and note the information**
AUTHOR	**DELYTH JONES-THOMAS, INVESTMENT MANAGER**

1. INTRODUCTION

This is a new regular report which provides the members of the Pensions Committee with an update on the work undertaken by the Wales Pension Partnership (WPP) on behalf of the eight LGPS funds in Wales.

The WPP is now well established, with Link Fund Solutions appointed as its operator to provide FCA regulated services and Russell Investments who provide investment management solutions to the WPP on all listed assets. Northern Trust are the appointed global custodian and depositary. Hymans Robertson are the governance and oversight advisor and Robeco provide voting and engagement services to the WPP in accordance with its stewardship responsibilities and commitments.

2. JGC QUARTERLY UPDATE

The WPP's decision making body, the Joint Governance Committee (JGC), last met formally on 29th March 2023. The host authority have provided a summary of the items discussed at that meeting which is attached as Appendix 1 to this report. The WPP Training Plan for 2023/24 is also attached, as Appendix 2, with these virtual training events being open to Pension Committee (and Local Pension Board) members with invitations to be forwarded when times and dates are confirmed.

3. OPERATOR UPDATE

A copy of the latest quarterly update from Link Fund Solutions is attached under appendix 3.

The update provides a snapshot of the full range of WPP investment sub-funds as at 31st December 2022.

Gwynedd Pension Fund currently has exposure to six of the ten sub-funds and as of 31st December 2022 these were as follows:

- **Global Opportunities - £440.4m**
- **Global Growth- £404.8m**
- **Emerging Markets - £56.3m**
- **Global Passive - £765.3m**
- **Multi Asset Credit - £179.8m**

- **Absolute Return Bond- £357.3m**

In order to implement the Fund's revised strategic asset allocation, the Fund has recently invested in the Global Credit Fund which will be included in the next operator update.

4. PERFORMANCE REPORTS AS AT 31ST DECEMBER 2022

The performance reports can be seen in appendix 4.

The MSCI World Net Index recorded its first positive quarter in a year during the quarter to 31st December. This was the strongest quarter for the index since the fourth quarter of 2020. An anticipated slower pace of future interest rate hikes and softer-than expected inflation data boosted investor enthusiasm.

The performance of the Gwynedd sub funds are monitored by officers and as part of the quarterly investment review by Hymans Robertson and no concerns has been raised.

5. FUTURE DEVELOPMENTS

- The launch date for WPP Sustainable Active Equity Sub-fund has been set for the end of June 2023, and the transition is currently taking place.
- On-boarding to the WPP Private Credit sub-fund and Closed- ended infrastructure has now been completed and is continuing with the Open-ended Infrastructure sub-fund.
- Along with six of the other Welsh LGPS Funds Gwynedd Pension Fund has subscribed to the Capital Dynamics Welsh Wind Farm project. The total investment is £10m and indicates a commitment to invest in projects in renewable energy and in Wales.
- Once the activity with these sub-funds is complete WPP attention will turn to the launch of the WPP Private Equity sub-fund and to develop real estate solutions. Schroders have been appointed as the Allocator for the Private Equity sub- fund.

6. RECOMMENDATION

To receive and note the information.

Wales Pension Partnership (WPP) - JGC Update

JGC meeting date: Wednesday 29 March 2023

Location: Hybrid meeting, hosted by Gwynedd

Chair: Cllr Christopher Weaver, Cardiff

Vice Chair: Cllr Ted Palmer, Clwyd

Agenda item	Detail
Host Authority update	Anthony Parnell of the Host Authority provided an update in relation to work that has been completed since the last JGC meeting and WPP's next steps / priorities. Anthony highlighted the Operator Contract procurement process timeline, with the key steps being: o May – July 2023, individual Constituent Authorities (CA) to approve evaluation and scoring criteria for final procurement documentation o Sept / Oct 2023 – Issue Invitation to Tender (ITT) o Nov / Dec 2023 – ITT evaluation o March 2024 – Approval of recommended operator by the JGC o March / April 2024 – Approval by the CA's o May 2024 – Operator appointment o May 2024 – Dec 2024 – transition period o December 2024 – new formal contract start date Anthony also presented the 2022/23 Business Plan update as at 31 December 2022 (attached).
WPP Training Plan 2023/24	Anthony Parnell of the Host Authority presented the 2023/24 WPP Training Plan. This training plan is devised to supplement existing Constituent Authority training and will be relevant to the WPP's pooling activities.

	The 2023/24 training sessions will be held quarterly and will cover the following topics: • Product Knowledge • Reporting • Responsible Investment • Market Understanding & Regulatory Requirements The JGC approved the 2023/24 Training Plan (attached) The first training session will take place virtually on Thursday 8 June 2023 and will cover: • Private Market Asset Classes – Private Equity / Property • Levelling up / development opportunities
WPP Business Plan 2023-2026	A WPP business plan has been drafted in line with Section 6 of the Inter Authority Agreement. The purpose of the business plan is to: • Explain the background and governance structure of the WPP • Outline the priorities and objectives of the WPP over the next three years • Introduce the WPP's policies and plans • Outline the financial budget for the relevant Business Plan period • Summarise the WPP's Investments & Performance Objectives Anthony Parnell of the Host Authority presented the 2023-26 WPP Business Plan (attached) which was approved by the JGC. The Business Plan has now been sent to all eight Constituent Authorities for their written approval.
Risk Register Q1 2023 Review	The OWG is responsible for maintaining the WPP Risk Register and reporting back any changes or developments to the JGC on a quarterly basis. The OWG has a dedicated Risk Sub-Group to take ownership of the Risk Register and the quarterly review of the document.

	During Q1 2023, a review was undertaken of some of the risks within the Governance and Regulation section of the Risk Register, risks G1 to G7 and also risk G12. Hymans presented the changes which were approved by the JGC. The Risk Register has been uploaded on the WPP website.
Policy Reviews: Governance Matrix	The WPP have approved several policies / plans which are to be reviewed on a regular basis. This quarter, the OWG have undertaken an annual review of the Governance Matrix. Following this year's review, the Governance Matrix has been updated to reference the relevant sections of the Inter Authority Agreement (IAA). The updated matrix has been approved and the WPP website has been updated. There were no new policies this quarter.
Operator Update	Link presented their quarterly update report as at 31 December 2022 (attached). This provides an update on WPP's sub funds and corporate and engagement activity.
Performance Reports as at 31 December 2022	Russell Investments presented a Q4 performance summary paper (attached) summarising the performance of each individual ACS sub fund for the quarter ending 31 December 2022.
Exempt Items – the following items were discussed during the non-public part of the meeting.	
Global Securities Lending Report as at 31 December 2022	Stock Lending commenced in March 2020 and Northern Trust presented the Global Securities Lending Report for Q4 2022 (quarter ending 31 December 2022).
Robeco Engagement Report – Q4 2022	In March 2020, Robeco was appointed as WPP's Voting & Engagement Provider to undertake Voting and Engagement functions on behalf of the WPP. Robeco commenced their engagement service in April 2020, and they have provided an engagement report for Quarter 4 2022.

Responsible Investment and Climate Risk reports	Each quarter, Hymans Robertson produce quarterly Responsible Investment & Climate Risk Reports for the WPP's sub funds. For Quarter 4 2022 (quarter ending 31 December 2022), the UK Credit, Global Credit and Global Government Bond reports were produced. Hymans presented the reports to the JGC members.

Webcast link for the 29 March JGC meeting below:

Agenda for Wales Pension Partnership Joint Governance Committee on Wednesday, 29th March, 2023, 10.30 am

WPP's website address - Wales Pension Fund | Home (walespensionpartnership.org)

Next meeting:

- Wednesday 19 July 2023 – virtual meeting

Wales Pension Partnership Training Plan 2023/24

Background and Introduction

It is best practice for WPP personnel to have:

Appropriate knowledge and understanding of:

- the regulations and markets relating to pensions
- the pooling of Local Authority Pension Schemes and
- relevant investment opportunities.

The WPP's training plan is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP's pooling activities.

WPP personnel should obtain a degree of knowledge and understanding that ensures they are able to carry out their duties associated with the WPP.

WPP personnel should also be aware of the WPP's framework, beliefs, polices, governance matrix, the decision-making process and decision logging process.

New WPP personnel must conduct formal introductory training to reach the level of knowledge set out above. Following any introductory training, personnel are expected to maintain their understanding of items set out above, completing any additional training as necessary.

To aid WPP personnel, the Host Authority will arrange quarterly training sessions which will cover major areas such as investments, administration, regulation requirements, government guidance and market developments. Please note that the Host Authority will maintain a training plan log which will keep a record of all the training WPP personnel have completed to date and the training that is due to take place in the foreseeable future.

The WPP's training events will primarily focus on meeting the training needs of members of the OWG and JGC, however Constituent Authorities are encouraged to invite Pension Committee Members, as well as Pension Board Representatives if they believe that the training would be beneficial to these individuals.

The WPP has put in place a dedicated Training Policy, this can be found of the WPP website, the policy provides additional detail on how the WPP approaches training and development.

Individual Training

It is important that individuals have an 'appropriate' level of knowledge and understanding of the activities relevant to their duties within the WPP.

It is best practice for individuals to review their own knowledge and understanding at least annually and undertake further learning for any areas that are identified as requiring further attention or development.

2023/24 Training

We have set out below a list of training topics which the Host Authority will arrange during the 2023/24 financial year. The topics outlined below are based on current WPP topical priorities and from an analysis of the WPP training requirements questionnaire/ assessment responses, completed by members of the Joint Governance Committee ('JGC') and Officers Working Group ('OWG').

Topic	Date *
Product Knowledge	
• Private Market Asset Classes – Private Equity / Property	Q1 April – June 2023
• Levelling up / development opportunities	
Reporting	
• TCFD reporting	Q2 July – September 2023
• Performance reporting	
Responsible Investment (RI)	
• Voting & Engagement	Q3 October – December 2023
• RI within the WPP sub funds	
Market Understanding & Regulatory Requirements	
• Progress of other LGPS pools & Collaboration Opportunities	Q4 January – March 2024
• Pooling Guidance	

* Please note that these are estimated dates and they may be subject to change

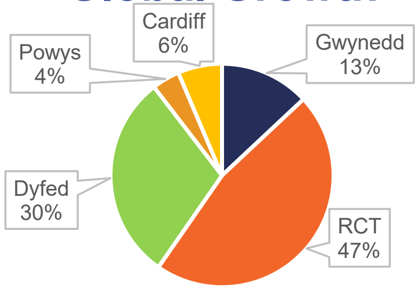
Wales Pension Partnership

Q3 2022 review

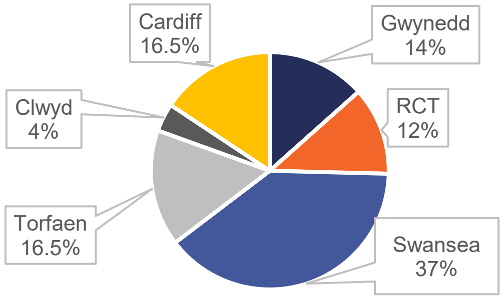
Joint Governance Committee
29 March 2023

December 2022 Fund Snapshot - Equities

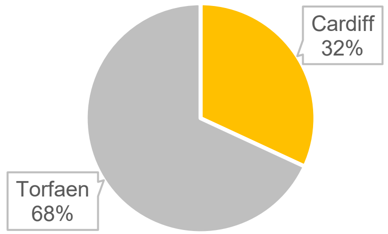
Global Growth



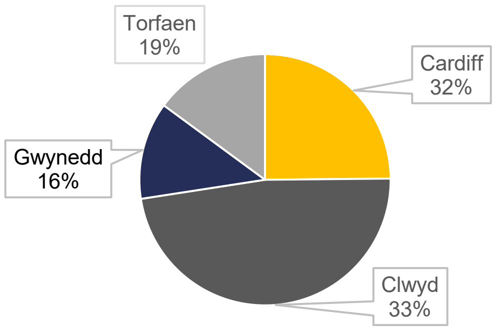
Global Opportunities



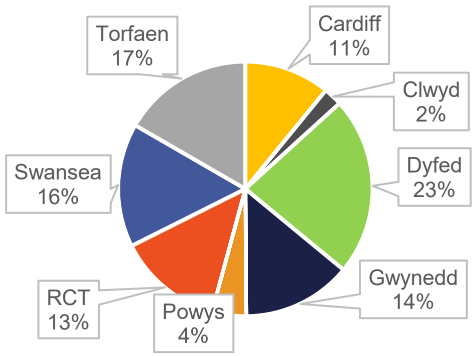
UK Opportunities



Emerging Markets



Passive*

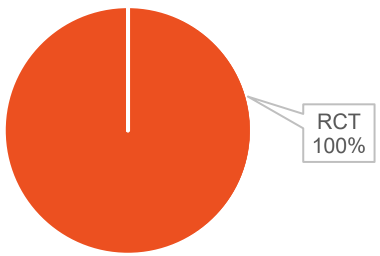


Key:
- Dyfed
- Powys
- Gwynedd
- RCT
- Torfaen
- Clwyd
- Swansea
- Cardiff

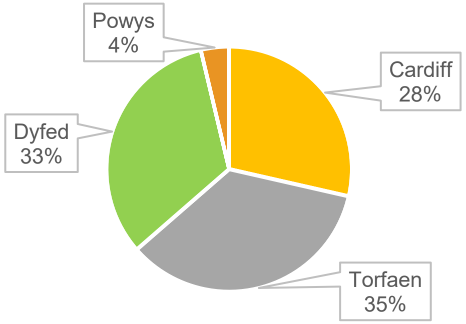
* Assets with BlackRock

December 2022 Fund Snapshot - Fixed Income

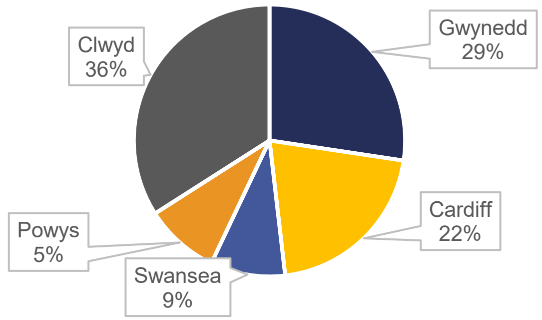
Sterling Credit



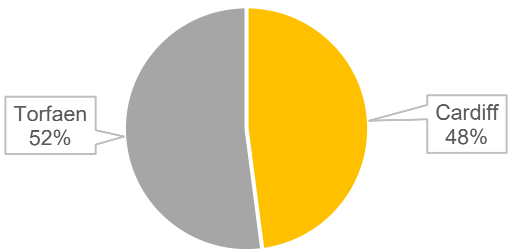
Global Credit



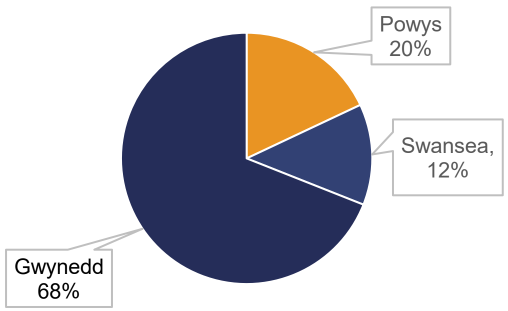
Multi Asset Credit



Global Gov. Bond



Absolute Return Bnd



Key:
- Dyfed
- Powys
- Gwynedd
- RCT
- Torfaen
- Clwyd
- Swansea
- Cardiff

December 2022 LF Wales PP Fund AUM

Fund	AUM	Inception date
Global Growth	£3,104,778,363	6th Feb 2019
Global Opportunities	£3,188,458,078	14th Feb 2019
UK Opportunities	£717,591,254	10th Oct 2019
Emerging Markets	£342,319,147	20th Oct 2021
Sterling Credit	£507,744,202	19th Aug 2020
Global Credit	£680,034,155	21st Aug 2020
Multi Asset Credit	£627,408,462	12th Aug 2020
Global Government Bond	£469,482,425	20th Aug 2020
Absolute Return Bond	£528,372,987	30th Sept 2020
Total Active Investments	**£10,166,189,073**	
Total Passive Investments	**£4,942,219,628**	
Total Pooled Assets	**£15,108,408,701 as at 31 December 2022**	

Fund Launches & Updates

Progress Report

Fund Activity in the Period

Key Achievements & Updates

Fund Launches Progress

	Overview	Status	Progress in period	Launch / completion dates
Sustainable Equity fund	▪ Establishment of a sustainable equities fund	In progress	▪ All 8 authorities will look to invest into the new fund ▪ Timetable provided with potential launch early in Q2. Due to nature of the fund and detailed questions raised, a March 2023 launch was unachievable, but will look to reduce times where possible ▪ Transition Manager discussions ongoing with RFP shared with WPP with preferred TM documented	Q2-23 (full timetable to be provided)
New Investment Manager	▪ Addition of Robeco to the Global Credit fund, removal of T Rowe Price	In progress	▪ New Investment Manager 'Robeco' to be approved Q1-23 with implementation soon after	Q2-23

LFS Corporate Update & Engagement

LFS Corporate Update & Engagement

<u>LFS updates</u>

- As discussed at the last Joint Governance Committee on 5 December 2022 the FCA issued a draft warning notice to LFSL in respect of the Woodford matter. This states that the FCA's preliminary view was that a penalty £50m (prior to taking into account any available discount) would be appropriate in addition to a restitution payment of up to £306,096,527. The draft warning notice is not a final decision but signal the start of the FCA's settlement decision process. LFSL are exploring all options, including engaging in settlement discussions with the FCA, and challenging any warning notice that may be issued. Engagement with the FCA continues.

- Link Group announced in October the intention to commence a process to explore divestment options for the Link Fund Solutions business, which includes Link Fund Solutions Limited (LFSL), and that Macquarie Capital and UBS Securities Australia Ltd have been appointed as advisers. Discussions with potential interested parties ongoing.

- Link Group announced on 20th February 2023 that it is in exclusive negotiation with the Waystone Group in respect of the sale of the whole of its Fund Solution Business, excluding Woodford related liabilities. This follows a period of confidential exclusive negotiation with and due diligence by Waystone. Any transaction with Waystone is subject to successful finalisation of due diligence and finalisation of detailed legal agreements, and to board and other approvals. Link Group has granted a further period of exclusivity to Waystone to enable the parties to conclude the necessary legal agreements before the end of March 2023.

- At the same time, Link Group and Link Fund Solutions Limited (LFSL) are in advanced confidential discussions with the FCA to settle the FCA investigation against LFSL. If a settlement is agreed with the FCA, it would resolve the current FCA investigation and would also be contingent on a scheme of arrangement of LFSL to resolve all Woodford related contingent liabilities and redress obligations of LFSL.

- A sale of the FS Business to Waystone would not be contingent on the scheme of arrangement or any FCA settlement becoming unconditional. No legally binding agreement has been reached with either Waystone or the FCA and at present there can be no certainty that any of such agreements will ultimately be concluded.

LFS Corporate Update & Engagement

Key Q3 and future WPP Engagement

Link attendance at OWG/JGC meetings in period:

- OWG 14 October 2022
- WPP JGC 5 December 2022

Link attendance at OWG/JGC meetings in next quarter:

- OWG 7 February 2023
- WPP JGC 29 March 2023

Link - Pension Committee attendance in period:

- None

Link - Pension Committee attendance in next quarter :

Pension Board RCT – Pension committee meeting 6 March 2023

Pension Board Dyfed – Pension committee meeting 28 March 2023

Other meetings in period

- Host Authority update – occurs bi-weekly
- Working group - occurs bi-weekly
- WPP briefing / training session – (First session)

Other meetings in next quarter

- Host Authority update – occurs bi-weekly
- Working group - occurs bi-weekly

LFS Engagement Protocol

Business as Usual

Strategic Relationship Review	Frequency	Objective
	▪ Bi-annual	▪ Ensure strategic alignment between Host Authority and Link

WPP Attendees

- Chris Moore
- Anthony Parnell
- Two Section 151 / Deputy Section 151 officers

Link Attendees

- Karl Midl, Managing Director
- Richard Thornton, Head of Relationship Management, Asset Owners

JGC Engagement	Frequency	Objective
	▪ Quarterly	▪ Engage with JGC on pertinent matters and strategic deliverables

WPP Attendees

- Joint Governance Committee (JGC)

Link Attendees

- Karl Midl, Managing Director / Adam Tookey, Head of Product – as required
- Richard Thornton, Head of Relationship Management, Asset Owners
- James Zealander, Senior Relationship Manager
- Russell Investments

OWG Engagement	Frequency	Objective
	▪ Every 2 Months	▪ Identify and deliver on opportunities to improve and expand the relationship ▪ Provide update on open projects or issues ▪ Monthly KPI Review (Data supplied monthly)

WPP Attendees

- Officers Working Group (OWG)

Link Attendees

- James Zealander, Senior Relationship Manager
- Richard Thornton, Head of Relationship Management, Asset Owners
- Alistair Coyle/Heidi Robinson, Relationship Managers (as required)
- Ad-hoc Link attendance from functional departments: Tax, Compliance, Product, etc.
- Russell Investments

Note: The OWG Engagement and Monthly KPI meetings may be conducted remotely and/or amalgamated where required.

Link Engagement Protocol continued…

Business as Usual

Host Authority Update	Frequency	Objective
	▪ Bi-Weekly	▪ Regular Host Authority – LFS to discuss deliverables and business updates
WPP Attendees ▪ Anthony Parnell ▪ Tracey Williams		▪ Richard Thornton, Head of Relationship Management, Asset Owners ▪ James Zealander, Senior Relationship Manager ▪ Alistair Coyle/Heidi Robinson, Relationship Managers (as required) ▪ Clair Baguley, Client Service Manager (as required)

WPP Working Group	Frequency	Objective
	▪ Bi-Weekly	▪ Regular project call to discuss progress of deliverables
WPP Attendees ▪ Officers Working Group (OWG) ▪ Hymans		▪ Link Client Team ▪ Northern Trust ▪ Russell Investments ▪ Other consultants (e.g. bFinance)

Annual Shareholder Day	Frequency	Objective
	▪ Annual	▪ Open day for presentations on strategy and performance (with IM)
▪ Open to all involved parties		▪ Link Client Team ▪ Northern Trust ▪ Russell Investments and other Investment Managers (e.g. Global Growth Managers) ▪ Other consultants as required (e.g. bFinance)

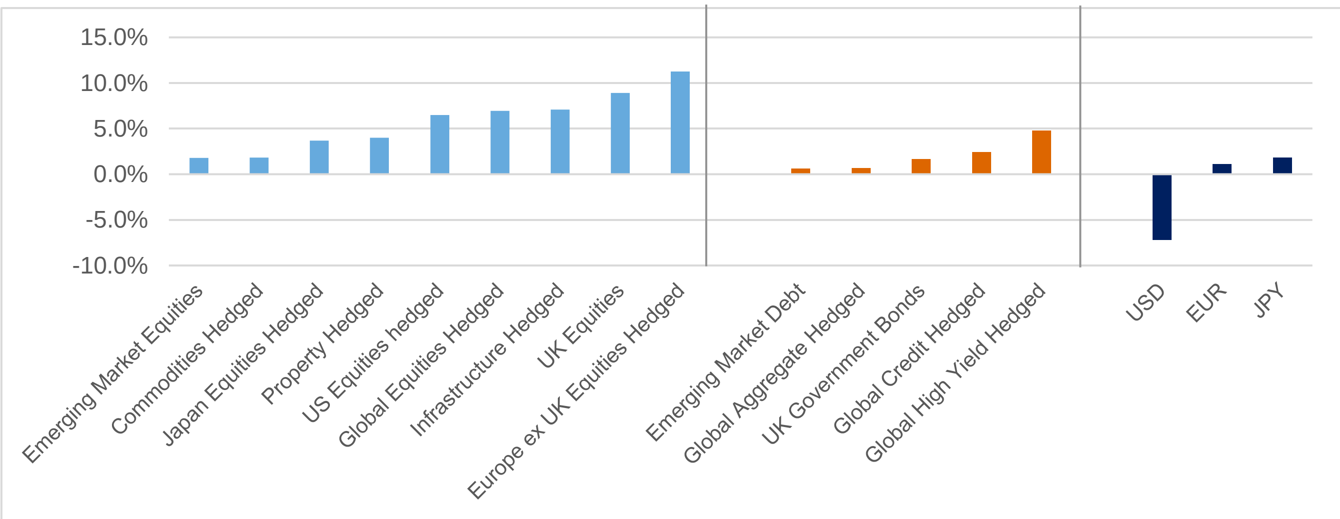
Pension Fund Committees		Objective
	▪ Annual	▪ General update on the ACS and planned initiatives
▪ Individual Pension Fund Committee meetings		▪ James Zealander, Senior Relationship Manager ▪ Alistair Coyle/Heidi Robinson, Relationship Managers (as required) ▪ Richard Thornton, Head of Relationship Management, Asset Owners ▪ Russell Investments

JGC - WPP Performance Summary Q4 2022

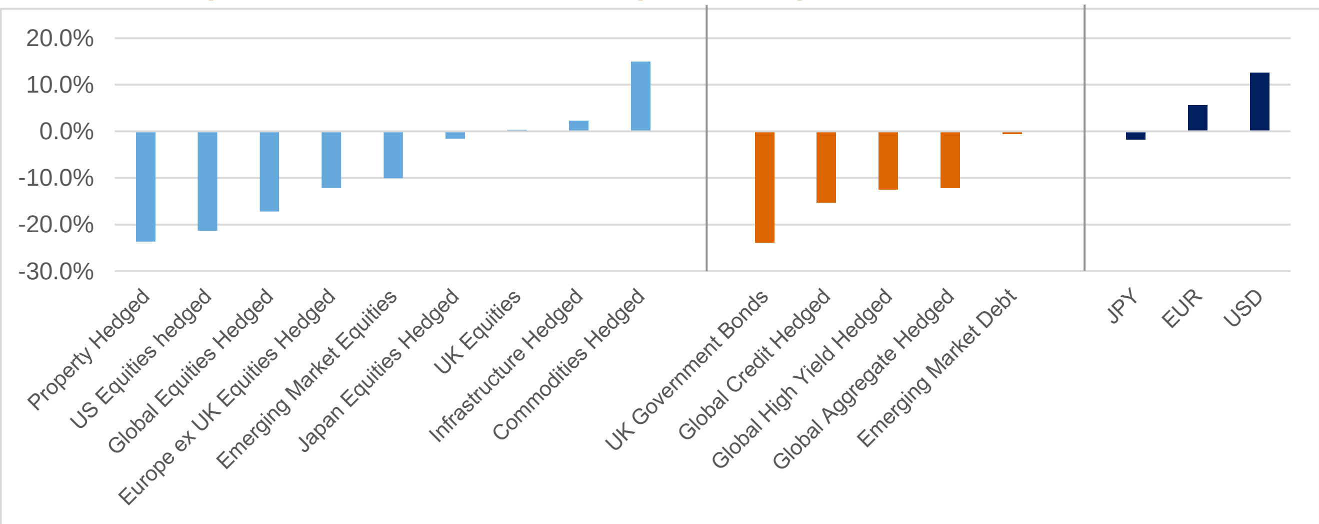
Global Market Commentary

The MSCI World Net Index recorded its first positive quarter in a year. This was the strongest quarter for the index since the fourth quarter of 2020. An anticipated slower pace of future interest rate hikes and softer-than expected inflation data boosted investor enthusiasm. However, the US Federal Reserve (Fed), Bank of England (BoE) and European Central Bank (ECB) all raised interest rates as expected this quarter. The US dollar (USD) depreciated over the quarter in contrast to its strong 2022 performance. US equities underperformed other markets in a weaker period for large cap growth stocks and the US dollar. In the eurozone, value stocks were in demand. The central bank also downgraded its 2023 growth forecasts but pushed 2024 expectations higher. In the UK, market conditions improved after former Chancellor of the Exchequer, Rishi Sunak, became the leader of the Conservative party and the UK's new Prime Minister. Emerging Markets narrowly lagged global equities.

Asset class performance – Quarter to Date (December) 2022



Asset class performance – Year to Date (December) 2022



Benchmarks : Global equity hedged (MSCI World ACWI), UK equity (FTSE All Share), US equity hedged (Russell 1000 Net GBPH), Europe ex UK equity (MSCI Europe ex UK Equity Net GBPH), Japan equity (TOPIX Net GBPH), Emerging equity (MSCI Emerging Markets Net), Global HY bonds (BofAML Global High Yield 2% Constrained Index), EMD LC (JP Morgan GBI-EM Global Diversified Index), Global credit hedged (Bloomberg Barclays Global Aggregate Credit Index), Global aggregate hedged (Bloomberg Barclays Global Aggregate Bond Index GBPH), UK Government Bonds (ICEBofAML UK Gilts All Stocks (GB), Property hedged (FTSEEPRA Nareit Dev Re GBP)

Global Opportunities Equity Fund:

	Three Months	1 Year	Since Inception
Gross	2.17	-4.14	10.47
Net	2.10	-4.39	10.18
MSCI AC World Index Net	1.86	-8.08	8.89
Excess returns (gross)	0.31	3.94	1.58

Inception Date: COB 14th February 2019

Source: Russell Investments as of 31 December 2022

Overall Fund Commentary
In factor performance, large cap value stocks were in the highest demand this quarter. In sharp contrast, large cap growth stocks were the weakest performers. Overall, value comfortably outperformed growth, which extended growth’s weak 2022 performance. Small cap stocks outperformed large caps this quarter but slightly lagged over 2022 on aggregate. Momentum also outperformed this period. European growth manager SW Mitchell significantly outperformed over the quarter, followed by Sanders, which benefitted from its global value focus. In contrast, Morgan Stanley detracted, punished by its focus on growth. Nissay, Jacobs Levy and Numeric (core) also underperformed in the quarter, albeit to a lesser extent.

Global Growth Equity Fund:

	Three Months	1 Year	Since Inception
Gross	3.57	-10.46	8.51
Net	3.47	-10.80	8.09
MSCI AC World Index Net	1.86	-8.08	9.23
Excess returns (gross)	1.71	-2.38	-0.73

Inception Date: 6th February 2019

Source: Northern Trust as of 31 December 2022

Overall Fund Commentary
After an extremely difficult year for equities, global stock markets staged a rebound in Q4. The strength in the rally was driven primarily by expectations that global inflation has peaked and will start to decline in 2023 and that central banks are much closer to the end of their tightening cycles. The unexpected relaxation of China's zero-covid policy also helped to boost returns. The fund outperformed its benchmark in Q4 rising 3.47% net of fees vs the benchmark of 1.86%. Value continued to outperform growth in Q4, and as such, top contributor to performance was the fund's holding in value manager Pzena, who saw strong gains due in part to its holdings in value driven sectors such energy, financials, and materials. The strength in Pzena performance was offset by underperformance form Baillie Gifford and Veritas. From a geographic perspective, gains in the fourth quarter were made from strong regional performance form the US, France, and the UK As we move into 2023 the outlook for global equities remains mixed and we would expect continued volatility throughout the year as the tensions between whether global central banks can cool economies sufficiently to dampen inflation without causing a global recession.

EM Market Commentary

The MSCI Emerging Markets (EM) Index narrowly lagged global equities in the final quarter of 2022. Investors responded positively to developments in China, as the country loosened strict Covid restrictions. An anticipated slower pace of future interest rate hikes in developed markets and softer-than-expected inflation data boosted investor enthusiasm. In contrast to its strong 2022 performance, the US dollar depreciated over the period which was a further tailwind. South Korea enjoyed a strong return but ended the year in negative territory. Elsewhere, South Africa's central bank also increased rates, by 75 bps to 7.0% as expected. Brazil capped a positive year with a 2.4% return this quarter. Former president and Workers' Party candidate Luiz Inácio Lula da Silva narrowly defeated incumbent Jair Bolsonaro in the second-round Presidential election.

EM Opportunities Equity Fund:

	Three Months	1 Year	Since Inception
Gross	1.63	-11.23	-10.47
Net	1.54	-11.53	-10.78
MSCI Emerging Market Index	1.80	-10.02	-9.47
Excess returns (gross)	-0.18	-1.21	-1.00

Inception Date: COB 20th October 2021

Source: Russell Investments as of 31 December 2022

Overall Fund Commentary
The Fund's tilt towards and effective selection of value stocks contributed positively. In contrast to early-year performance, underweights to India, Saudi Arabia and Qatar contributed positively this period. An underweight to China was negative although exposure to Hong Kong-based stocks and effective selection effects contributed positively. Selection within Mexico and the financials (banks) and materials (metals & mining) sectors was also rewarded. The overweight to and selection within Brazil and selection within Taiwan weighed on performance.

UK Market Commentary

The FTSE All Shares Index - Total Returns recorded a positive return in the final quarter. Market conditions improved from the negative and volatile third quarter. Former Chancellor of the Exchequer, Rishi Sunak, became the leader of the Conservative party and the UK's new Prime Minister. This followed Liz Truss' resignation as leader after a tumultuous period. However, new Chancellor Jeremy Hunt announced restrictive fiscal policies in his Autumn Statement – a sharp contrast to the previous administration's "growth plan". The Bank of England twice raised rates, including its largest rate increase in three decades in November (+75 basis points). The central bank's rate setting committee argued more hikes were likely to be required despite warning the UK economy may have to endure a "very challenging" two-year economic contraction.

UK Opportunities Equity Fund:

	Three Months	1 Year	Since Inception
Gross	11.03	-7.33	2.14
Net	10.92	-7.65	1.73
FTSE All Share	8.90	0.34	3.93
Excess returns (gross)	2.13	-7.67	-1.79

Inception Date: COB 11th October 2019

Source: Northern Trust as of 31 December 2022

Overall Fund Commentary
In factor performance, high dividend yield stocks produced the strongest returns this quarter, while small and mid-capitalisation stocks did better than large caps. Value outperformed growth during the quarter, extending its positive 2022 performance. In sectors, basic materials and health care produced the biggest absolute returns, followed by consumer discretionary. Telecommunications was the only sector to produce an absolute negative return for the quarter. Within this environment, the Fund's overweight to small caps was advantageous. Stock selection within financials and consumer staples contributed to the positive return. All managers produced positive relative returns versus the benchmark with the exception of Baillie Gifford. Ninety One led the outperformance followed by Liontrust.

Fixed Income Market Commentary

The Bloomberg Global Aggregate Bond Index brought a negative year to a close with a positive return in the fourth quarter. Investors continued to assess the future path for interest rates amid expectations of a global slowdown. The US Federal Reserve (Fed), Bank of England (BoE) and European Central Bank (ECB) raised interest rates as expected during the period. Policymakers predicted rates would continue to rise to tackle high inflation. However, an anticipated slower pace of future rate hikes and softer-than-expected inflation data boosted investor enthusiasm. In the US, the Fed increased its benchmark interest rate by 75 basis points (bps) and 50 bps respectively to end the year at a 4.5% rate. Fed Chair Jerome Powell highlighted a likely moderation in rate increases going forward. In the eurozone, the ECB twice raised rates to end the year at a 2.5% rate – the highest level since 2009. In Japan, the benchmark 10-year yield climbed a notable 18 bps to 0.42%.

Global Government Bond Fund:

	Three Months	1 Year	Since Inception
Gross	1.85	-10.76	-4.89
Net	1.78	-11.00	-5.12
FTSE World Gvt Bond Index (GBP Hedged)	-0.62	-13.76	-6.82
Excess returns (gross)	2.47	3.00	1.93

Inception Date: COB 19th August 2020

Source: Northern Trust as of 31 December 2022

Overall Fund Commentary
The Fund significantly outperformed the negative benchmark return this quarter with both underlying managers outperforming. The Fund's exposure to short-dated UK gilts early in the period suited the market environment. An underweight to Japanese and core European duration in a period where yields rose was also rewarded.

Global Credit Fund:

	Three Months	1 Year	Since Inception
Gross	3.14	-15.91	-6.09
Net	3.09	-16.06	-6.25
Bloomberg Barclays Global Agg Credit Index (GBP Hedged)	2.43	-15.34	-6.48
Excess returns (gross)	0.71	-0.58	0.39

Inception Date: COB 20th August 2020

Source: Northern Trust as of 31 December 2022

Overall Fund Commentary
The Fund's overweight to European HY and IG credit was a key positive driver this quarter. An overweight to US HY was also rewarded, although this was slightly mitigated by an underweight to US IG credit. In contrast to the previous quarter, the Fund's EMD positioning weighed on returns this period.

Multi Asset Credit Fund:

	Three Months	1 Year	Since Inception
Gross	4.28	-12.49	-2.22
Net	4.17	-12.74	-2.56
3 Month GBP SONIA + 4%	1.69	5.47	4.65

Performance Target is 3 Month GBP SONIA + 4%, we have not shown excess return as this is a target.

Inception Date: COB 11th August 2020

Source: Northern Trust as of 31 December 2022

Overall Fund Commentary
Global credit markets increased amid a wider investor enthusiasm for risk assets. This was most notable in Europe while US high yield also tightened for the quarter despite widening in December. Global investment grade credit spreads tightened more modestly in comparison. Emerging Market debt (EMD) benefitted from a weaker US dollar (USD) and expectations of a slowing of policy tightening within developed market countries. All underlying managers recorded positive absolute returns, with loan specialist ICG and EMD specialist Man GLG performing well.

Absolute Return Bond Strategy Fund:

	Three Months	1 Year	Since Inception
Gross	1.67	2.55	1.87
Net	1.56	2.42	1.56
3 Month GBP SONIA + 2%	1.20	3.44	2.67

Performance Target is 3 Month GBP SONIA + 2%, we have not shown excess return as this is a target.

Inception Date: COB 30th September 2020

Source: Northern Trust as of 31 December 2022

Overall Fund Commentary
Investment grade credit positioning was a key contributor this period in a positive environment for the tilt towards European credit. Duration exposure also remained positive through short duration positioning to German 5-year, US 10-year and Japan 10-year bonds. In contrast to the previous quarter, prepayment strategies contributed positively. Long exposure to mortgage basis was rewarded in a period where spreads tightened. Macro strategies also had a positive impact.

Sterling Credit Fund:

	Three Months	1 Year	Since Inception
Gross	6.46	-16.39	-6.61
Net	6.43	-16.50	-6.73
ICE Bank of America Merrill Lynch Euro-Sterling Index plus 0.65%	6.38	-17.10	-7.14

Performance Target is ICE Bank of America Merrill Lynch Euro-Sterling Index plus 0.65%, we have not shown excess return as this is a target.

Inception Date: COB 19th August 2020

Source: Northern Trust as of 31 December 2022

Overall Fund Commentary
The Fund exhibited positive returns of 6.46% gross in the fourth quarter of 2022. The fund is mostly exposed to Western countries, mainly US (~13%), UK (~38%), and EU (~29%) corporate IG and HY bonds denominated in GBP where bond returns have been impacted by inflation, monetary policies from the central banks in these regions, and energy prices in the wake of the conflict in Ukraine. The first three quarters saw the bond market have its worst performance since the 2008 crisis as a result of a sharp increase in government yields and credit spread widening due to accelerating inflation, central bank aggressive interest rate hikes and high recession risk. During that period the 10-year Gilt yield sharply increased by about 3.9%, Global IG and HY credit spreads sharply widened by about 79 bps and 212 bps, respectively. Conversely, in the fourth quarter, the bond market was supported by slowing inflation, smaller increases in energy prices, central banks reducing the pace of interest rate hikes, and western economies turning out to be more resilient than expected. As a result, the 10-year Gilt yield decreased by about 46bps, Global IG and HY credit spreads tightened by about 28 bps and 73 bps, respectively, which explains the fund’s 6.46% positive returns over the fourth quarter. Unfortunately, the fourth-quarter positive returns were not sufficient to offset the strong negative returns generated in the three first quarters, and the fund finished the year with a negative performance of 16.39% gross.

Meeting:	Pensions Committee
Date:	26/06/2023
Title:	PENSION FUND EARLY RETIREMENT STRAIN COST FACTORS
Author:	Meirion Jones, Pensions Manager
Purpose:	Seek approval to use the new factors
Recommendation:	Approve the use of the new factors

1. Introduction

Where an employee leaves on the grounds of redundancy/business efficiency and is aged 55 and over (aged 57 and over from 6/4/2028), the member is entitled to immediate payment of their unreduced pension benefits.

As a result of these unreduced benefits being paid earlier than the normal pension age, an early retirement cost is payable by the employer to cover the pension fund strain cost.

The calculation of the cost is based on:

- The member's age
- Length of scheme membership
- Pay
- Length of time to their Normal Pensionable Age, and
- Factors produced by the Fund's actuary.

Following the completion of a valuation process, the Fund's actuary has been reviewing the early retirement strain cost factors being used. Please see the appendix for the full report.

2. New factors

Hymans recommend that the current Fund factors are replaced by those shown below:

Years to Funded Retirement Date	Early Retirement Reduction	
	Existing Factors	Proposed Factors
0 (or past FRD already)	0.00%	0.00%
1	4.35%	4.34%
2	8.38%	8.42%
3	12.13%	12.67%
4	15.61%	16.61%
5	18.82%	20.27%
6	21.82%	23.66%
7	24.60%	26.80%
8	26.67%	29.72%
9	28.57%	32.42%
10	30.33%	34.92%
11	31.96%	37.26%
12	33.49%	39.43%
13	34.94%	41.02%
14	36.32%	42.50%
15	37.64%	43.89%
16	38.91%	45.21%
17	40.13%	46.48%

The new Fund factors have been compared to those in place currently. This comparison shows that the current factors understate the strain cost in most circumstances, and therefore **adopting the new factors will generally give rise to higher strain costs required from employers**.

3. Implementation of the new factors

The new factors were received in April 2023. To safeguard the fund, we were keen to implement the factors as soon as possible. A request was made in May 2023 to the Chair and Vice-chair of the Pensions Committee to implement these factors with immediate effect before the new factors can formally be adopted at the Pension Committee on the 26th of June 2023. The Chair and Vice-chair agreed, and the factors were implemented for redundancy and efficiency cases.

4. Recommendation

The Committee are asked to consider and approve the strain costs proposed by Hymans Robertson, in the summary table above and detailed in the Appendix, to be used for the calculation of strain costs going forward.

HYMANS ROBERTSON

Gwynedd Pension Fund

Early Retirement Strain Cost Factors

April 2023

Douglas Green FFA

Fellow of the Institute or Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

Contents

Executive Summary

This paper has been requested by, and is addressed to, Cyngor Gwynedd in its capacity as Administering Authority of the Gwynedd Pension Fund (“the Fund”). The purpose of the paper is to advise replacement early retirement strain cost factors for use by the Fund.

The Fund needs strain cost factors to determine the added cash which an employer must pay whenever a member takes early retirement on unreduced benefits. These benefits cost the Fund more than it had been expecting, so the employer must pay the additional cost.

We recommend that the current Fund factors are replaced by those shown in Appendix 1 and the associated spreadsheet. The Fund should consider the exact method and timing of implementing the new factors, as outlined under “Implementation” below.

The new Fund factors have been compared to those we believe are in place currently: this shows that the current factors understate the strain cost in most circumstances, and therefore **adopting the new factors will generally give rise to higher strain costs required from employers**.

This advice should be reviewed at the next formal actuarial valuation, or if the funding basis is materially altered, whichever occurs first.

Background

At the triennial valuation, the actuary calculates the estimated cost of providing benefits to members, over and above the member contributions and expected investment returns. This estimated cost is then charged to employers as their required regular contributions. In valuing the benefits, the actuary generally assumes that active members will start taking benefits around the earliest date they are able to do so in full, the "Normal Pension Age" or NPA.

LGPS Regulations determine the NPA for different tranches of benefit for a given member, and the employer contributions are based on that data. If a member was to take early retirement on unreduced benefits before NPA then an added cost (also referred to as the "early retirement strain cost") arises for the Fund. This is due to:

- The longer expected payment period: the member's expected age at death is unchanged, but the start date of payments is earlier;
- The missing investment returns which the Fund would have expected on those assets if they hadn't been needed for early retirement benefit payments, but had remained invested until NPA instead (NB this is partly offset by the expected future salary and CPI growth which would have increased the benefits).

There are a number of approaches to calculating this added cost:

A. The true cost of any given early retirement can only be known at the death of the member. At that point the Fund could exactly determine the benefit payments actually made, and their excess over those which would have been made from NPA, together with investment returns.

Other approaches can therefore only be estimates of the true cost:

B. The accounting cost as estimated at the next accounting disclosure (under FRS102 or IAS19), which will use different assumptions from those used for funding.

C. The funding cost as estimated at the next funding valuation, which will use different assumptions from those used for accounting.

D. The immediate cash cost payable by the employer, calculated using factors, typically derived using a simplified calculation methodology as outlined below. This methodology is adopted to be easily incorporated within the Fund's administration software. This paper considers these factors, as an approximate estimate of the true cost as per A above, in order to have the bulk of the anticipated added cost being paid into the Fund in the short term.

It is almost inevitable, given the inherent approximations, that the factors under approach D will give rise to added contributions which prove, at the next valuation, to be lower or higher than the calculated costs at that time. The difference will therefore affect the employer's deficit position at the next valuation date, so that the required balancing contributions are collected in the longer term. However, the use of these factors is a pragmatic approach to ensure that a significant part of the cost is collected from the member's employer at the time of early retirement.

Given the different actuarial assumptions which apply for accounting purposes, it is also inevitable that the cost under approach D will differ markedly from the past service cost likely to be disclosed under FRS102/IAS19.

The factors methodology (Approach D)

The Fund needs some ready way to calculate the added cost arising from each early retirement, so that the employer concerned can be billed appropriately at the time of the retirement. In practice this is calculated by the pension's administrator using Early Retirement Strain Cost Factors. These factors are determined by each fund and are not mandated by the Regulations or the Government Actuary's Department.

The factors we understand are currently used by the Fund are attached as Appendix 1 to this paper, and were introduced in 2019.

In essence the strain cost is calculated as:

{Unreduced pension} x {ERR factor} x {Annuity Factor at ERA}

where:

- ERR factor = the Early Retirement Reduction factor which would have applied to the member's pension had the retirement not been with employer consent. (NB These are calculated for funding purposes, and will therefore differ from the standard GAD early retirement reduction factors which would be applied if the member's pension was actually being reduced).
- Annuity Factor at ERA = the cost of paying a pension of £1 p.a. (plus future increases in payment) for the remainder of the member's expected lifetime from their Early Retirement Age.

These early retirement strain cost factors are typically derived using the actuarial assumptions adopted at the most recent triennial valuation of the Fund. Once a valuation has been completed, it is therefore common practice to revisit these factors to allow for the updated valuation assumptions.

Assumptions underlying proposed new Factors

Background

From the above, we would therefore propose that the Fund adopts new factors where the underlying assumptions reflect those used at the most recent formal funding valuation as at 31 March 2022. The rationale for these assumptions is that the strain costs are a funding cost for the employer and should therefore use the same assumptions as those underpinning the most recent formal funding valuation.

We understand that the administration software only permits a single table of factors to be used for all Fund members, which in turn implies the use of a single set of assumptions. However, at the 31 March 2022 formal funding valuation we measured funding positions using different assumed investment returns (as at the valuation date) for different types of employer. In the interests of pragmatism, we have proposed an assumed investment return below which relates (at the valuation date) to the reported whole Fund funding position. This is taken to be appropriate for employers of the majority of Fund members, on the long term funding target (as opposed to contractor or cessation funding targets – see next page).

Principal assumptions adopted

We have therefore used the following principal long term average assumptions:

- Assumed investment return = 4.1% p.a.
- Pay growth rate = 3.2% p.a.
- CPI pension increase rate = 2.7% p.a.
- Pre-retirement increase rate = 3.0% p.a. (average of pay growth and pension increase rates – see next page)
- Life expectancy as per whole Fund averages.

The derivation of these assumptions was detailed in the advice provided for the formal valuation as at 31 March 2022, including the formal valuation report.

(The financial assumptions used for the existing factors were 3.9%, 2.6%, 2.3% and 2.6% respectively, i.e. in line with the most recent funding valuation at that time).

Simplifying assumptions adopted

In determining the ERR factors we have had to make the following simplified assumptions:

- Member's NPA = 67 for the age at which members can receive all accrued retirement benefits unreduced. This assumption of a single NPA is because the ERR factor will differ whether (for example) the member is retiring 5 years early at age 55 with an NPA of 60, or retiring at age 62 with an NPA of 67. The administration software does not allow this distinction, it uses the same factor for a given number of years early, regardless of NPA, so we have chosen 67 as a suitable average across LGPS active members: this is in line with the funding assumption adopted at the most recent valuation of the Fund.
- As the administration system only permits one ERR factor regardless of gender, we have taken the average of male and female factors.

Note that another simplification is due to the application of a single revaluation assumption which is equal to the average of the salary increase assumption and the CPI assumption for all pension, (rather than allowing for separate revaluation of the pre- and post-2014 element of the member's accrued pension). We have used this simplification because:

- The administration software does not permit different ERR factors to be applied to different tranches of benefit for early retirement strain cost purposes;
- With the passing of time since 2014, the pre-2014 and post-2014 elements of the average accrued pension will likely become more balanced for members retiring in the near future (in recent years we would have expected the majority of a retiring member's pension to be pre-2014);
- The higher strain costs will generally occur where the member has much longer service, in which case the salary-related pre-2014 element will be a larger element of the total anyway and therefore it is important to maintain a link to the salary increase assumption in our calculations;
- We consider this an acceptable approximation in the context of other simplifications applied in this calculation, as identified above;
- The calculated strain cost is only ever an interim payment requested from the employer, so any difference from the cost calculated at the next valuation (as per approach C above) will be picked up in employer contributions at that stage.

The resulting factors are shown in Appendix 1.

Employers with alternative funding targets

The use of the lower assumed investment return in alternative funding targets would, all other things being equal, give rise to lower strain cost calculations. We would therefore expect that strain costs calculated for employers on contractor or cessation funding targets are more likely to be higher than strictly necessary, thus giving rise to funding gains at the next funding valuation. However, we consider this to be acceptable, partly on the grounds of administrative simplicity (we only expect a small minority of early retirements to take place among such employers). Furthermore, as these employers are heading to a cessation event, this would either:

- reduce the amount of cessation debt which the employer has to pay at that time anyway, or
- increase any surplus which may be returned to them under the discretionary decision made by the Fund with regard to an exit credit at that time,

depending on their funding position at cessation.

Impact of proposed assumptions

We have proposed the above assumptions as they are in line with the assumptions underpinning the majority of employer funding strategies as at the last valuation.

If different assumptions were to be adopted for these factors, then there would be a disconnect between the measurement of the required strain payment, and the measurement of the existing funding reserve immediately prior to early retirement.

It is not possible to state whether a more or less prudent set of assumptions for these factors would give rise to higher or lower strain payments, since different assumptions affect different parts of the strain cost calculation in different ways. For instance, a lower real assumed investment return would give a lower ERR factor but a higher Annuity Factor, and the overall impact would vary by age and term to NPA.

However, we can state that:

- Higher calculated strain costs will, all other things being equal, mean a lower likelihood that a further deficit arises at the future valuations, and a higher likelihood that the strain payment will prove to be overly sufficient (and vice versa);
- Changes to market conditions and to future valuation assumptions will mean that the strain cost factors will become more or less likely to meet the true cost and future funding and accounting requirements. For the reasons stated above it is not possible to state simply that a given change will give rise to a greater or smaller likelihood of the strain payment proving to be sufficient.

Comparison between existing and proposed factors

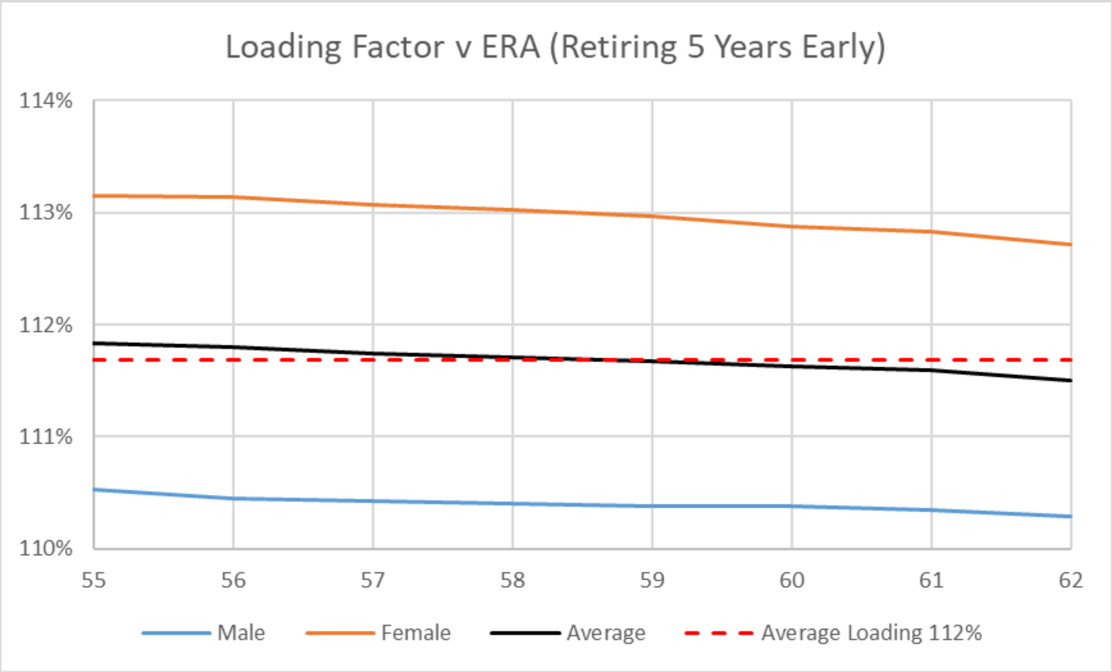
We have calculated the strain cost which would apply for a variety of notional members, of different ages, gender and term to retirement, using the following:

- The assumptions adopted at the formal funding valuation as at 31 March 2019 (i.e. the current factors being used by the Fund, which are shown in Appendix 1).
- The assumptions adopted at the most recent formal funding valuation as at 31 March 2022 (i.e. the proposed new factors, also shown in Appendix 1).

By comparing the resulting strain costs under the two sets of assumptions, this allows us to determine the impact of moving from the current assumptions to the new assumptions being proposed.

The chart below shows our analysis for a particular cohort of hypothetical members – namely those that retire 5 years earlier than their Normal Pension Age. For these members, we have compared the strain costs that arise at each Early Retirement Age (ERA) under the current and new assumptions.

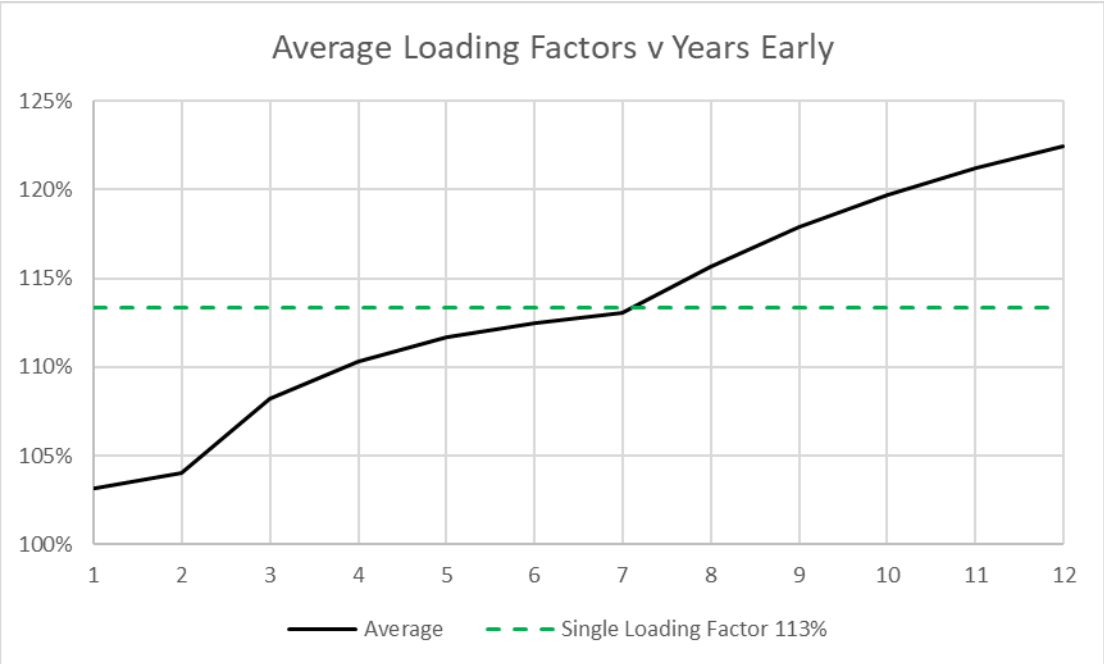
We have analysed this impact for both males and females but also looked at the average impact across these two groups.



The chart above shows that (for example) the strain cost arising for a male retiring 5 years early at age 55 is around 11% greater under the new assumptions than under the current ones. For a corresponding female at age 55, the new strain cost is around 13% higher. The average of the two (shown by the black line) is an increase of around 12% at age 55.

Looking across all ages and genders in the chart above, we have determined that the average impact is around 12%. This is shown by the red dashed line.

We have expanded and repeated this analysis for a wide range of scenarios, where members retire between 1 and 12 years early. The results are presented in the chart below.



The black line in the chart again shows the average impact of moving to the new assumptions for each early retirement scenario. For example, as already established, for members retiring 5 years early the strain costs are around 12% higher under the new assumptions. For those retiring 10 years early, the increase is around 20%.

Looking across the range of scenarios, we have determined that the average impact of adopting the new assumptions is an increase in strain cost of around 13%. This is shown by the green dashed line above.

Implementation

A. **Factors**: The proposed factors are shown in Appendix 1, for the principal ages and numbers of year early which will tend to arise in practice. However, alongside this paper we have provided a spreadsheet which contains these factors in a format easier to upload to your administration system, and also applicable for all possible ages and number of years early.

B. **Use of factors**: The factors should be used in the manner outlined in the Instruction Manual previously issued to the Fund. This paper should therefore be read in conjunction with that Manual, for the purpose of applying the new factors in practice. Note that we have not changed the methodology since that Manual was passed to the Fund, so officers should be able to simply replace the Fund's existing factors with these new ones, without amending the calculation methodology. If the Fund or any employers use these factors in any spreadsheets or ready reckoners, please ensure these are updated. If you have any queries regarding their application, please contact your Fund Actuary in the first place.

C. **Loading**: For the avoidance of doubt there should be no added loading applied to the use of the proposed factors, i.e. the loading should be 100% (we are aware that many funds may in the past have used loadings of 125% or 140% applicable to factors in place at that time).

D. **Testing**: We would recommend the Fund carries out some testing of the new factors once uploaded, to ensure these are giving reasonable results across a variety of members' ages and both genders. If you have any queries regarding these tests, please contact your Fund Actuary in the first place.

E. **Timing**: The Fund should carefully consider the date at which these factors start to be applied. We recommend that they are applied with immediate effect, subject to issues such as:

- time to upload the new factors on to the Fund's administration system and carry out any necessary testing;
- strain cost quotes already issued (i.e. whether these should be honoured as they stand or replaced with the new factors);
- use of factors in a manner affecting members' benefits (see (f) below);
- strain cost quotes requested but not yet issued to the employer;
- any governance processes required, such as formal approval by Section 151 Officer or Pensions Committee;
- any employer communication requirements, for instance if employers expect any changes to be notified to them before coming into effect.

There is no single correct approach, but the Fund should record (and where necessary communicate) its approach taking account of the above. If you have any queries regarding timing and process issues, please contact your Fund Actuary in the first place.

F. **Impact on members**: The factors do not explicitly affect members' benefit levels in most circumstances, as they are intended to calculate the funding strain cost payable by the employer on the assumption that the member is retiring with unreduced benefits. However, we are aware that the factors may occasionally be used in a manner which potentially impacts members' benefits, for instance where the employer is considering possible early retirements but its decision will be partly cost-based, or where the member is asked to contribute to their early retirement cost. In such circumstances, these new factors will have an impact on whether the member is granted early retirement, or the cost to the member of that retirement. The impact will depend on the specific circumstances, and if there are any queries please contact your Fund Actuary in the first place.

G. **Ill-health strain costs**: For the avoidance of doubt, the new factors may be used to calculate the strain cost applicable for Tier 1 & Tier 2 ill-health early retirement cases. However, the cost of added service under Tier 1 is not explicitly matched by these factors: the use of the Annuity Factor is likely to be appropriate albeit this does not include the cost of a dependant's pension and so will slightly understate (typically by 10-20%) the cost of that added service.

Please note that any external ill-health insurance will be affected by any change to the early retirement strain cost factors, as these affect the amount of strain cost being insured and the claim payments made by the insurer. Therefore, changes in factors may cause the premium rate to rise or fall. In the interests of full disclosure, as Hymans receives commission on these premiums, then a rise or fall in strain costs arising from a change in factors will lead to a commensurate rise or fall in the amount of commission we receive. By instructing us to review the strain cost factors for the Fund in this report, we assume that the Fund is comfortable with this situation. We have not carried out an analysis to identify the impact for individual insured employers as part of this factors review exercise.

H. **Exit payment cap**: At the time of writing, the Government has proposed but not yet implemented legislation which would limit the award of unreduced early retirement benefits in some circumstances, due to the application of a cap (proposed at £95,000) on the combined value of an employee's severance package. We have not taken account of this legislation in the proposed factors, due to the lack of clarity on whether and how such regulations would apply. If and when such regulations are brought into effect, please contact your Fund Actuary to verify whether and how the use of these factors is affected.

I. **Post valuation events**. Since the most recent formal valuation date of 31 March 2022, there has been significant volatility in financial markets, short-term inflation expectations and rises in interest rates by central banks. These events affect the valuation of the Fund's liabilities and therefore also the cost of members retiring early on unreduced benefits (although the precise impact is unclear because different assumptions affect the strain cost calculation in different ways). As stated above, the strain cost factors in this report have been calculated using the assumptions adopted for whole fund reporting at the most recent formal valuation of the Fund as at 31 March 2022. We have adopted this approach, as the assumptions are in line with those underpinning the disclosure reports for the majority of employer funding strategies as at the most recent valuation. If you wish to discuss the impact of any post valuation events on your early retirement strain cost factors - either now or in future – please contact your Fund Actuary.

Professional notes

The paper is not intended for any party other than the Fund, nor for any other purpose than determining early retirement strain cost payments, and Hymans Robertson does not accept any liability relating to any other party or purpose.

This paper is subject to and complies with the following Technical Actuarial Standards set for the actuarial profession:

- TAS 100 (Principles for Technical Actuarial Work), and
- TAS 300 (Pensions).

If there are any queries, please direct these to me or your usual Fund Actuary contact in the first place.

Douglas Green FFA

24 April 2023

For and on behalf of Hymans Robertson LLP

Appendix

Appendix 1 – Factors for early retirement strain costs

The tables below show the factors required, based on the approach described in this report, for calculating the strain arising on early retirement. We have also shown the existing factors for comparison.

The actual factors to be uploaded to the Fund's administration software are provided in spreadsheet format accompanying this paper.

Table 1: Early Retirement Reduction (ERR) factors

Years to Funded Retirement Date	Early Retirement Reduction	
	Existing Factors	Proposed Factors
0 (or past FRD already)	0.00%	0.00%
1	4.35%	4.34%
2	8.38%	8.42%
3	12.13%	12.67%
4	15.61%	16.61%
5	18.82%	20.27%
6	21.82%	23.66%
7	24.60%	26.80%
8	26.67%	29.72%
9	28.57%	32.42%
10	30.33%	34.92%
11	31.96%	37.26%
12	33.49%	39.43%
13	34.94%	41.02%
14	36.32%	42.50%
15	37.64%	43.89%
16	38.91%	45.21%
17	40.13%	46.48%

As per our Instruction Manual:

- Different Early Retirement Reductions may apply for a member's different tranches of benefits, based on the Funded Retirement Date (FRD) as defined in the Manual. The FRD is technically slightly different from our 2022 valuation compared to the Manual, but the principles remain the same.
- ERR should be interpolated based on the number of years and complete months before FRD.

Table 2: Annuity factors

Age Next Birthday	Existing Factors		Proposed Factors	
	Male Factors	Female Factors	Male Factors	Female Factors
50	24.70	26.53	25.63	27.91
51	24.46	26.32	25.28	27.69
52	24.20	26.10	24.94	27.44
53	23.92	25.85	24.60	27.18
54	23.61	25.57	24.25	26.89
55	23.27	25.27	23.89	26.56
56	22.76	24.75	23.35	26.00
57	22.24	24.20	22.81	25.42
58	21.70	23.65	22.25	24.83
59	21.15	23.08	21.68	24.22
60	20.59	22.50	21.10	23.60
61	20.02	21.92	20.52	22.97
62	19.45	21.32	19.93	22.33
63	18.88	20.73	19.33	21.69
64	18.31	20.13	18.73	21.05
65	17.74	19.54	18.14	20.40
66	17.19	18.94	17.55	19.76
67	16.64	18.35	16.97	19.12

The Annuity Factor to be used is that applicable to the member's age at the **next** birthday.

Agenda Item 12

Meeting:	Pensions Committee
Date:	26/06/2023
Title:	PENSION ADMINISTRATION
Author:	Meirion Jones, Pensions Manager
Purpose:	For information only

1. Introduction

This report provides a general overview of pension administration over the past year. It contains information on the work carried out over the period and an update on various previously mentioned projects.

2. Performance Management

The Pension Fund is committed to improving its service delivery and will review the measures in place to monitor performance on an annual basis to identify where improvements can be made. Where areas of poor performance are identified, The Pension Service will review the reasons for poor performance and put in place appropriate processes to improve the level of service provision in the future. The service's core duties performance for 2022/23 compared to 2021/22 is as follows:

Core Activities	Performance in 2021/2022		Performance in 2022/2023	
	Number of cases	Average days taken	Number of cases	Average days taken
Average number of work days taken to send a quotation letter offering a transfer in	194	53.28	351	26.60
Average number of work days taken to send a quotation letter detailing a transfer out	205	28.63	218	17.11
Average number of work days taken to send process a refund of pension contributions	206	1.42	287	0.72
Number of working days on average taken to send a letter informing of the value of the deferred benefits	987	5.98	2,015	7.86
Average number of work days taken to send a letter informing value of benefits – estimates	1,714	1.33	2,056	1.16
Average number of work days taken to send a letter informing value of benefits – actual	683	0.99	797	0.84
Average number of work days taken to notify dependents benefits	264	1.84	385	1.61

Monthly pension payments processed and paid on time (figure based on number of payments in Month 12 of each year)	11,609	100%	11,999	100%
Number of cases where amended payments were necessary as a result of an error in the section	0	n/a	0	n/a

As can be seen, overall, the performance of the service has improved. The performance of sending a letter informing of the value of the deferred benefits has worsened slightly. The main reason for this is the fact that new staff have been appointed in 2022/23 to undertake this work and it has taken time to train them. Although the number of days has increased for this aspect of the work, we have processed 2,015 cases during 2022/23 to compare with 978 cases during 2021/22 and this helps to improve the accuracy of our data.

We will continue to work to improve the performance for all tasks during 2023/24.

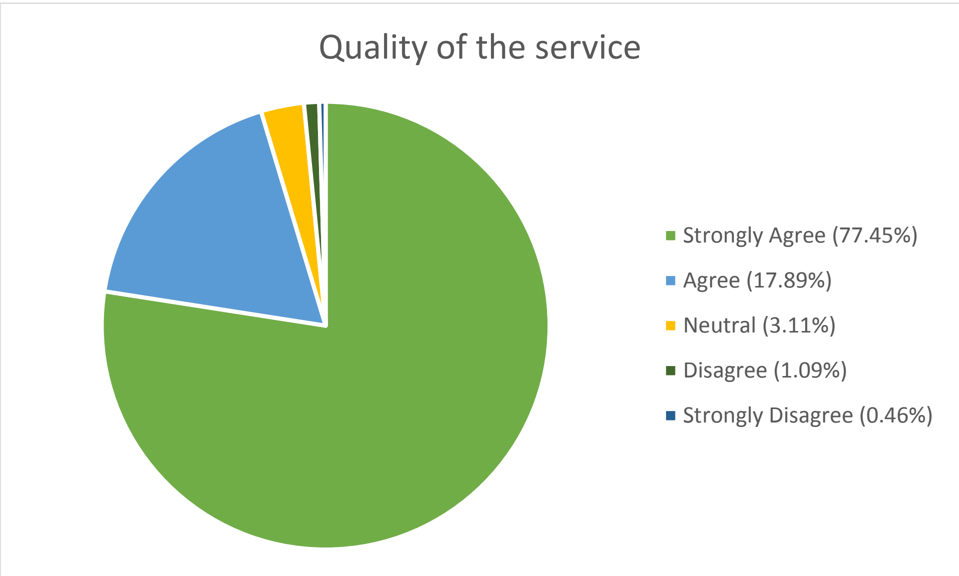
3. Member Satisfaction Survey

To ensure that we offer the best possible service to our members, a Member Satisfaction Survey is sent at the end of each process, e.g. retirements and payment of refunds for the members to give their opinion on the quality of the service received and their opinion about the service provided by the staff.

Here is a summary of the 2022/23 results:

Quality of Service

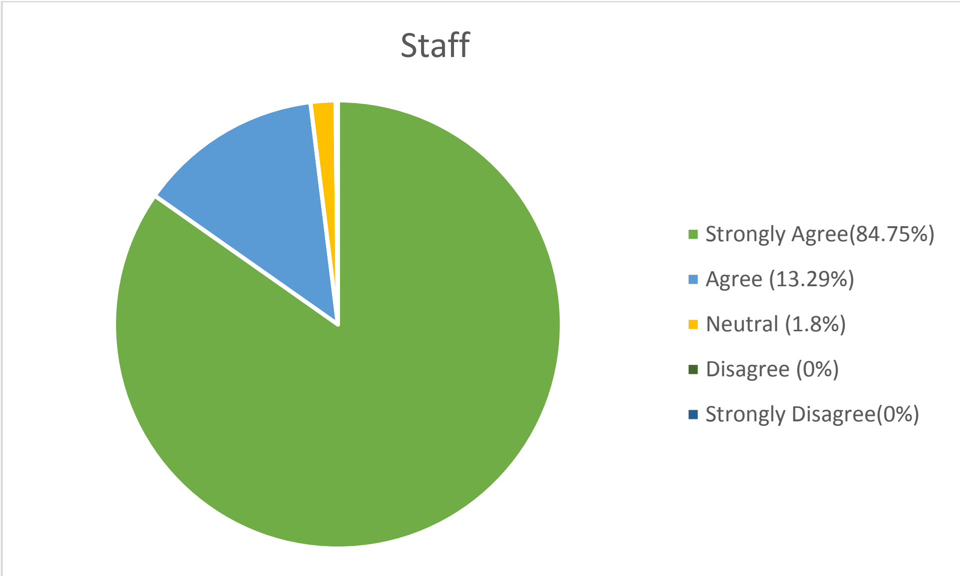
The chart below shows the percentage of users who are satisfied with four aspects of the service's performance based on: i) Service as a whole; ii) clear information; iii) Quality of service; iv) Time to deal with the enquiry.



As can be seen, 95.34% of the users strongly agree or agree that the quality of the service provided is of a high standard.

Staff

The chart below shows the percentage of users who are satisfied with four aspects of staff performance based on: i) Courtesy; ii) Punctuality; iii) Assistance given; iv) level of knowledge.



As can be seen, a high percentage once again (98.04%) of the users strongly agree or agree that the quality of the service provided is of a high standard in relation to the staff.

4. Complaints

Fortunately, the number of complaints we receive is very low. Here are the details of the complaints we have received during 2022/23:

Ill-health Retirement: Members unhappy that their application to retire under the ill-health retirement option was not successful. This decision is outside the fund's control - These complaints are referred back to the relevant employer.

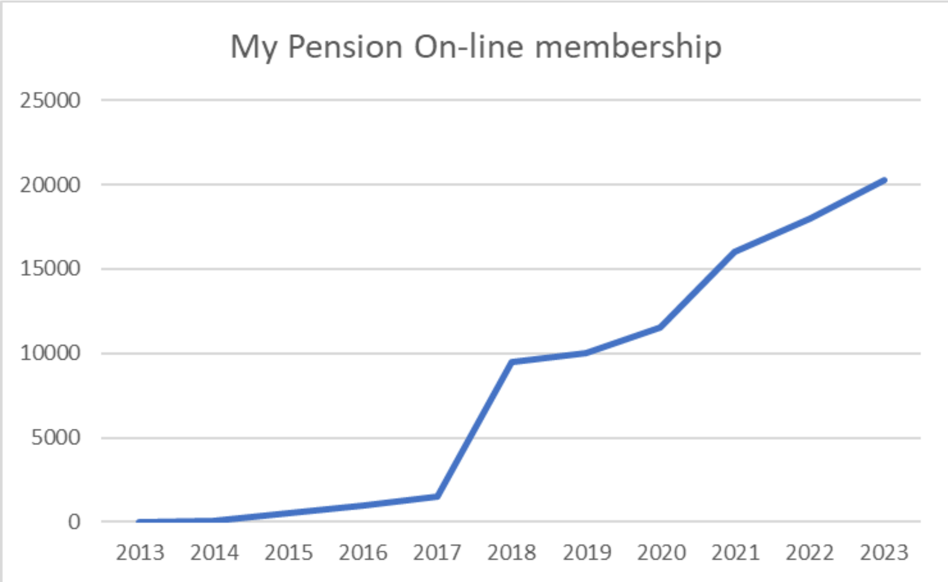
Delay in transferring pension benefits: A member was unhappy with the time taken to transfer her benefits out of the pension fund to another pension fund. When looking into the complaint it was clear that the delay was due to the other pension fund, and therefore this was out of the hands of the Gwynedd Pension Fund.

We correct any errors as soon as possible and try to change our processes, if appropriate, to avoid the same mistake happening again.

5. My Pension Online

The 'My Pension Online' system continues to be very popular, with a large number of members visiting the site daily.

Approximately 20,000 have registered for the service to date. The graph below shows an increase in the number of members joining the self-service system over the last 10 years:



The system allows members to:

- View and update personal details and addresses
- Find out how much benefits will be worth at retirement
- Calculate the amount of extra lump sum they can take in retirement
- View their service history, including any transmitted service
- View and update their nominated beneficiaries
- View their Annual Benefit Statements

We have recently introduced an option for pension fund pensioners to view their monthly pension slips online. A paper pension payment slip is only sent to members when there is a difference in pension payments of £5.00 compared to the previous month's pension payment, so the new service enables pensioners to see their pension slip every month from now on. We will stop sending paper slips to new pensioners and encourage current pensioners to stop receiving paper slips, but it is likely that a large number will be reluctant to change at the moment, so there is no intention of forcing everyone to change to the new system at this time.

We hope that a brand-new version of the system will be introduced during 2023/24 and we plan to carry on developing the options available to members.

6. **The Pensios Regulator – Measuring Data**

In 2015, the Pensions Regulator (tPR) took over responsibility for Public Sector Pension Schemes. Before that, in June 2010, the tPR published guidance on what they consider to be good practice to measure the presence of members' data.

Over the last few years we have been commissioning our software provider, Aquila Heywood to produce a Data Quality Report for our Fund every September. We now have software to run this report internally.

The report is divided into two sections:

- **Common Data:** e.g. name, address, NI number, gender, date of birth, status and start date
- **Scheme Specific Data:** e.g. benefits in the scheme, transfer details, AVC, salary details, contributions, service, lifetime allowance, annual allowance and GMP**.**

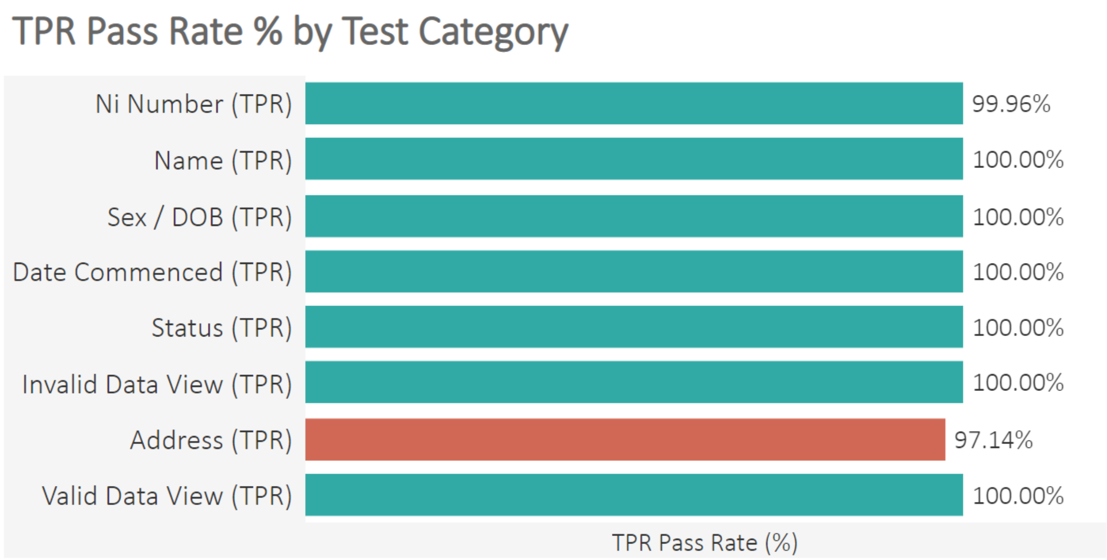
We provide below a summary of the results:

Summary of Common Data Results

The graph below shows Gwynedd's performance for each data category.

7 of the 8 categories achieved the highest benchmark of more than 98% with 5 categories not recording a single failure. The only category that did not reach the highest benchmark in question was **members' addresses** with a score of **97.14%.** With the exception of members' addresses, the general quality of common data in Gwynedd is of a high standard. In order to improve the member address score we will be working with a company called ATMOS to carry out work to track the address of members recorded as having "disappeared".

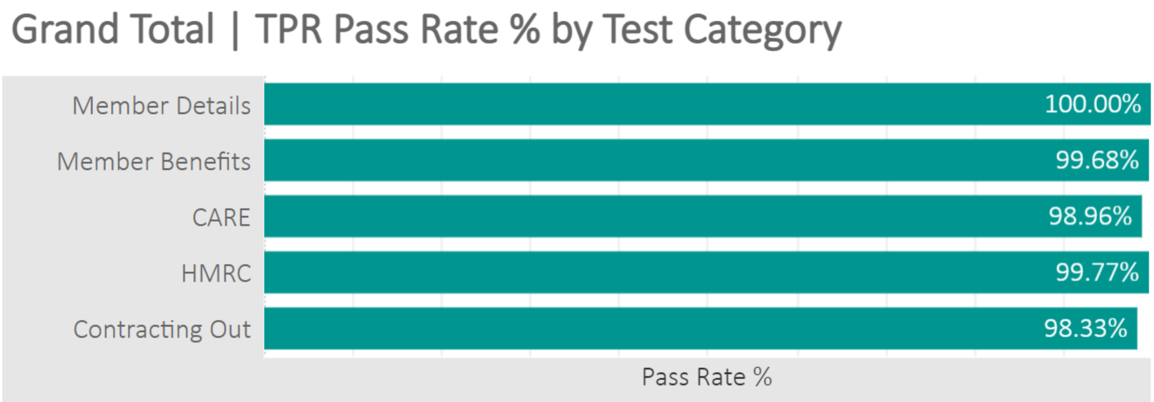
The percentage of member records without a common data failure is **97.9%** (97.7% last year) at the date of preparing this report (09/06/2023).



Summary of Scheme Specific Data Results

The graph below shows Gwynedd's performance for each data category against the agreed plan benchmarks.

The percentage of member records without individual data failure that is specific to the scheme is **98.78%** (94.89% last year) at the date of preparing this report.



An action plan is being developed in relation to the implementation of any data cleansing highlighted as part of this exercise and this data cleansing is expected to improve the data scores for next year.

7. Eisteddfod

The pension fund will have a stand at the National Eisteddfod in Boduan this year.

We hope the Eisteddfod will be a good opportunity for us to meet the members of the pension fund face to face and try to encourage them to register for the My Pension Online service, complete forms and ask questions etc.

8. New logo

In preparing marketing material for the National Eisteddfod, we thought it would be a good idea to have a new logo designed for the Pension Fund as the current logo is now looking a bit dated.

Here is the current logo:

We commissioned a graphic designer in the IT department to come up with a new logo and gave him a theme of castles, mountains and sea as we felt these 3 elements are common for Gwynedd, Anglesey and Conwy.

Please see below the ideas he has come up with:

Idea 1:

Cronfa Bensiwn
GWYNEDD
Pension Fund

Idea 2:

Cronfa Bensiwn **GWYNEDD** Pension Fund

We like both designs and feel that we could utilise both ideas in different ways. Idea 1 could be used as the main logo and idea 2 could be use as page footer on annual reports and other publications etc.

Due to time constraints with design and printing work, we did not have time to ask the Committee to approve the new logo, but the ideas were shared with the Chairman and Vice-chairman of the Committee and permission was received that they were happy to adopt the new logo.

Here are some ideas for marketing material the fund could use the promote the scheme:


Cronfa Bensiwn GWYNEDD Pension Fund
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Cronfa Bensiwn GWYNEDD Pension Fund
cplll
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Cronfa Bensiwn GWYNEDD Pension Fund
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GWYNEDD Pension Fund