

GWYNEDD PENSION FUND ACCOUNTS 2016/17

31 March 2016 £'000		Notes	31 March 2017 £'000
	Dealings with members, employers and others directly involved in the Fund		
67,317	Contributions receivable	7	67,695
8	Interest on deferred contributions		7
3	Income from divorce calculations		2
5,075	Transfers in from other pension schemes	8	5,893
72,403	Total contributions received		73,597
(55,186)	Benefits payable	9	(53,982)
(2,852)	Payments to and on account of leavers	10	(3,970)
(58,038)	Total benefits paid		(57,952)
14,365			15,645
(10,060)	Management Expenses	11	(11,641)
	Returns on Investments		
11,874	Investment income	14	12,886
(530)	Taxes on income	15	(378)
12,383	Profit and (loss) on disposal of investments and changes in the market value of investments	16	322,316
23,727	Returns on investments net of tax		334,824
28,032	Increase in the net assets available for benefits during the year		338,828
	Net assets of the Fund		
1,497,373	At 1 April		1,525,405
28,032	Increase in net assets		338,828
1,525,405			1,864,233

NET ASSETS STATEMENT AS AT 31 MARCH 2017

31 March 2016		Notes	31 March 2017
£'000			£'000
1,455,230	Investment assets	16	1,798,325
42,631	Cash deposits	16	49,248
1,497,861			1,847,573
(64)	Investment liabilities	16	(235)
31,887	Current assets	21	20,984
(4,279)	Current liabilities	22	(4,089)
1,525,405			1,864,233

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year-end, but rather summarises the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2016) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will again be able to meet 100% of future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE I – DESCRIPTION OF FUND

The Gwynedd Pension Fund (“the Fund”) is part of the Local Government Pension Scheme and is administered by Gwynedd Council. The council is the reporting entity for this pension fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

b) Membership

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

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

NOTE I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

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

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2014 to 31 March 2017 following the actuarial valuation carried out as at 31 March 2013.

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.

NOTE 1 – DESCRIPTION OF FUND (continued)

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

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year or the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (see Note 8).

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

iv) Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated with Fidelity International that an element of their fee be performance-related. The cost of obtaining investment advice from external consultants is included in investment management charges.

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

Net assets statement

g) Financial assets

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

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

- i) **Market-quoted investments**
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Fixed interest securities**
Fixed interest securities are recorded at net market value based on their current yields.
- iii) **Unquoted investments**
The fair value of investments for which market quotations are not readily available is determined as follows:
 - Unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
 - Investments in unquoted property are valued at the net asset value or a single price advised by the Fund manager.
 - Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.
- iv) **Pooled investment vehicles**
Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial liabilities

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

k) Actuarial present value of promised retirement benefits

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

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

l) Additional voluntary contributions

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

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

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. 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 2017 was £110 million (£82 million at 31 March 2016).

Pension fund liability

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

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

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

The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Item	Uncertainties	Effect if actual results differ from assumptions
Debtors	At 31 March 2017, the Fund had a balance of sundry debtors of £5.6m. A review of significant balances suggested that it was not appropriate to make any impairment of the debts.	If collection rates were to deteriorate, it would be necessary to reconsider this decision.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £110 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

There are no significant events after the balance sheet date to report.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2015/16		2016/17
£'000		£'000
52,149	Employers	52,439
15,168	Employees/Members	15,256
67,317		67,695

By authority

2015/16		2016/17
£'000		£'000
22,722	Gwynedd Council	23,210
40,256	Other scheduled bodies	40,231
1,660	Admission bodies	1,514
2,227	Community admission bodies	2,215
203	Transferee admission bodies	252
195	Resolution bodies	219
54	Closed fund*	54
67,317		67,695

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

By contribution

2015/16		2016/17
£'000		£'000
15,168	Employees' normal contributions	15,256
45,106	Employers' normal contributions	46,570
7,043	Employers' deficit recovery contributions	5,869
67,317		67,695

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16		2016/17
£'000		£'000
3,889	Group transfers	1,315
1,186	Individual transfers	4,578
5,075		5,893

NOTE 9 - BENEFITS PAYABLE

By category

2015/16		2016/17
£'000		£'000
39,477	Pensions	41,081
14,070	Commutation and lump sum retirement benefits	11,093
1,639	Lump sum death benefits	1,808
55,186		53,982

By authority

2015/16		2016/17
£'000		£'000
15,094	Gwynedd Council	15,233
27,319	Other scheduled bodies	25,701
1,275	Admission bodies	1,561
709	Community admission body	1,095
35	Transferee admission body	173
86	Resolution body	58
10,668	Closed fund	10,161
55,186		53,982

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16		2016/17
£'000		£'000
96	Refunds to members leaving service net of tax repayments	103
77	Payments for members joining state scheme	11
2,679	Individual transfers	3,856
2,852		3,970

NOTE 11 – MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
1,186	Administrative costs	1,242
8,815	Investment management expenses (Note 13)	10,343
59	Oversight and governance costs	56
10,060		11,641

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

NOTE 12 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2015/16		2016/17
£'000		£'000
	Administrative costs	
447	Direct employee costs	486
368	Other direct costs	293
257	Support services including IT	303
29	External audit fees	33
85	Actuarial fees	128
1,186		1,243
	Oversight and governance costs	
59	Pensions Committee	55
1,245		1,298

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

NOTE 13 – INVESTMENT MANAGEMENT EXPENSES

2015/16		2016/17
£'000		£'000
8,685	Management fees	10,258
54	Custody fees	45
19	Performance monitoring service	3
57	Investment consultancy fees	37
8,815		10,343

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

The investment management expenses above include £322,972 (2015/16 £748,579) in respect of performance-related fees paid to one of the Fund's investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 14 – INVESTMENT INCOME

2015/16		2016/17
£'000		£'000
788	UK equities	427
6,019	Overseas equities	6,405
853	Private equity	1,239
302	Infrastructure	207
3,764	Pooled property investments	4,475
148	Interest on cash deposits	133
11,874		12,886

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

The Council had a deposit of £4m with Heritable Bank, which went into administration in October 2008. There were no distributions during 2016/17. During 2015/16 a distribution of £22,615.66 was received by the Pension Fund. This amount has been included in the interest on cash deposits figure for 2015/16 in the above table. Further information is included in Note 27.

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

NOTE 15 – TAXES ON INCOME

2015/16		2016/17
£'000		£'000
530	Withholding tax – equities	378
530		378

NOTE 16 – INVESTMENTS

2015/16		2016/17
£'000		£'000
	Investment assets	
198,845	Fixed interest absolute return	236,625
269,784	Equities	345,284
746,944	Pooled equity investments	963,262
157,734	Pooled property investments	142,448
66,278	Private equity	82,023
15,262	Infrastructure	28,053
1,454,847		1,797,695
42,631	Cash deposits	49,248
383	Debtors	630
1,497,861	Total investment assets	1,847,573
	Investment liabilities	
(64)	Amounts payable for purchases	(235)
(64)	Total investment liabilities	(235)
1,497,797	Net investment assets	1,847,338

Note 16a – Reconciliation of movements in investments and derivatives

2016/17	Market value at 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	198,845	30,000	0	7,780	236,625
Equities	269,784	73,681	(76,100)	77,919	345,284
Pooled investments	746,944	15,347	(13,492)	214,463	963,262
Pooled property investments	157,734	18,373	(31,465)	(2,194)	142,448
Private equity / infrastructure	81,540	29,118	(18,212)	17,630	110,076
	1,454,847	166,519	(139,269)	315,598	1,797,695
Cash deposits	42,631			(387)	49,248
Amount receivable for sales of investments	383			(4)	630
Amounts payable for purchases of investments	(64)			(1)	(235)
Fees within pooled vehicles				7,109	
Net investment assets	1,497,797	166,519	(139,269)	322,315	1,847,338

2015/16	Market value at 1 April 2015	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	197,323	0	0	1,522	198,845
Equities	272,050	66,295	(82,842)	14,281	269,783
Pooled investments	773,481	7,279	(5,532)	(28,284)	746,945
Pooled property investments	143,288	2,266	0	12,180	157,734
Private equity / infrastructure	71,463	13,516	(12,066)	8,627	81,540
	1,457,605	89,356	(100,440)	8,326	1,454,847
Cash deposits	22,082			(47)	42,631
Amount receivable for sales of investments	420				383
Amounts payable for purchases of investments	(229)				(64)
Fees within pooled vehicles				4,104	
Net investment assets	1,479,878	89,356	(100,440)	12,383	1,497,797

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £171,393 (2015/16 £193,820). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

Note 16b – Analysis of investments

31 March 2016 £'000		31 March 2017 £'000
	Equities	
	UK	
32,396	Quoted	37,453
	Overseas	
237,388	Quoted	307,832
	Pooled funds	
	UK	
234,401	Unit trusts	301,034
	Global (including UK)	
198,845	Fixed income	236,625
274,408	Unit trusts	355,661
	Overseas	
238,135	Unit trusts	306,567
157,734	Property unit trusts	142,447
66,278	Private equity	82,023
15,262	Infrastructure	28,053
1,454,847		1,797,695

Investments analysed by fund manager

Market Value at 31 March 2016			Market Value at 31 March 2017		
£'000	%		£'000	%	
470,435	31.4	BlackRock	601,837	32.6	
305,122	20.4	Fidelity	399,686	21.6	
198,852	13.3	Insight	236,632	12.8	
29,845	2.0	Lothbury	39,599	2.1	
81,540	5.4	Partners Group	110,076	6.0	
15,931	1.0	Threadneedle	16,476	0.9	
83,346	5.6	UBS	48,112	2.6	
312,726	20.9	Veritas	394,920	21.4	
1,497,797	100.0		1,847,338	100.0	

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

Market value 31 March 2016 £'000	% of total Fund	Security	Market value 31 March 2017 £'000	% of total Fund
274,408	17.99	Fidelity Institutional Select Global Equity	355,661	19.08
234,400	15.37	BlackRock Asset Management Aquila Life UK Equity Index Fund	301,033	16.15
198,845	13.04	Insight Umbrella Holdings	236,625	12.69
95,490	6.26	BlackRock Asset Management Aquila Life Global Dev Fundamental Fund	129,078	6.92

Note 16c – Stock lending

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

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

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

As at 31 March 2016			As at 31 March 2017		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
198,845			236,625		
269,784			345,284		
746,944			963,262		
157,734			142,448		
66,278			82,023		
15,262			28,053		
	63,065			64,623	
	11,836			6,239	
1,454,847	74,901	0	1,797,695	70,862	0
Financial liabilities					
(64)		(4,279)			(4,324)
(64)		(4,279)			(4,324)
1,454,783	74,901	(4,279)	1,797,695	70,862	(4,324)

Note 17b – Net gains and losses on financial instruments

31 March 2016		31 March 2017
Fair value		Fair value
£'000		£'000
Financial assets		
8,325	Fair value through profit and loss	315,598
(36)	Loans and receivables	(392)
8,289	Total financial assets	315,206
Financial liabilities		
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	Total financial liabilities	0
8,289	Net financial assets	315,206

Note 17c – Fair value of financial instruments and liabilities

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

31 March 2016			31 March 2017	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
Financial assets				
1,057,007	1,454,847	Fair value through profit and loss	1,120,845	1,797,695
74,901	74,901	Loans and receivables	70,815	70,811
1,131,908	1,529,748	Total financial assets	1,191,660	1,868,506
Financial liabilities				
(64)	(64)	Fair value through profit and loss	(235)	(235)
(4,279)	(4,279)	Financial liabilities at cost	(4,038)	(4,038)
(4,343)	(4,343)	Total financial liabilities	(4,273)	(4,273)
1,127,565	1,525,405	Net financial assets	1,187,387	1,864,233

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

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

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

Level 1

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

Level 2

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

Level 3

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

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.

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2017	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	822,831	864,788	110,076	1,797,695
Loans and receivables	70,811	0	0	70,811
Total financial assets	893,642	864,788	110,076	1,868,506
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(235)	0	(235)
Financial liabilities at cost	(4,038)	0	0	(4,038)
Total financial liabilities	(4,038)	(235)	0	(4,273)
Net financial assets	889,604	864,553	110,076	1,864,233

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2016	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	633,363	739,944	81,540	1,454,847
Loans and receivables	74,901	0	0	74,901
Total financial assets	708,264	739,944	81,540	1,529,748
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(64)	0	(64)
Financial liabilities at cost	(4,279)	0	0	(4,279)
Total financial liabilities	(4,279)	(64)	0	(4,343)
Net financial assets	703,985	739,880	81,540	1,525,405

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

Risk and risk management

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

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

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

Asset type	Potential market movement (+/-)	
	31 March 2016	31 March 2017
	%	%
UK Equities	9.3	15.8
Global Equities	9.3	18.4
Private Equity	9.3	28.5
Absolute Return Bonds	1.5	2.9
Alternatives (Infrastructure)	6.5	11.3
Property	2.3	14.2
Cash	0.0	0.0
Whole Fund		12.8

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

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 2017	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	338,486	15.8	391,966	285,005
Global Equities	970,060	18.4	1,148,552	791,569
Private Equity	82,023	28.5	105,399	58,646
Absolute Return Bonds	236,625	2.9	243,487	229,763
Alternatives (Infrastructure)	28,053	2.9	28,867	27,240
Property	142,448	11.3	158,545	126,351
Cash	49,248	14.2	56,241	42,255
Total assets available to pay benefits	1,846,943	12.8	2,083,352	1,610,534

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

Asset type	Value as at 31 March 2016	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK Equities	266,796	9.25	291,475	242,118
Global Equities	749,931	9.25	819,300	680,563
Private Equity	66,278	6.54	70,613	61,943
Absolute Return Bonds	198,845	1.48	201,788	195,902
Alternatives (Infrastructure)	15,262	6.54	16,260	14,264
Property	157,734	2.33	161,409	154,059
Cash	42,631	0.01	42,954	42,946
Total assets available to pay benefits	1,497,477		1,603,799	1,391,795

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

The Fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 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 2016	As at 31 March 2017
	£'000	£'000
Cash and cash equivalents	20,434	15,375
Cash balances	42,631	49,248
Fixed interest securities	198,845	236,625
Total	261,910	301,248

Interest rate risk sensitivity analysis

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

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

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

Asset type	Carrying amount as at 31 March 2016 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	20,434	204	(204)
Cash balances	42,631	426	(426)
Fixed interest securities*	198,845	1,869	(1,869)
Total change in assets available	261,910	2,499	(2,499)

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.53%, amounting to interest of £132,567 for the year.

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

Currency risk

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

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

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

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

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2016	31 March 2017
	£'000	£'000
Overseas and Global Equities	749,931	970,060
Global Fixed Income	198,845	236,625
Overseas Alternatives (Private Equity and infrastructure)	81,540	110,076
Overseas Property	3,116	3,636
Overseas Currency	0	0
Total overseas assets	1,033,432	1,320,397

Currency risk – sensitivity analysis

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

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2017. The equivalent rate for the year ended 31 March 2016 was 6 %. This analysis assumes that all other variables, in particular interest rates, remain constant.

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2017 and at the end of the previous financial year:

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

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

Currency exposure - by asset type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	749,931	794,521	705,341
Global Fixed Income	198,845	210,668	187,022
Overseas Alternatives (Private Equity and infrastructure)	81,540	86,388	76,692
Overseas Property	3,116	3,301	2,931
Total change in assets available	1,033,432	1,094,878	971,986

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.

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

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

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

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

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2017 was £15.7m (£25.0m at 31 March 2016).

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

NOTE 18 – 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 26 three employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

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

c) Liquidity risk

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

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

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2017 the value of illiquid assets was £158m, which represented 8.5% of the total Fund assets (31 March 2016: £143m, which represented 9.4% 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 2017 are due within one year as was the case at 31 March 2016.

Refinancing risk

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

NOTE 19 – FUNDING ARRANGEMENTS

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

Description of Funding Policy

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

The key elements of the funding policy are:

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

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

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

Funding Position as at the Last Formal Funding Valuation

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

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

Principal Actuarial Assumptions and Method used to Value the Liabilities

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

Method

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

Assumptions

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

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

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

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

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

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

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

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

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

The actuarial present value of promised retirement benefits at 31 March 2017 and 2016 are shown below:

	31 March 2016	31 March 2017
	£'m	£'m
Active members	1,285	1,214
Salary increase rate	388	246
Discount rate	747	514
Total	2,420	1,974

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

Assumptions used

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

	31 March 2016	31 March 2017
Assumption	%	%
Inflation/pension increase rate	2.2	2.4
Salary increase rate*	4.2	2.4
Discount rate	3.5	2.6

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

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

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

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount £m
0.5% p.a. increase in the pension increase rate	8%	189
0.5% p.a. increase in the salary increase rate	3%	73
0.5% p.a. decrease in the discount rate	11%	267

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

NOTE 21 – CURRENT ASSETS

2015/16		2016/17
£'000		£'000
932	Contributions due - employees	820
3,221	Contributions due – employers	2,845
3,901	Transfer value received (individuals who join)	0
3,399	Sundry debtors	1,944
11,453	Total debtors	5,609
20,434	Cash	15,375
31,887	Total	20,984

Analysis of debtors

2015/16		2016/17
£'000		£'000
2,073	Gwynedd Council	2,352
732	Central government bodies	560
5,631	Other local authorities	1,209
3	NHS bodies	3
3,014	Other entities and individuals	1,485
11,453	Total	5,609

NOTE 22 – CURRENT LIABILITIES

2015/16		2016/17
£'000		£'000
1,714	Sundry creditors	2,591
27	Transfer value payable (leavers)	282
2,538	Benefits payable	1,216
4,279	Total	4,089

Analysis of creditors

2015/16		2016/17
£'000		£'000
901	Gwynedd Council	1,051
43	Central government bodies	37
1	Other Local Authorities	138
19	NHS bodies	58
3,315	Other entities and individuals	2,805
4,279	Total	4,089

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2016	Market value at 31 March 2017
	£'000	£'000
Clerical Medical	2,936	3,349
Equitable Life	258	229
Standard Life	51	53
Total	3,245	3,631

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

	2015/2016	2016/2017
	£'000	£'000
Clerical Medical	526	561
Equitable Life	0	0
Standard Life	1	0
Total	527	561

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The Council incurred costs of £1,008,589 (£1,075,225 in 2015/16) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the pension fund and contributed £17.63m to the Fund in 2016/17 (£17.31m in 2015/16). At the end of the year the Council owed £2.35m to the Fund (see Note 21) which was primarily in respect of contributions for March 2017 and the Fund owed £1.05m to the council (see Note 22) which was primarily in respect of recharges from the Council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2016/17, the Fund received interest of £132,567 (£147,611 in 2015/16) from Gwynedd Council.

Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2016/17 (Committee members T.O. Edwards and P. Jenkins). In addition, committee members T.O. Edwards, S. Glyn, P. Jenkins, H.E. Jones, W.T. Owen, and P.Read are active members of the pension fund.

There was one member of the Pension Board who was in receipt of pension benefits from the Gwynedd Pension Fund during 2016/17 (Board member S. Warnes). In addition, Board members A.W. Deakin, V. Halloran, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the pension fund.

Key Management Personnel

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

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

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments €'000	Commitment at 31 March 2016 €'000	Commitment at 31 March 2017 €'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	5,044	3,372
P.G. Global Infrastructure 2012	40,000	22,005	15,894
P.G. Direct 2012	12,000	1,813	1,181
P.G. Global Value 2014	12,000	7,119	4,638
P.G Direct 2016	50,000	18,202	34,373
Total Euros	214,000	60,396	65,671
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	2,078	1,623
P.G Secondary 2015	38,000	34,804	32,723
P.G Direct Infrastructure 2015	43,600	42,111	35,219
Total Dollars	88,600	78,993	69,565

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

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

NOTE 26 – CONTINGENT ASSETS

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

NOTE 27 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts

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

b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2017.

NOTE 28 - PENSION FUND PUBLICATIONS

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

Statement of Investment Principles

Funding Strategy Statement

Governance Policy and Governance Compliance Statement

Communications Policy Statement

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