

# **Gwynedd Pension Fund**

## **STATEMENT OF ACCOUNTS 2019/20**

**SUBJECT TO AUDIT**

# **NARRATIVE REPORT**

## **Introduction**

Gwynedd Pension Fund's accounts and notes for the year 2019/20 are presented here on pages 4 to 40.

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.

Towards the end of the financial year, the COVID 19 pandemic had a significant impact on asset values. The asset values in the Net Assets Statement are an accurate reflection as at 31st March 2020. The Committee members and key officers will continue to monitor the impact of this pandemic on the Pension Fund.

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

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

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

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

Further information relating to the accounts is available from:

Delyth Jones-Thomas  
Investment Manager  
01286 679128

Finance Department  
Gwynedd Council  
Council Offices  
Caernarfon  
Gwynedd  
LL55 1SH

It is part of the Fund's policy of providing 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 only the Pension Fund website at the appropriate time.

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **THE PENSION FUND'S RESPONSIBILITIES**

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

### **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 2020 and the Pension Fund's income and expenditure for the year then ended.



**29 May 2020**

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

**GWYNEDD PENSION FUND ACCOUNTS**  
**2019/20**

**THE FUND ACCOUNT**

<b>31 March 2019 £'000</b>		<b>Notes</b>	<b>31 March 2020 £'000</b>
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
67,930	Contributions	7	74,416
6	Other Income	8	5
3,007	Transfers in from other pension funds	9	4,887
<b>70,943</b>	<b>Total contributions received</b>		<b>79,308</b>
(59,213)	Benefits paid or payable	10	(62,328)
(3,128)	Payments to and on account of leavers	11	(4,669)
<b>(62,341)</b>	<b>Total benefits paid</b>		<b>(66,997)</b>
<b>(14,659)</b>	Management Expenses	12	<b>(13,121)</b>
	<b>Returns on investments</b>		
13,964	Investment income	15	9,318
(195)	Taxes on income		0
135,660	Profit and losses on disposal of investments and changes in the market value of investments	16	(151,518)
<b>149,429</b>	<b>Net returns on investments</b>		<b>(142,200)</b>
<b>143,372</b>	<b>Increase/ (Decrease) in the net assets available for benefits during the year</b>		<b>(143,010)</b>
	<b>Net assets of the Fund</b>		
1,937,975	At 1 April		2,081,347
143,372	Increase/ (Decrease) in net assets		(143,010)
<b>2,081,347</b>			<b>1,938,337</b>

The notes on pages 6 to 40 form part of these Financial Statements

## NET ASSETS STATEMENT

31 March 2019 £'000		Notes	31 March 2020 £'000
2,054,595	Investment assets	16	1,928,515
538	Cash deposits	16	783
<b>2,055,133</b>	<b>Total Investment assets</b>		<b>1,929,298</b>
(123)	Investment liabilities	16	0
29,226	Current assets	21	11,929
(2,889)	Current liabilities	22	(2,890)
<b>2,081,347</b>			<b>1,938,337</b>

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2019) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 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 (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2019/20 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### **a) General**

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

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

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

### **b) Membership**

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

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

## NOTE I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

<b>Scheduled Bodies</b>	
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	NMWTRA
<b>Resolution Bodies</b>	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Trefriw Community Council	Llanfairfechan Town Council
<b>Admission Bodies</b>	
Adult Learning Wales (formerly Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Holyhead Joint Burial Committee	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
<b>Community Admission Bodies</b>	
Cartrefi Conwy	Adra
Byw'n Iach	
<b>Transferee Admission Bodies</b>	
ABM Catering	Caterlink
Kingdom Services Group	A E & A T Lewis

### 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 2020. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2017 to 31 March 2020 following the actuarial valuation carried out as at 31 March 2016.



## NOTE 1 – DESCRIPTION OF FUND (continued)

### d) Benefits

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

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

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

	<b>Service post-31 March 2014</b>
<b>Pension</b>	Each year worked is worth 1/49 x career average revalued earnings (CARE)
<b>Lump Sum</b>	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 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

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

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

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

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

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

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

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 9 and 11).

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

Transfers into the Fund from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see 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. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

##### **ii) Dividend income**

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

##### **iii) Distributions from pooled funds including property**

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

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

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

#### **Fund account – expense items**

**d) Benefits payable**

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

**e) Taxation**

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

**f) Management expenses**

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

#### **Administrative expenses**

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

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

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

#### **Investment management expenses**

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

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

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

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

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

### **Net assets statement**

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

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

- i) **Equities**  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Pooled investment vehicles**  
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- iii) **Private Equity and Infrastructure**  
Investments in private equity funds and infrastructure funds which are unquoted listed partnerships are valued based on the fund's share of the net assets in the funds or limited partnerships 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 and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors.

#### **h) Foreign currency transactions**

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

#### **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 fund actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

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

### **l) Additional voluntary contributions**

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

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

## **NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Unquoted private equity and infrastructure investments**

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2020 was £157.2 million (£145.6 million at 31 March 2019).

### **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 2020 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
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 £157.2 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

### By category

2018/19		2019/20
£'000		£'000
17,003	Employees/members contributions	17,914
	Employers' contributions:	
50,821	• Normal contributions	56,376
106	• Deficit recovery contributions	126
<b>50,927</b>	<b>Total employers' contributions</b>	<b>56,502</b>
<b>67,930</b>	<b>Total contributions receivable</b>	<b>74,416</b>

### By type of employer

2018/19		2019/20
£'000		£'000
22,410	Gwynedd Council	27,055
40,980	Other scheduled bodies	42,075
2,000	Admission bodies	2,076
1,953	Community admission bodies	2,623
247	Transferee admission bodies	221
268	Resolution bodies	312
72	Closed fund*	54
<b>67,930</b>		<b>74,416</b>

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

## NOTE 8 – OTHER INCOME

2018/19		2019/20
£'000		£'000
1	Interest on deferred contributions	2
5	Income from divorce calculations	3
<b>6</b>		<b>5</b>

## NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2018/19		2019/20
£'000		£'000
3,007	Individual transfers	4,887
<b>3,007</b>		<b>4,887</b>

## NOTE 10 - BENEFITS PAID

### By category

2018/19		2019/20
£'000		£'000
45,278	Pensions	48,356
11,949	Commutation and lump sum retirement benefits	12,343
1,986	Lump sum death benefits	1,629
<b>59,213</b>		<b>62,328</b>

### By type of employer

2018/19		2019/20
£'000		£'000
16,494	Gwynedd Council	17,714
30,510	Other scheduled bodies	31,958
1,467	Admission bodies	1,520
963	Community admission body	1,472
61	Transferee admission body	223
225	Resolution body	119
9,493	Closed fund	9,322
<b>59,213</b>		<b>62,328</b>

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

2018/19		2019/20
£'000		£'000
	Refunds to members leaving service net of tax	
139	repayments	161
2	Payments for members joining state scheme	1
984	Group Transfers	0
2,003	Individual transfers	4,507
<b>3,128</b>		<b>4,669</b>

The group transfer in 2018/19 was to the North and Mid Wales Trunk Road Agency.



## NOTE 12 – MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
1,311	Administrative costs	1,491
13,283	Investment management expenses	11,494
65	Oversight and governance costs	136
<b>14,659</b>		<b>13,121</b>

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

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.

### Wales Pension Partnership

Included in Management Expenses is the cost of our involvement in the Wales Pension Partnership (WPP) collective Investment Pooling arrangement. The Oversight and Governance costs in Note 13 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 Investment Management Expenses in Note 14 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 Net Asset Value (NAV). The underlying manager fees for the Global Opportunities sub-funds are not included in this table, these fees are disclosed as a narrative to Note 14. Further details on the WPP can be found in the Annual Report.

The following fees are included in Note 12, 13 and 14 in relation to the Wales Pension Partnership:

	2019/20
	£'000
<b>Investment Management Expenses</b>	
Fund Manager fees	1,656
Transaction costs	924
Custody fees	102
	<b>2,682</b>
<b>Oversight and governance costs</b>	
Running Costs	70
	<b>70</b>
<b>Total</b>	<b>2,752</b>

## NOTE 13 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2018/19		2019/20
£'000		£'000
	<b>Administrative costs</b>	
504	Direct employee costs	563
320	Other direct costs	377
357	Support services, including IT	367
35	External audit fees	34
95	Actuarial fees	150
<b>1,311</b>		<b>1,491</b>
	<b>Oversight and governance costs</b>	
65	Pensions Committee and Local Pension Board	66
0	Wales Pensions Partnership	70
<b>65</b>		<b>136</b>
<b>1,376</b>	<b>Total</b>	<b>1,627</b>

## NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£'000		£'000
13,166	Fund Manager fees	10,393
0	Transaction costs	924
56	Custody fees	117
13	Performance monitoring service	13
48	Investment consultancy fees	47
<b>13,283</b>		<b>11,494</b>

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment vehicles. Transaction costs are being charged for the first time in 2019/20. Transaction costs of £165,628 were incurred in 2018/19, these were disclosed but not charged to the accounts in 2018/19.

The WPP Global Opportunities Fund 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 16a within the Change in Market value- for transparency, the fees in 2019/20 were £820,000.

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 16a.

## NOTE 15 – INVESTMENT INCOME

2018/19		2019/20
£'000		£'000
6,309	Dividends from equities	1,463
1,090	Private equity income	529
126	Infrastructure income	101
6,241	Pooled property investments	6,929
198	Interest on cash deposits	296
<b>13,964</b>	<b>Total before taxes</b>	<b>9,318</b>

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

The assets under management by Wales Pension Partnership are managed wholly in a pooled investment vehicle. The pooled investment vehicles are either equity, bond and money market unit funds which operate on an 'accumulation' basis, i.e. all dividends and investment income are automatically reinvested back into their relevant funds and not distributed as investment income. Therefore, the fund value and change in market value on these funds will reflect both capital appreciation / depreciation plus reinvested investment income.

## NOTE 16 – INVESTMENTS

31 March 2019 £'000		31 March 2020 £'000
	<b>Investment assets</b>	
1,908,982	Pooled investment vehicles (PIV)	1,771,285
107,218	Private equity (PIV)	112,661
38,395	Infrastructure (PIV)	44,569
<b>2,054,595</b>		<b>1,928,515</b>
538	Cash deposits	783
0	Amount receivable from sales of investments	0
<b>2,055,133</b>	<b>Total investment assets</b>	<b>1,929,298</b>
	<b>Investment liabilities</b>	
(123)	Amounts payable for purchases	(0)
<b>(123)</b>	<b>Total investment liabilities</b>	<b>(0)</b>
<b>2,055,010</b>	<b>Net investment assets</b>	<b>1,929,298</b>

During the year 2018/19 Gwynedd Pension Fund transferred most of the active equities into the two global funds in the Wales Pension Partnership (WPP). Further transfers will be made in the coming years until most of the investments are in the WPP.

## Note 16a – Reconciliation of movements in investments and derivatives

<b>2019/20</b>	<b>Market value at 1 April 2019</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	0	0	0	0	0
Pooled investment vehicles (PIV)	1,908,982	31,189	(10,317)	(158,569)	1,771,285
Private equity / infrastructure (PIV)	145,613	26,464	(13,054)	(1,793)	157,230
	<u>2,054,595</u>	<u>57,653</u>	<u>(23,371)</u>	<u>(160,362)</u>	<u>1,928,515</u>
Cash deposits	538				783
Amount receivable from sales of investments	0				0
Amounts payable for purchases of investments	(123)				0
Fees within pooled vehicles				8,844	
<b>Net investment assets</b>	<b>2,055,010</b>			<b>(151,518)</b>	<b>1,929,298</b>

<b>2018/19</b>	<b>Market value at 1 April 2018</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market value at 31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	337,188	115,778	(489,524)	36,558	0
Pooled investment vehicles (PIV)	1,412,705	631,601	(216,255)	80,931	1,908,982
Private equity / infrastructure (PIV)	104,310	43,758	(11,401)	8,946	145,613
	<u>1,854,203</u>	<u>791,137</u>	<u>(717,180)</u>	<u>126,435</u>	<u>2,054,595</u>
Cash deposits	44,352			31	538
Amount receivable from sales of investments	5,432				0
Amounts payable for purchases of investments	(4,690)				(123)
Fees within pooled vehicles				9,194	
<b>Net investment assets</b>	<b>1,899,297</b>			<b>135,660</b>	<b>2,055,010</b>

## Note 16b – Analysis of investments

31 March 2019 £'000		31 March 2020 £'000	
1,444,431	Pooled Equities (PIV)	1,299,750	
285,250	Pooled Fixed Interest (PIV)	280,279	
179,301	Pooled property investments (PIV)	191,256	
107,218	Private equity (PIV)	112,661	
38,395	Infrastructure (PIV)	44,569	
<b>2,054,595</b>		<b>1,928,515</b>	

## Investments analysed by fund manager

Market Value at 31 March 2019 £'000			Market Value at 31 March 2020 £'000		
	%			%	
656,138	31.9	BlackRock	565,379	29.3	
192,395	9.4	Fidelity	181,742	9.4	
285,254	13.9	Insight	280,282	14.5	
61,073	3.0	Lothbury	60,570	3.2	
145,614	7.1	Partners Group	157,230	8.2	
20,862	1.0	Threadneedle	31,401	1.6	
50,182	2.4	UBS	47,832	2.5	
411	0.0	Veritas	625	0.0	
643,081	31.3	Wales Pensions Partnership	604,237	31.3	
<b>2,055,010</b>	<b>100.0</b>		<b>1,929,298</b>	<b>100.0</b>	

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

Market Value at 31 March 2019 £'000			Market Value at 31 March 2020 £'000		
	%			%	
285,253	15.4	LF Wales PP Global Opportunities Equity Fund	305,618	15.8	
322,200	15.5	LF Wales PP Global Growth Fund	298,619	15.4	
285,251	13.7	LDI Solutions Plus Bonds	280,279	14.5	
324,729	15.6	Aquila Life UK Equity Index Fund	274,417	14.2	
142,648	7.1	Fidelity Institutional Select Global Equity	137,117	7.1	
139,699	6.7	Aquila Life Global Dev Fundamental Fund	119,881	6.2	

## Note 16c – Stock lending

The Investment Strategy Statement permits stock lending 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 2019			As at 31 March 2020		
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
<b>Financial assets</b>					
1,908,982			1,771,285		
107,218			112,661		
38,395			44,569		
	23,151			8,883	
	6,613			3,829	
<b>2,054,595</b>	<b>29,764</b>	<b>0</b>	<b>1,928,515</b>	<b>12,712</b>	<b>0</b>
<b>Financial liabilities</b>					
		(3,012)			(2,890)
<b>0</b>	<b>0</b>	<b>(3,012)</b>	<b>0</b>	<b>0</b>	<b>(2,890)</b>
<b>2,054,595</b>	<b>29,764</b>	<b>(3,012)</b>	<b>1,928,515</b>	<b>12,712</b>	<b>(2,890)</b>

### Note 17b – Net gains and losses on financial instruments

31 March 2019		31 March 2020
Fair value		Fair value
£'000		£'000
<b>Financial assets</b>		
126,435	Fair value through profit and loss	(160,362)
31	Loans and receivables	0
<b>126,466</b>	<b>Total financial assets</b>	<b>(160,362)</b>
<b>Financial liabilities</b>		
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
<b>0</b>	<b>Total financial liabilities</b>	<b>0</b>
<b>126,466</b>	<b>Net financial assets</b>	<b>(160,362)</b>

## 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 2019			31 March 2020	
Carrying value	Fair value		Carrying value	Fair value
£'000	£'000		£'000	£'000
<b>Financial assets</b>				
1,532,175	2,054,595	Fair value through profit and loss	1,576,105	1,928,515
29,764	29,764	Loans and receivables	12,712	12,712
<b>1,561,939</b>	<b>2,084,359</b>	<b>Total financial assets</b>	<b>1,588,817</b>	<b>1,941,227</b>
<b>Financial liabilities</b>				
(123)	(123)	Fair value through profit and loss	0	0
(2,889)	(2,889)	Financial liabilities at cost	(2,890)	(2,890)
<b>(3,012)</b>	<b>(3,012)</b>	<b>Total financial liabilities</b>	<b>(2,890)</b>	<b>(2,890)</b>
<b>1,558,927</b>	<b>2,081,347</b>	<b>Net financial assets</b>	<b>1,585,927</b>	<b>1,938,337</b>

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

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

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

### Level 1

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

### Level 2

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

### Level 3

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

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2020	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	0	1,662,883	265,632	1,928,515
Loans and receivables	12,712	0	0	12,712
<b>Total financial assets</b>	<b>12,712</b>	<b>1,662,883</b>	<b>265,632</b>	<b>1,941,227</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at cost	(2,890)	0	0	(2,890)
<b>Total financial liabilities</b>	<b>(2,890)</b>	<b>0</b>	<b>0</b>	<b>(2,890)</b>
<b>Net financial assets</b>	<b>9,822</b>	<b>1,662,883</b>	<b>265,632</b>	<b>1,938,337</b>

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2019	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	0	1,797,728	256,867	2,054,595
Loans and receivables	29,764	0	0	29,764
<b>Total financial assets</b>	<b>29,764</b>	<b>1,797,728</b>	<b>256,867</b>	<b>2,084,359</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	0	(123)	0	(123)
Financial liabilities at cost	(2,889)	0	0	(2,889)
<b>Total financial liabilities</b>	<b>(2,889)</b>	<b>(123)</b>	<b>0</b>	<b>(3,012)</b>
<b>Net financial assets</b>	<b>26,875</b>	<b>1,797,605</b>	<b>256,867</b>	<b>2,081,347</b>



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

### **Risk and risk management**

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

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

### **a) Market risk**

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

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

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

The Fund manages these risks in two ways:

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

### **Other price risk**

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

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

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

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

### **Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period.

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

<b>Asset type</b>	<b>Potential market movement (+/-)</b>	
	<b>31 March 2019</b>	<b>31 March 2020</b>
	<b>%</b>	<b>%</b>
UK Equities	16.6	27.5
Global Equities	16.9	28.0
Emerging Markets Equity	25.3	25.4
Private Equity	28.3	28.4
Pooled Fixed Income	3.0	3.9
Infrastructure	20.1	20.1
Property	14.3	14.2
Cash	0.0	0.0
Total Fund	12.3	18.9

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

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

<b>Asset type</b>	<b>Value as at 31 March 2020 £'000</b>	<b>Percentage change %</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
UK Pooled Equities	274,417	27.5	349,881	198,952
Overseas Pooled Equities	1,025,335	28.0	1,312,428	738,241
Pooled Private Equity	112,661	28.3	144,544	80,778
Pooled Fixed Income	280,279	3.9	291,210	269,348
Pooled Infrastructure	44,569	20.1	53,528	35,611
Pooled Property	191,255	14.2	218,414	164,097
Cash	9,821	0.0	9,821	9,821
<b>Total assets available to pay benefits</b>	<b>1,938,337</b>	<b>18.9*</b>	<b>2,304,683</b>	<b>1,571,991</b>

\* The whole fund values in the table above are based on 18.9% rather than the total of the individual asset types.

<b>Asset type</b>	<b>Value as at 31 March 2019 £'000</b>	<b>Percentage change %</b>	<b>Value on increase £'000</b>	<b>Value on decrease £'000</b>
Pooled Equities	1,444,431	16.8	1,687,566	1,201,297
Pooled Private Equity	107,218	28.3	137,561	76,875
Pooled Fixed Income	285,250	3.0	293,808	276,693
Pooled Alternatives (Infrastructure)	38,395	20.1	46,112	30,678
Pooled Property	179,301	14.3	204,941	153,661
Cash	26,752	0.0	26,752	26,752
<b>Total assets available to pay benefits</b>	<b>2,081,347</b>	<b>12.3*</b>	<b>2,343,597</b>	<b>1,819,098</b>

\* The whole fund values in the table above are based on 12.3% rather than the total of the individual asset types.

### Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset type</b>	<b>As at 31 March 2019 £'000</b>	<b>As at 31 March 2020 £'000</b>
Cash and cash equivalents	22,614	8,100
Cash balances	538	783
Pooled Fixed Income	285,251	280,279
<b>Total</b>	<b>308,403</b>	<b>289,162</b>

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

### Interest rate risk sensitivity analysis

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

Asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	8,100	81	(81)
Cash balances	783	8	(8)
Pooled Fixed Income *	280,279	33,633	(33,633)
<b>Total change in assets available</b>	<b>289,162</b>	<b>33,722</b>	<b>(33,722)</b>

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

Asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	22,614	226	(226)
Cash balances	538	5	(5)
Pooled Fixed Income *	285,251	34,230	(34,230)
<b>Total change in assets available</b>	<b>308,403</b>	<b>34,461</b>	<b>(34,461)</b>

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 1.53% amounting to interest of £266,995 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 Pension Fund also has a Euro account to deal with receipts and payments in Euros and to minimise the number and costs of exchange transactions.

The Fund has made commitments to private equity and infrastructure in foreign currency (€284 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 2020 and as at the previous year end:

Currency exposure - asset type	As at	As at
	31 March 2019	31 March 2020
	£'000	£'000
Overseas and Global Equities	1,119,701	1,025,335
Global Pooled Fixed Income	285,250	280,279
Overseas Alternatives (Pooled Private Equity and Pooled Infrastructure)	145,613	157,230
Pooled Overseas Property	1,000	226
Overseas Currency	0	0
<b>Total overseas assets</b>	<b>1,551,564</b>	<b>1,463,070</b>

### 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 2020. The equivalent rate for the year ended 31 March 2019 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2020 and at the end of the previous financial year:

Currency exposure - by asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	1,025,335	1,127,868	922,801
Global Pooled Fixed Income	280,279	308,307	252,251
Overseas Alternatives (Pooled Private Equity and infrastructure)	157,230	172,953	141,507
Pooled Overseas Property	226	249	204
Overseas Currency	0	0	0
<b>Total change in assets available</b>	<b>1,463,070</b>	<b>1,609,377</b>	<b>1,316,763</b>

Currency exposure - by asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	1,119,701	1,231,671	1,007,731
Global Pooled Fixed Income	285,250	313,776	256,726
Overseas Alternatives (Pooled Private Equity and infrastructure)	145,613	160,174	131,052
Pooled Overseas Property	1,000	1,100	900
Overseas Currency	0	0	0
<b>Total change in assets available</b>	<b>1,551,564</b>	<b>1,706,721</b>	<b>1,396,409</b>

### b) Credit risk

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

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

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

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

<b>Investment Manager</b>	<b>Percentage of Portfolio</b>
BlackRock	29.5%
Fidelity	10.0%
Wales Pension Partnership	28.0%
Insight	15.0%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Partners Group	7.5%

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

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

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2020 was £8.2m (£22.6m at 31 March 2019).

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 28.

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

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

### **c) Liquidity risk**

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

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

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

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



## **NOTE 18 – 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 2020 the value of illiquid assets was £348m, which represented 18.0% of the total Fund assets (31 March 2019: £325m, which represented 15.6% of the total Fund assets).

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

All financial liabilities at 31 March 2020 are due within one year as was the case at 31 March 2019.

### **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 2019.

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (Funding Strategy Statement) reviewed as part of the 2019 valuation.

The key elements of the funding policy are:

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

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

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 17 years if the

## NOTE 19 – FUNDING ARRANGEMENTS (continued)

valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 70% chance that the Fund will return to full funding over the 17 years.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £2,081 million, were sufficient to meet 108% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £156 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

### Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

#### Method

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

#### Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	3.9%
Salary increase	2.6%
Benefit increase	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

## NOTE 19 – FUNDING ARRANGEMENTS (continued)

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Pension Fund's website [www.gwyneddpensionfund.org.uk](http://www.gwyneddpensionfund.org.uk)

### Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

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

## NOTE 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 2019 and 2020 are shown below:

	31 March 2019	31 March 2020
Assumptions	£m	£m
Active members	1,674	1,279
Deferred members	434	445
Pensioners	722	809
<b>Total</b>	<b>2,830</b>	<b>2,533</b>

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

## NOTE 20 - 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:

	31 March 2019	31 March 2020
<b>Assumption</b>	<b>%</b>	<b>%</b>
Pension increase rate	2.5	1.9
Salary increase rate	2.5	2.2
Discount rate	2.4	2.3

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 the HMRC limit for pre-April 2008 service and 75% of the maximum tax-free cash up to the HMRC limit for post-April 2008 service.

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

<b>Sensitivity to the assumptions for the year ended 31 March 2020</b>	<b>Approximate % increase to liabilities</b>	<b>Approximate monetary amount £m</b>
	<b>%</b>	
0.5% p.a. increase in the pension increase rate	9	83
0.5% p.a. increase in the salary increase rate	1	12
0.5% p.a. decrease in the discount rate	10	97

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

31 March 2019		31 March 2020
<b>£'000</b>		<b>£'000</b>
1,227	Contributions due - employees	403
3,682	Contributions due – employers	1,234
1,704	Sundry debtors	2,192
<b>6,613</b>	<b>Total debtors</b>	<b>3,829</b>
22,613	Cash	8,100
<b>29,226</b>	<b>Total</b>	<b>11,929</b>

## NOTE 22 – CURRENT LIABILITIES

<b>31 March 2019 £'000</b>		<b>31 March 2020 £'000</b>
1,922	Sundry creditors	1,828
967	Benefits payable	1,062
<b>2,889</b>	<b>Total</b>	<b>2,890</b>

## NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds are stated below:

	<b>Market value at 31 March 2019 £'000</b>	<b>Market value at 31 March 2020 £'000</b>
Clerical Medical	3,851	3,674
Utmost Life	203	193
Standard Life	61	5
<b>Total</b>	<b>4,115</b>	<b>3,872</b>

AVC contributions were paid directly to the managers as follows:

	<b>2018/2019 £'000</b>	<b>2019/2020 £'000</b>
Clerical Medical	613	601
Standard Life	14	10
<b>Total</b>	<b>627</b>	<b>611</b>

## 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 £1,275,899 (£1,152,315 in 2018/19) 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 £27.06m to the Fund in 2019/20 (£22.41m in 2018/19). At the end of the year the Council owed £0.49m to the Fund which was primarily in respect of interest paid on pension fund balances and contributions for March 2020 and the Fund owed £1.24m to the Council which was primarily in respect of recharges from the Council.

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2019/20, the Fund received interest of £266,995 (£166,303 in 2018/19) from Gwynedd Council.

## **NOTE 24 - RELATED PARTY TRANSACTIONS (continued)**

### **Governance**

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2019/20 (committee members J.B. Hughes and P. Jenkins). In addition, committee members S.Glyn (member until 02/05/2019), S.W. Churchman, D. Cowans, A.W. Jones, P. Read, R.W. Williams and I. Thomas are active members of the Pension Fund.

Three members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2019/20 (Board members A.W. Deakin (member until 06/08/2019), H.E. Jones and S. Warnes). In addition, Board members A.Ll. Evans, O. Richards, H. Trainor and S.E. Parry are active members of the Pension Fund.

### **Key Management Personnel**

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

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

## NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2019	Commitment at 31 March 2020
	€'000	€'000	€'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	2,096	2,096
P.G. Global Infrastructure 2012	40,000	8,147	8,147
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	2,302	1,531
P.G. Direct Equity 2016	50,000	10,348	2,826
P.G. Global Value 2017	42,000	33,677	25,973
P.G. Global Infrastructure 2018	28,000	0	23,688
<b>Total Euros</b>	<b>284,000</b>	<b>63,964</b>	<b>71,655</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
P.G. Emerging Markets 2011	7,000	1,082	1,082
P.G. Secondary 2015	38,000	24,692	18,401
P.G. Direct Infrastructure 2015	43,600	23,798	20,840
<b>Total Dollars</b>	<b>88,600</b>	<b>49,572</b>	<b>40,323</b>

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

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

## NOTE 26 – CONTINGENT ASSETS

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

## **NOTE 27 – CONTINGENT LIABILITIES**

There are no contingent liabilities identified in accordance with the following explanations:

### **The McCloud Case**

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of Public Service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. The Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there is no finalised outcome of the McCloud case, the Fund Actuary acted in line with SAB's advice in the 2019 valuation and valued all member benefits in line with the current LGPS Regulations. The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes arising from the McCloud judgement are uncertain, the Fund has elected to make an approximate allowance by increasing the required likelihood of success set for contribution rates for all employers. Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

### **Guaranteed Minimum Pension Equalisation**

Guaranteed minimum pension (GMP) accrued in the LGPS from 6 April 1978 to 5 April 1997. In broad terms, the GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS).

GMP's are inherently unequal due to a number of factors, including the differing retirement ages for men (age 65) and women (age 60) and female GMP's accruing at a higher rate. While this can result in differences in GMP Values, what was deemed to matter more is what the members receive in total from the LGPS and the state and whether that leads to inequality. In the past responsibility for paying annual pension increases was divided between the LGPS fund and the state. However, the introduction of the new Single State Pension in April 2016 brought uncertainty over the ongoing indexation of the GMP amount. This led to the Government announcing an interim solution for members reaching State Pension Age between 6 April 2016 and 5 December 2018, which was later extended to at least 5 April 2021, which involves the LGPS fund paying for everything i.e. both initial pension and all increases.

Hymans Robertson, the Fund's Actuary, have said that given the interim solution has been extended to 5 April 2021 they have allowed for the Government's preferred long term (i.e. post 2021) solution of converting GMP to scheme pension in the 31 March 2019 valuations.



## **NOTE 28 – IMPAIRMENT LOSSES**

### **a) Impairment for bad and doubtful debts**

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 2020. The administration is continuing, but the full amount is expected to be recovered in due course.

## **NOTE 29 - 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:

Investment Strategy Statement  
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](http://www.gwynedd-pensionfund.org.uk) on the investment page or by contacting Delyth Jones-Thomas on 01286 679128.