



# **ANNUAL REPORT**

## **2021/22**

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## I. Foreword

Welcome to the Gwynedd Pension Fund's annual report for the financial year ended 31 March 2022.

During the year, the value of the Pension Fund has increased from £2,528 million to £2,776 million, a significant increase of £248 million. Following uncertainties in the global markets in early 2020, we have experienced a long period of recovery during last year and this year. Even though behind benchmark, the Fund delivered a strong performance of 10.0%, which is in the top quartile of LGPS funds in PIRC's official statistics for 2021/22.

In terms of the allocation of our investments, Gwynedd Pension Fund continues to focus on growth assets which are expected to earn more attractive returns over the longer term than lower risk investments. Having considered the results of the triennial valuation of the Fund's value on 31/03/2022, we will review the Fund's investment strategy during 2022/23 and consider de-risking by transferring a portion of the equity assets to other asset classes.

The continued growth in asset value remains encouraging, particularly as this builds on the Fund's relatively favourable position, it was 108% funded at the 2019 triennial valuation (or 124% funded, and in 10<sup>th</sup> place out of the 88 LGPS funds in England and Wales, if the standard 'like-for-like' assumptions of the Government Actuary's Department are used, rather than our own more conservative assumptions).

The Pension Fund continues to work as a leading member of the Wales Pension Partnership (WPP) to achieve efficiencies through pooling assets. During the year, Gwynedd Pension Fund transferred £65m of assets into the WPP's Emerging Market funds, resulting in a year-end allocation of 54% through the main funds and a further 29% pooled through passive investments, therefore a total of 83%. In addition to pooling investments, the Partnership has further developed its governance framework in collaboration with other Welsh LGPS funds and with the support of our specialist advisors. A range of policies have been developed and training sessions have been offered to the relevant stakeholders.

We continue to receive requests to set an ambitious timetable for total divestment of fossil fuels but as a pension fund, it is more responsible to us to plan properly, take real action, and influence where possible for the benefit of our environment. In March 2022, the Fund committed to set a goal to be net zero by 2050, supported by an undertaking to assess the feasibility of the Fund reaching net zero 5, 10 or 20 years earlier. We do whatever we can to ensure that we act responsibly, and consider the impact our actions will have on future generations. We have taken significant steps in the last year and will continue to do so in the coming years. Further information can be found in our Responsible Investment policy on the Fund's website- a Responsible Investment policy reviewed in detail by the Pensions Committee in March 2022, significantly expanding on the responsible investment principles developed in 2018/19, with an appendix listing actions taken with all the Fund's asset managers, including a low carbon fund, 'decarbonisation overlay', 'Paris Aligned' mandate, investing in green energy, and more.

The Fund's staff have continued to ensure that we provide a high level of service in 2021/22. There have been great strides in developing electronic ways of working, with employers increasingly using the i-Connect system interface to share data and scheme members (all employers' staff plus

pensioners) increasingly using the interactive guidance and information on the Pension Fund's website.

I would like to thank the Gwynedd pension administration staff and their colleagues in the investment team for their hard work over the last year, and the continuation of the service in recent times when we have all worked from home.

On 27 June 2022, Councillor Stephen Churchman was elected as the new Chairman of the Pensions Committee for 2022/23, and he has already started his work with new energy. I would like to thank the former Councillor Peredur Jenkins for his loyal service as a member of the Pensions Committee for over two decades, and for chairing the Committee for the last 2 years. The former Chairman can look back on a developing and prosperous period for the Fund, when Peredur Jenkins was influential on behalf of Gwynedd as a member of the Wales Pension Partnership's Joint Governance Committee.

I hope the following report will provide you with useful information about our Pension Fund. For more information, or to give your opinion on this report, the contact details of the relevant officers are provided on the next page of the report. Many thanks for your support during 2021/22, and I look forward to continuing our constructive working relationship in 2022/23.



**Councillor Stephen Churchman**  
**Pensions Committee Chair**  
**2022/23**



**Councillor Peredur Jenkins**  
**Pensions Committee Chair**  
**2021/22**



**Dafydd L Edwards**  
**Fund Director**

## 2. Management Structure

### Administering Authority

Gwynedd Council

### Pensions Committee

Councillor Peredur Jenkins (Chairman)  
Councillor Stephen Churchman (Vice Chairman)  
Councillor John Pughe Roberts  
Councillor Simon Glyn  
Councillor John Brynmor Hughes  
Councillor Aled Wyn Jones  
Councillor Ioan Thomas  
Councillor Robin Wyn Williams (Co-opted Member)  
Councillor Goronwy Edwards (Co-opted Member)

### Pension Board

#### Employer Representatives

Mr Huw Trainor (Police and Crime Commissioner for North Wales)  
Councillor Aled Lloyd Evans (Gwynedd Council)  
Mrs Sioned Parry (Conwy County Borough Council)

#### Member Representatives

Mr Osian Richards  
Mrs Sharon Warnes  
Mr H. Eifion Jones

#### Fund Director

Mr Dafydd L. Edwards

#### Head of Finance (“Section 151 Officer”)

Mr Dewi Morgan

#### Advisor

Hymans Robertson

#### Fund Managers

BlackRock  
Lothbury  
Partners Group  
Threadneedle  
UBS Global Asset Management Limited

#### Fund Website

[www.gwynedd-pensionfund.wales](http://www.gwynedd-pensionfund.wales)

### AVC Providers

Clerical Medical, Utmost Life and Standard Life

### Pool

Wales Pension Partnership (WPP)

### Pool Operator

Link Fund Solutions Limited

### Custodian

Northern Trust

### Actuary

Hymans Robertson

### Bank

Barclays Bank plc

### Auditor

Audit Wales

### Contact Details

Enquiries and more detailed information regarding:

- administration of the Gwynedd Pension Fund can be obtained by contacting:

Mr Meirion Jones,  
Pensions Manager,  
Gwynedd Council,  
Council Offices,  
Caernarfon,  
Gwynedd. LL55 1SH

☎ 01286 679643

✉ [meirionjones2@gwynedd.llyw.cymru](mailto:meirionjones2@gwynedd.llyw.cymru)

- the Fund's investment and accounting activities should be made to:

Mrs Delyth Jones-Thomas,  
Investment Manager,  
Gwynedd Council,  
Council Offices,  
Caernarfon,  
Gwynedd. LL55 1SH

☎ 01286 679128



[delythwynjonesthomas@gwynedd.llyw.cymru](mailto:delythwynjonesthomas@gwynedd.llyw.cymru)

### **3. Annual Report of the Gwynedd Pension Board for 2021/22 (the year to 31 March 2022)**

#### **Background / Constitution**

The Board was constituted under the Public Services Pensions Act 2013 and held its first meeting on 13th July 2015. The membership consists of three members representing scheme employers and three members representing scheme members (which include staff who contribute to the pension scheme and those who are retired and receiving a pension).

Over the period between 1<sup>st</sup> April 2021 and 31<sup>st</sup> March 2022, the Board has met virtually four times. Board members are invited as observers to meetings of the Pensions Committee and have agreed to take this role in turn in order to facilitate understanding as well as communication. This arrangement is reciprocated with the Chair of the Pensions Committee now attending Board meetings, where he is accountable, with officers for the governance and administration of the Fund. At times, the Board has asked for its views and recommendations to be submitted for consideration by the Committee.

#### **Function of the Board**

In accordance with legislation, the two primary functions of the Local Pension Board are to assist the administering authority (Gwynedd Council) to:

- i. ensure effective and efficient governance and administration of the LGPS, and
- ii. ensure compliance with relevant laws and regulation

Therefore, the Board is a monitoring, reviewing and assisting body, not a management or decision making body.

The Board operates under Terms of Reference agreed by Gwynedd Council (in a meeting of the full Council on the 5<sup>th</sup> March 2015).

It is supported by the Council's Member Support and Scrutiny Officer and reports are prepared and presented by officers including the Fund Director, Investment Manager and the Fund's Pensions Manager.

#### **The work of the Board**

Once again, the past year has been a busy year for the senior staff of the Administering Authority with the Covid-19 crisis meaning that the Fund's staff have to work from home and adapt to a new way of working. Therefore, Board members were aware of the need to prioritise requests in order for officers to prepare reports for the Board.

## Attendance

	19/04/2021	12/07/2021	06/12/2021	07/03/2022
<b>Councillor Aled Evans</b>	✓	✓	✓	✓
<b>H. Eifion Jones</b>	✓	✓	✓	✓
<b>Osian Richards</b>	✓	✓	✓	✓
<b>Huw Trainor</b>	✓	✓		
<b>Sharon Warnes</b>	✓	✓	✓	✓
<b>Sioned Evans Parry</b>	✓	✓	✓	✓

## Work Plan

In accordance with the work plan agreed in the previous year, reports on the following issues were received:

- Governance policy statement
- Cyber security
- The Fund's budget
- Investment advisers' objectives
- Responsible investment policy
- The Fund's investment performance
- Pension administration
- The Wales Pension Partnership
- Actuarial valuation assumptions
- The Fund's statement of accounts
- Training plan
- Knowledge and skills policy
- Pensions administration strategy

During the discussions, input was given and a number of comments were made by Board members which has assisted administrative authority officials to complete their work.

In addition, Board members attended the Fund's virtual annual meeting in November 2021 and noted that the Fund has performed highly satisfactory compared to other LGPS funds.

The work plan for 2022/23 includes:

- General update on Pension Administration
- The Fund's Statement of Accounts
- Update on the McCloud project
- Update on the Wales Pension Partnership
- Risk Register
- Update on the Fund's actuarial valuation
- Update on the Fund's investment performance
- Pensions dashboard
- 2023/24 Budget
- 2023/24 Business plan
- 2023/24 Training plan

## **Training**

During Board meetings all members of the Board were given details on the LGPS and its administration in Gwynedd through various presentations by the Fund Director, Investment Manager and Pensions Manager.

Members of the Board have also attended a number of virtual meetings and presentations. These include:

<b><u>Provider</u></b>	<b><u>Title</u></b>
Wales Pension Partnership	Asset classes & Implementation
Wales Pension Partnership	Fund wrappers & Governance
Wales Pension Partnership	Performance reporting and manager benchmarking
Wales Pension Partnership	Roles and responsibilities within the ACS
Wales Pension Partnership	Progress of other LGPS pools
Wales Pension Partnership	Collaboration Opportunities
Wales Pension Partnership	Cost Transparency
Wales Pension Partnership	Good Governance
Hymans Robertson	Responsible Investing
LGC	LGC Investment Seminar
LAPFF	Annual Conference

## **Thanks**

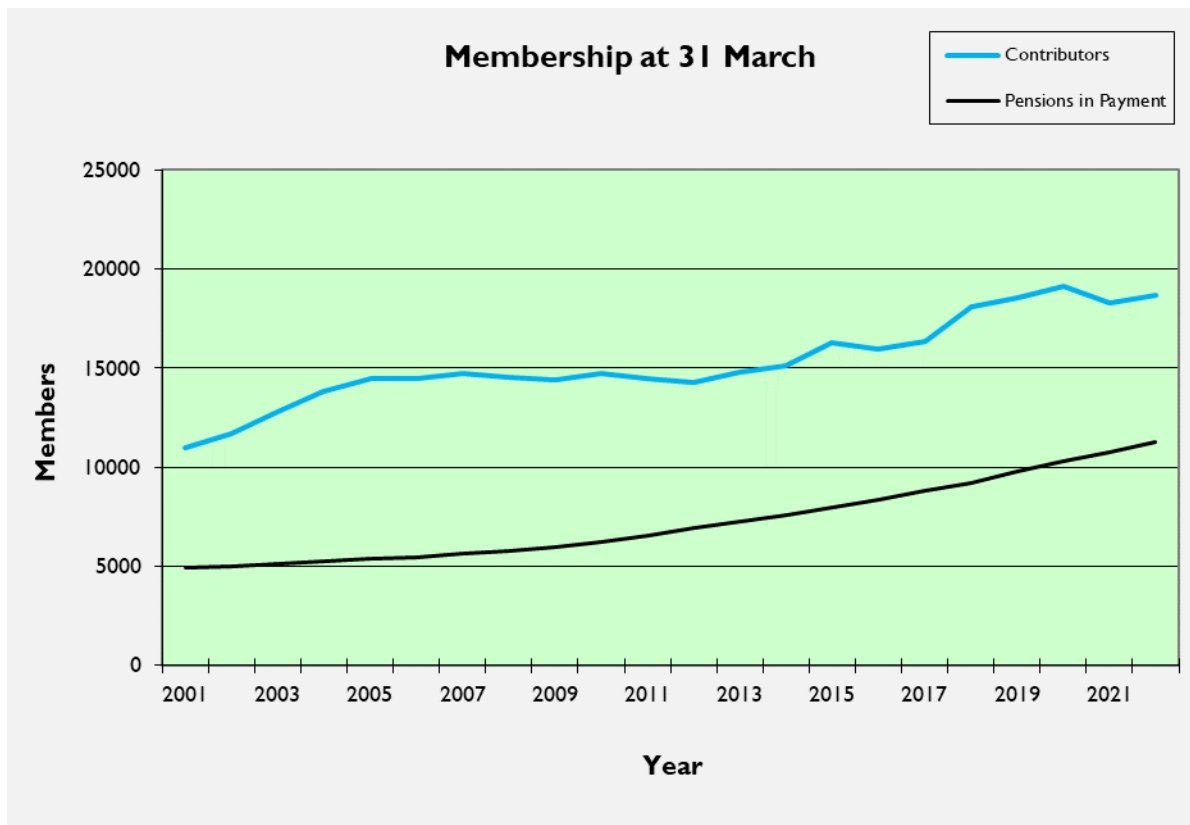
The Chair wishes to thank his fellow members on the Board, who have volunteered their time to the roles, and the relevant officers for their support.

**Councillor Aled Evans**  
**Chair**



## 4. Membership Summary

The graph below shows the changes in the Fund's membership over the last 20 years. It shows that the number of pensioners has slowly increased from 5,019 in 2002 to 11,298 in 2022 and the number of active contributors has also increased from 11,689 in 2002 to 18,657 in 2022.



The table below shows further details on the Fund's membership:

31 March 2021	Description	31 March 2022
18,295	Contributors	18,657
10,780	Pensions in Payment	11,298
12,431	Deferred Pensioners	12,540
2,094	Unclaimed Benefits	2,425
6,039	Undecided Leavers	6,192
<b>49,639</b>	<b>Total Membership</b>	<b>51,112</b>

## **5. Pensions Administration**

### **5.1 Review of the Year**

#### **Introduction**

2021/22 has been another busy year for The Pension Service. This report provides a general overview of pension administration over the past year. It contains information on the work carried out over the period and an update on various previously mentioned projects.

#### **Performance Management**

The Pension Fund is committed to improving its service delivery and will review the measures in place to monitor performance on an annual basis to identify where improvements can be made. Where areas of poor performance are identified, The Pension Service will review the reasons for poor performance and put in place appropriate processes to improve the level of service provision in the future. The service's core duties performance for 2021/22 compared to 2020/21 is as follows:

Ref.	Core Activities	Performance in 2020/2021		Performance in 2021/2022	
		Number of cases	Average days taken	Number of cases	Average days taken
CD9.01	Average number of work days taken to send a quotation letter offering a transfer in	164	20.3	194	53.28
CD9.02	Average number of work days taken to send a quotation letter detailing a transfer out	103	9.8	205	28.63
CD9.03	Average number of work days taken to send a letter informing value of benefits – estimates	1,680	2.8	1,714	1.33
CD9.04	Average number of work days taken to send a letter informing value of benefits – actual	697	1.3	683	0.99
CD9.06	Average number of work days taken to notify dependents benefits	245	3	264	1.84
CD9.07	Monthly pension payments processed and paid on time (figure based on number of payments in Month 12 of each year)	11,186	100%	11,609	100%
CD9.08	Number of cases where amended payments were necessary as a result of an error in the section	0	n/a	0	n/a

As can be seen, overall, the service performance has improved. The performance of providing transfers of pension benefits into and out of the fund has deteriorated. The main reasons for this are because staff have left and training staff remotely in this complex field has been a challenge and also experienced staff have been away on maternity or long-term illness.

We will work to improve performance during 2022/23, and ensure that we improve the performance of CD9.01 and CD9.02.

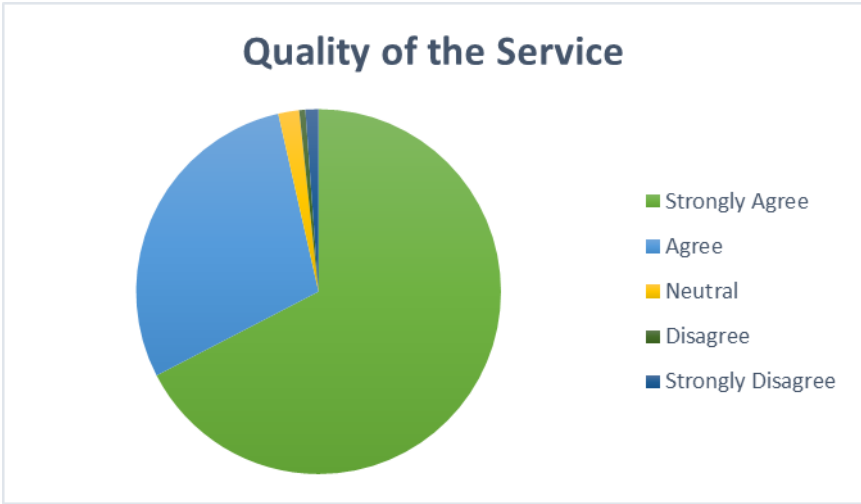
### **Member Satisfaction Survey**

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

Here is a summary of the 2021/22 results:

**Quality of Service**

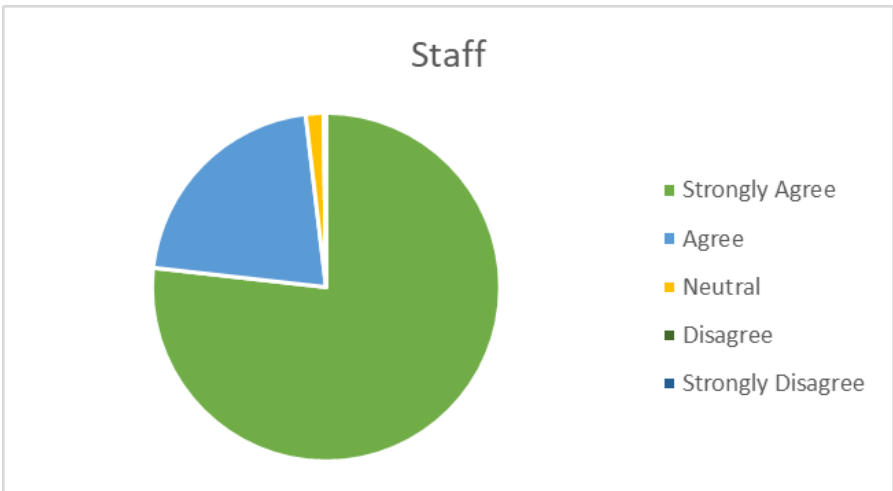
The chart below shows the percentage of users who are satisfied with four aspects of the service's performance based on: i) Service as a whole; ii) clear information; iii) Quality of service; iv) Time to deal with the enquiry.



As can be seen, 96.5% of the users strongly agree or agree that the quality of the service provided is of a high standard.

**Staff**

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



As can be seen, a high percentage once again (98.75%) of the users strongly agree or agree that the quality of the service provided is of a high standard in relation to the staff.

**Complaints**

Fortunately, the number of complaints we receive is very low. Here are the details of the complaints we have received during 2021/22:

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

**Relatives of a deceased member have received an English-only letter:** We have received 1 complaint from a deceased member's relative as they received an English-only letter following their bereavement. The Welsh Language Commissioner is currently investigating this complaint. Normally we ask the family for their language preference, but unfortunately in this case no contact was received from the family and an English letter was sent out in error (our default choice is to send letters in Welsh if the choice is not language is known). From now on we will send these letters out bilingually in order to avoid such a complaint again.

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

**My Pension Online**

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

Approximately 16,000 have registered for the service to date. The graph below shows an increase in the number of members joining the self-service system over the last 10 years:



The system allows members to:

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

### **i-Connect**

i-Connect updates member data in our pension administration system on a monthly basis, avoiding the need for employers to send information at the end of the year.

Data is taken directly from a payroll system by i-Connect which then automatically identifies and submits details of new members, opt-outs and leavers to us.

By now all the employers use i-Connect, with the information being submitted promptly by all the employers on the whole.

### **Annual Benefit Statements**

We are required to produce an Annual Benefit Statement for each member of the scheme by the end of August each year. This statement provides members with details of the benefits accrued up to the end of the previous financial year and predicts the benefits payable at their Normal Pension Age. The statement also includes pay details and explanatory notes about how the benefits are calculated.

Since 2018 these statements are available electronically on the My Pension on-line section of our website. 2021 statements were uploaded to the system for active members on 30/07/2021 and deferred members on 02/07/2021.

1,167 members have written in to confirm that they want to continue receiving a paper copy of their statements. These statements were sent at the end of August 2021.

### **The Pensions Regulator – Measuring Data**

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

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

The report is divided into two sections:

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

We provide below a summary of the results:

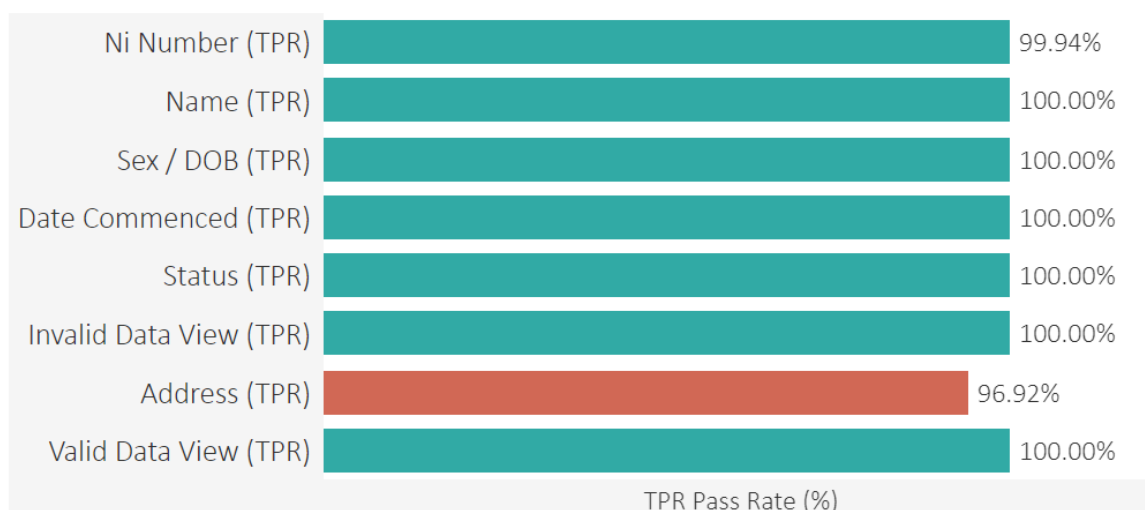
### Summary of Common Data Results

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

7 of the 8 categories achieved the highest benchmark of more than 98% with 6 categories not recording a single failure. The only category that did not reach the highest benchmark in question was members' addresses with a score of **96.92%**. With the exception of **members' addresses**, the general quality of common data in Gwynedd is of a high standard. In order to improve the member address score we have used a company called ATMOS in March 2021 to carry out work to track the address of members recorded as having "disappeared". Although ATMOS has identified approximately 1,400 new addresses for us, there are still approximately 900 records for which we need a correct address.

The percentage of member records without a common data failure is **97.7%** (97.5% last year) and this is the figure the tPR will receive on the scheme's returns.

### TPR Pass Rate % by Test Category

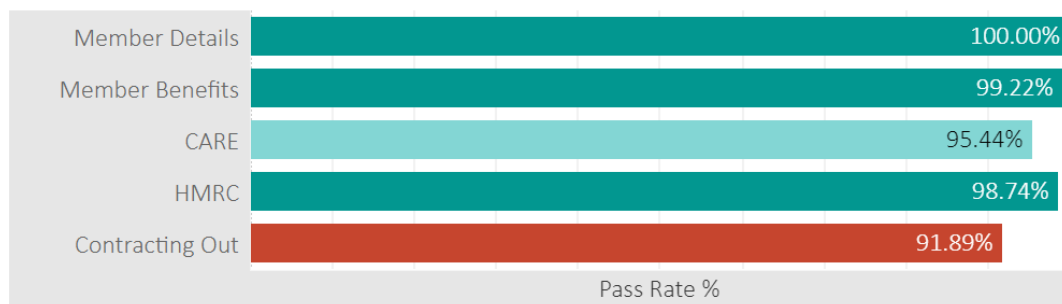


### Summary of Scheme Specific Data Results

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

The percentage of member records without individual data failure that is specific to the scheme is **94.89%** (92.1% last year) and this is the figure that the RP will receive on the scheme's returns.

## Grand Total | TPR Pass Rate % by Test Category



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

### **Training**

In the last update, it was mentioned that four members of staff were studying towards a Foundation Degree in Pension Administration and Management. The foundation degree is a mixture of assignments and exams and takes 2 years to complete. I am proud to report that all four have now successfully completed the course.

4 other members of staff have also completed a Certificate in Pensions Administration course. This is a 9-month course which provides a basic understanding of pension schemes in the UK.

Over the past few months Hymans Robertson has been holding training sessions for employers on the subjects below:

- Pensionable Pay and Assumed Pensionable Pay
- Basic responsibilities of employers
- Ill-health retirement – best practice process
- Outsourcing staff
- Employer discretion
- Assumed Pensionable Pay - examples

An invitation was sent to the employers of our fund to attend these sessions and very positive feedback was received to the sessions from the employers who attended.

### **Work to do**

There are a number of tasks and projects requiring attention during the next year. These include:

- Website: Continue to update and expand the website.
- Pensioners' pay slips: providing pay slips to pensioners electronically through the My Pension Online portal.
- Continue to develop process automation and improve our correspondence.
- Scanning the paper files in the office in order to be a paperless office.
- McCloud: Update records for undertaking the McCloud project.



- Reduce the number of 'undecided leavers' records, which are members who have left the scheme but their record has not been closed.
- Triennial valuation

## **Scheme Administration Statistics**

### **Number of Employers**

This table provides a summary of the number of employers in the Fund with active members and ceased (no active members but some outstanding liabilities).

	<b>Active</b>	<b>Ceased</b>
<b>Scheduled bodies:</b>	24	6
<b>Admitted bodies:</b>	22	10
<b>Total:</b>	<b>46</b>	<b>16</b>

### **Scheme membership**

	<b>31/03/2019</b>	<b>31/03/2020</b>	<b>31/03/2021</b>	<b>31/03/2022</b>
<b>Active</b>	17,373	18,582	18,295	18,657
<b>Deferred</b>	12,594	12,605	12,431	12,540
<b>Pensioners</b>	9,825	10,329	10,780	11,298
<b>Undecided</b>	3,563	6,441	8,133	8,617
<b>Total:</b>	<b>45,355</b>	<b>47,957</b>	<b>49,639</b>	<b>51,112</b>

### **Retirements during 2021/22**

This table provides a summary of the number of retirements within the Fund during 2021/2022.

<b>Reason for leaver</b>	<b>Number of pensioners</b>
Early/Normal Retirement	487
Redundancy/ Efficiency	11
Ill Health	22
Late Retirement	121
Flexible Retirement	31
<b>Total</b>	<b>672</b>

### **Staffing indicators**

The table below shows the number of staff in the Pensions Administration Team working exclusively on Local Government Pension Scheme benefits.

	<b>2020/21</b>	<b>2021/22</b>
Number of full-time equivalent Pension Fund staff	18.10	19.16
Total fund membership (Does not include undecided members)	41,506	42,495
Number of fund members to one member of administration staff	2,293	2,218

### **Unit cost per member**

<b>Investment Management Expenses</b>	<b>2020/21</b>	<b>2021/22</b>
Total Costs	£21,128,000	£14,788,000
Total Membership Numbers (Does not include undecided members)	41,506	42,495
Cost per member	£509.03	£347.99
<b>Administration Expenses</b>		
Total Costs	£1,268,000	£1,373,000
Total Membership Numbers (Does not include undecided members)	41,506	42,495
Cost per member	£30.55	£32.30
<b>Oversight and Governance Expenses</b>		
Total Costs	£273,000	£364,000
Total Membership Numbers (Does not include undecided members)	41,506	42,495
Cost per member	£6.58	£8.57
<b>Total Cost</b>	<b>£546.16</b>	<b>£388.86</b>

### **Acknowledgments**

Overall, 2021/22 has been a successful year for The Pension Service. I would like to thank all the staff for their hard work and support over the year, the employers for providing timely information and our actuary Hymans Robertson for their work and advice over the year.

**Meirion Jones**  
**Pensions Manager**

## 5.2 Local Government Pension Scheme Regulations

### General

The Public Service Pensions Act 2013 governs the Fund. The Fund is administered in accordance with the following secondary laws:

- Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (also as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 24 other scheduled bodies (including 2 Local Authorities) and 22 admitted bodies. The Fund does not cover teachers, for whom separate arrangements exist. The Fund is financed by contributions from employers and employees, together with income earned from investments.

From April 2014 employee contribution rates are determined in bands according to their actual pay indexed annually in line with inflation. Employees may opt to pay half rate contributions to accrue half rate personal benefits in what is called the 50/50 scheme, death and dependant benefits remain at full rate. The bandings for April 2021 – March 2022 are shown in the table below:

Pay Bands	Contribution Rates main scheme	Contribution Rates 50/50 scheme
Up to £14,600	5.5%	2.75%
£14,601 - £22,900	5.8%	2.9%
£22,901 - £37,200	6.5%	3.25%
£37,201 - £47,100	6.8%	3.4%
£47,101 - £65,900	8.5%	4.25%
£65,901 - £93,400	9.9%	4.95%
£93,401 - £110,000	10.5%	5.25%
£110,001 - £165,000	11.4%	5.7%
More than £165,001	12.5%	6.25%

Employers contribute to the fund at a rate assessed triennially by the Fund's Actuary, or in the event of any significant change in an employer's membership or profile. Employers continue to pay the full rate in respect of members who opt for the 50/50 option or are on reduced pay due to illness.

### Benefits

The LGPS provides significant benefits to members based on two separate schemes. There is a final salary arrangement, itself consisting of two accrual rates, and a CARE (Career Average Revalued Earnings) arrangement that came into force from 1 April 2014. Below are brief details of how the pensions accrue in both arrangements.

For the final salary element benefits will normally be based on two factors: service or membership during which contributions have been paid to the scheme, known as "Total Membership", and the wage or salary on which those contributions were paid (normally the last 12 months of service), known as "Final Pay".

The CARE part will be in the form of 1/49ths pension calculated on individual years' actual pensionable earnings revalued annually.

- **Annual Pension**

The calculation of the annual standard pension is based on the following formula:

***Final Pay x 1/80 x Total Membership to 31 March 2008; plus  
Final Pay x 1/60 x Total Membership from 1 April 2008 to 31 March 2014; plus  
The accrued and revalued CARE pension on years from 1 April 2014 onwards***

Once the pension is in payment it will rise each April in line with the increase in the Consumer Price Index.

- **Lump Sum**

There is also an entitlement to a standard tax-free lump sum on membership to 31 March 2008, based on the following formula:

***Final Pay x 3/80 x Total Membership to 31 March 2008 only***

- **Conversion of Benefits**

There is an option to convert part of the pension into an additional lump sum in excess of the formula shown above, but subject to HMRC limits.

### **Councillor Pensions**

The scheme also provides access for Councillors. The benefit package is based on the pre April 2008 formula for pension and lump sum shown above but using Career Average Salary instead of Final Pay. This remains the position for councillor members even after the introduction of the new main scheme from April 2014. No new Councillors are eligible to join the LGPS in England and current Councillor Members must leave the scheme when their term of office comes to an end.

### **Ill-Health Retirement**

If the membership period is 2 years or more, and an administering authority approved independent registered medical practitioner certifies that the member has become permanently unable to do their job or any comparable job with their employer, they will receive a pension, and if choosing to convert their pension, a tax free lump sum immediately.

The benefit payable depends on the ill health retirement awarded:

#### **Tier 1**

If the member is unlikely to be capable of gainful employment before their Normal Pension Age (NPA), ill health benefits are based on the pension they have already built up in their pension account at the date of leaving the scheme plus the pension they would have built up, calculated on assumed pensionable pay, had they been in the main section of the scheme until they reached their NPA.

#### **Tier 2**

If the member is unlikely to be capable of gainful employment within 3 years of leaving, but are likely to be capable of undertaking such employment before their NPA, ill health benefits are based on the pension they have already built up in their pension account at the date of leaving the scheme plus

25% of the pension they would have built up calculated on assumed pensionable pay, had they been in the main section of the scheme until they reached their NPA.

### **Tier 3**

If the member is likely to be capable of gainful employment within 3 years of leaving, or before their NPA if earlier, ill health benefits are based on the pension they have already built up in their pension account at leaving. Payment of these benefits will be stopped after 3 years, or earlier if the member is in gainful employment or become capable of such employment, provided they have not reached their NPA by then. If the payment is stopped it will normally become payable again from their NPA.

Gainful employment means paid employment for not less than 30 hours in each week for a period of not less than 12 months.

### **Early Retirement**

If membership period is 2 years or more, a member may elect to retire and receive their LGPS benefits at any time from age 55 onwards; however payment before normal pension age may result in an actuarial reduction for early release, and if after normal pension age benefits may be actuarially increased due to late payment.

### **Preserved Benefits**

Leavers with 2 years of membership are awarded preserved benefits, calculated in the same way as described in the paragraph 'Benefits', but with payment being deferred and index linked until payment is made any time after age 55 (age 60 if termination before 1/04/2014). Alternatively, it may be possible to transfer the equivalent value of benefits to another pension scheme.

Leavers with less than 2 years' membership, and with no further LGPS rights, may reclaim their contributions, less tax and any contracted out premiums that may apply.

### **Death in Service**

A death grant of three times Final Pay is payable, regardless of the length of membership. For part-time employees, the Final Pay is not increased to its whole-time equivalent rate.

In addition, survivor benefits may be payable to spouses, or partners, with dependent children benefits also payable subject to certain criteria, mainly based on age and whether in full time education.

### **Death after Retirement**

Pension payments come with a ten year guarantee, so that if death occurs within ten years of retirement and before age 75 a death grant may be payable on the excess of pension not paid up to a maximum that would have been paid up to age 75.

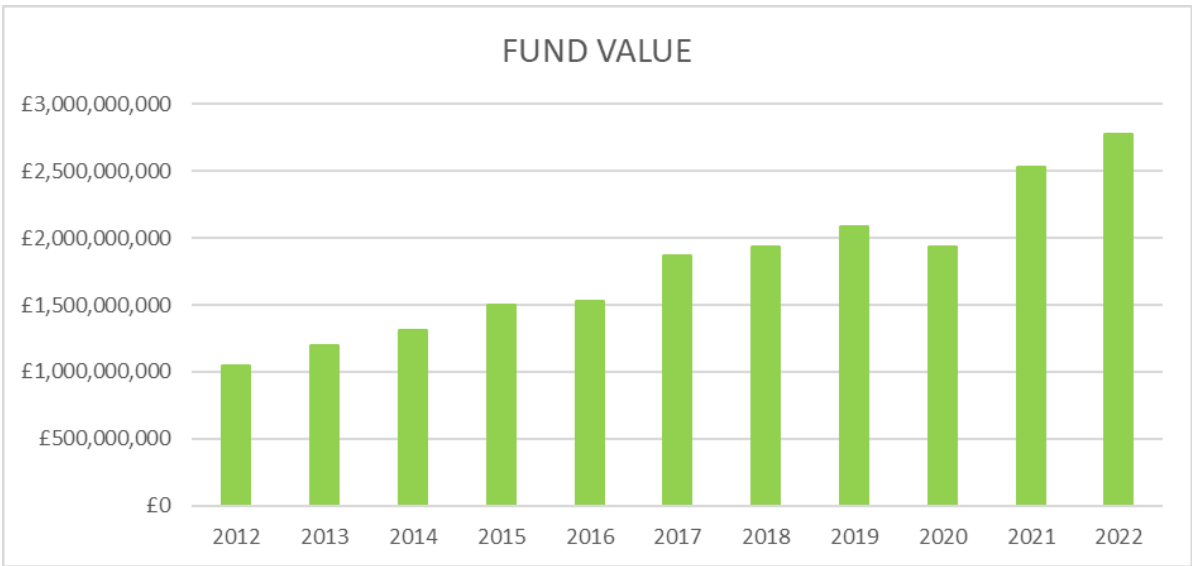
Like for death in service, spouses and partners' pensions are payable for life whilst dependant eligible children's pensions are payable subject to the same conditions as for Death in Service.

## 6. Investments

### 6.1 End of Year Position

The Gwynedd Pension Fund is in a relatively healthy position with the value of the fund gradually increasing for some time now except for the fall on 31<sup>st</sup> March 2020 due to the impact of the pandemic.

During the year, the value of the Pension Fund has increased from £2,528 million to £2,776 million, a significant increase of £248 million. Following the uncertainties in the global markets in early 2020, there has been a long period of recovery with a positive impact on the market, and consequently the Fund's value.



### Asset Allocation

The main determinant of the Fund's long-term performance is the strategic allocation of assets.

The following table shows the Fund's benchmark allocation at 31.03.22.

	Actual %	Target %	Difference %
UK Equity	8.6	10.5	-1.9
Global Equity	54.0	49.5	4.5
UK Bonds	12.8	15.0	-2.2
Multi Asset Credit	7.1	7.5	-0.4
Property	9.2	10.0	-0.8
Private Equity	5.6	5.0	0.6
Infrastructure	2.2	2.5	-0.3
Cash	0.5	0.0	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

At 31 March 2022, the Fund continued to be overweight to equity due to a very significant increase in the value of the equity assets as a result of the pandemic recovery on these assets. The Fund will allow circumstances to stabilise further before looking to bring the allocation back to the benchmark, as well as continuing to await for private market options with the Wales Pension Partnership.

### Investments by investment manager

Over the period of this report, there were 4 Investment Managers as follows: Wales Pension Partnership, Fidelity, BlackRock and Partners. The Fund has also made direct property investments with Lothbury, Threadneedle and UBS funds.

In the year, we transferred our Fidelity investments to the Wales Pension Partnership Emerging Market fund.

Manager	Fund	Asset Class	31 March 2021 £000	31 March 2022 £000
Wales Pension Partnership	Global Opportunities	Global Equity	432,845	454,098
Wales Pension Partnership	Global Growth	Global Equity	442,964	430,749
Wales Pension Partnership	Absolute Return Bond	Bonds	307,181	353,857
Wales Pension Partnership	Multi Asset Bond	Multi-Credit Asset	177,134	197,920
Wales Pension Partnership	Emerging Markets	Global Equity	0	59,802
Fidelity	Select Emerging Market	Global Equity	67,178	0
Black Rock	Aquila Life UK Equity Index	UK Equity	211,625	239,314
Black Rock	Aquila Life GBL Dev Fundamental	Global Equity	172,052	200,811
Black Rock	ACS World Low Carbon Equity	Global Equity	297,966	346,072
Black Rock	Property	Property	53,712	65,192
Lothbury	Property	Property	61,338	72,139
UBS	Property Global Ast Triton	Property	47,627	75,739
Threadneedle	Property TPEN	Property	29,939	37,063
Threadneedle	Property TPUT	Property	1,965	2,387
Partners	Private Equity	Private Equity	165,423	158,711
Partners	Infrastructure	Infrastructure	46,220	67,417
<b>Total</b>			<b>2,515,169</b>	<b>2,761,271</b>

## 6.2 Investment Performance

### Quarterly Meetings

The performance of the Investment Managers is monitored on a quarterly basis. A quarterly meeting with the Investment Managers is rotated. The Investment Managers submit quarterly reports to the Pensions Committee, relevant officers and the Fund's adviser.

### Performance Monitoring

Gwynedd subscribes to a service provided by Pensions & Investment Research Consultants Ltd (PIRC), who calculate the rate of return for Gwynedd and for other pension funds and provides comparisons.

## Targets

Individual performance benchmarks for the Investment Managers are shown in the table below.

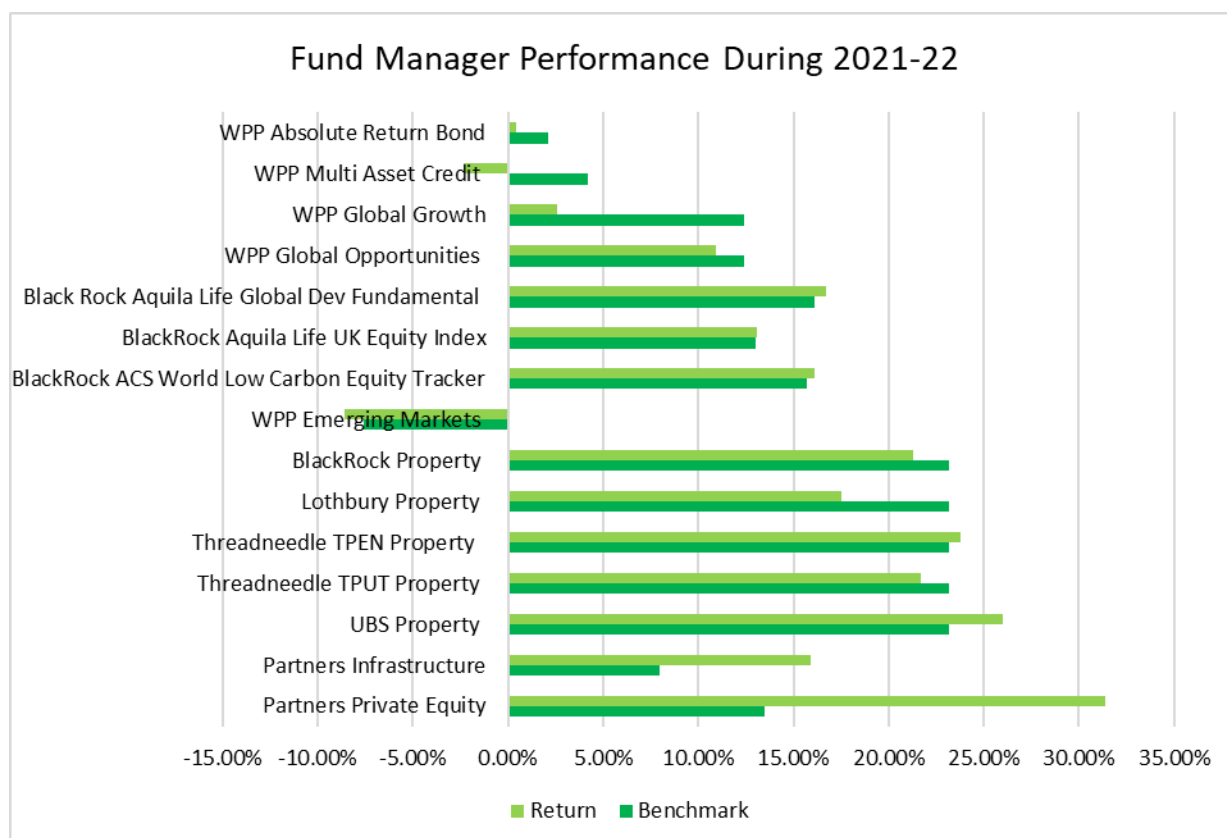
Fund/ Asset Class	Benchmark
WPP Global Growth	MSCI AC World
WPP Global Opportunities	MSCI AC World
WPP Absolute Return Bond	ICE BofA SONIA Overnight Rate Index +2%
WPP Multi Asset Credit	ICE BofA SONIA Overnight Rate Index +4%
WPP Emerging Markets	MSCI Emerging Markets Index
Black Rock Fundamental Indexation	FTSE RAFI Developed 1000
BlackRock UK/ Low Carbon	FTSE All-Share 52%, MSCI World Low Carbon Index 48%
Property	IPD All Balanced Property Funds
Partners	MSCI World

The fund has made direct investments with Lothbury, UBS and Threadneedle, so therefore have not given them a benchmark. However, for indicative purposes we monitor them against the 'IPD Balanced Property Unit Trust Index'.

## The Fund's Performance

Following the uncertainty in the markets at the beginning of 2020, there has been a long period of recovery since then, but the impact of the war in Ukraine has destabilized the markets towards the end of the year, affecting the performance of the equity and fixed income funds. There was a performance of 10.0% by the Fund, although this is behind the benchmark, this is in the top quartile of LGPS funds in PIRC's official statistics for 2021/22.

The graph below shows the performance of the Managers over 1 year.





It is generally accepted that investment performance over a longer period of time (say, 3+ years) is a more valid indicator than over a single year as investment strategies designed to bring good performance in the longer run may from time to time suffer from short-term setbacks.

	<b>1 Year Return</b>	<b>1 Year Benchmark</b>	<b>3 Year Return</b>	<b>3 Year Benchmark</b>	<b>Since Inception Return</b>	<b>Since Inception Benchmark</b>
<b>Wales Pension Partnership Funds</b>						
WPP Global Growth	2.6%	12.4%	12.3%	13.4%	12.3%	13.6%
WPP Global Opportunities	10.9%	12.4%	14.5%	13.4%	14.0%	13.3%
WPP Multi Asset Credit	-2.3%	4.2%	n/a	n/a	2.1%	4.1%
WPP Absolute Return Bond	0.4%	2.1%	n/a	n/a	1.6%	2.1%
WPP Emerging Markets	-8.6%	-7.6%	7.3%	4.3%	6.9%	5.8%
<b>Local Funds</b>						
Black Rock Aquila Life UK Equity Index	13.1%	13.0%	5.4%	5.3%	7.4%	7.3%
Black Rock ACS World Low Carbon Equity Tracker	16.1%	15.7%	n/a	n/a	19.0%	18.6%
Black Rock Aquila Life Global Dev Fundamental	16.7%	16.1%	12.9%	12.2%	11.4%	10.8%
BlackRock Property	21.3%	23.2%	7.6%	8.1%	7.5%	7.9%
Lothbury Property	17.5%	23.2%	5.8%	8.1%	8.1%	8.2%
Threadneedle TPEN Property	23.8%	23.2%	7.8%	8.1%	4.2%	4.2%
Threadneedle TPUT Property	21.7%	23.2%	7.5%	8.1%	6.7%	7.4%
UBS Property	26.0%	23.2%	9.5%	8.1%	5.0%	6.2%
Partners Group Infrastructure	15.9%	8.0%	11.4%	8.0%	10.5%	8.0%
Partners Group Private Equity	31.4%	13.5%	23.1%	16.3%	17.7%	11.4%
<b>Whole Fund</b>	<b>10.0%</b>	<b>12.1%</b>	<b>9.8%</b>	<b>9.6%</b>	<b>n/a</b>	<b>n/a</b>

The Fund's performance was 0.2% above the benchmark over three years with a return of +9.8%. The Fund's performance over three years by 2021/22 is ranked 7<sup>th</sup> out of all LGPS funds, with a gradual improvement over the time horizons years. We were ranked 37<sup>th</sup> (20 years return), 19<sup>th</sup> (10 years return) and 10<sup>th</sup> (5 years return) and therefore the recent strategy has had a very positive impact on the Fund's position.

### **6.3 Administrative and Custody Arrangements**

#### **Governance**

The Fund is administered within the framework established by statute, which stipulates that Gwynedd Council is the Administering Authority.

#### **Governance Policies**

The Governance Policy Statement and the Governance Compliance Statement states the governance practices of the Pension Fund.

Copies can be seen in 10.4 and 10.5.

### **Specialist Advice**

The Local Government Pension Scheme Regulations oblige the Council to take specialist advice on investment. This advice is provided by an independent advisor from Hymans Robertson (the Fund's advisors), who joins the Pensions Committee in monitoring the Investment Managers. An advisor from Hymans Robertson is always present at the quarterly meetings with the Investment Managers.

### **Custodians**

Some of the investment managers have an associated custodian who holds the assets of their part of the portfolio. The managers and their associated custodians are as follows:

- BlackRock's custodian is JP Morgan Chase Bank;
- WPP's custodian is Northern Trust.

Lothbury, Threadneedle and UBS, with whom the Fund has direct investments, have Northern Trust as their custodians.

Partners Group is not included in the Fund's custody arrangements.

### **Administrative Procedures**

Administrative procedures ensure that those transfers which do take place, between the Council and the Investment Managers, must be authorised by the signatories of two named officers who are on the Pension Fund's authorised signature list.

## **6.4 Investment Powers**

### **Investment Powers**

The regulations require that the Fund has an Investment Strategy Statement (ISS).

This enables pension funds to be flexible in their strategy and invest a larger percentage of their fund in individual pooling arrangements. There are no specific limits in the legislation and therefore no need to formally increase the amounts. However, it is good practice to have some broad limits and these are included in the ISS.

## **6.5 Investment Management**

### **General**

The main objective of an investment policy is to maximise the return on the money entrusted to the Council, consistent with acceptable levels of risk, and for the annual return in the longer run to exceed the level of wage inflation. It must be borne in mind that the Fund's liabilities (pensions) are very long-term, extending to the middle of the century. These liabilities will increase with inflation, both because of the index-linking of pensions and also due to the rising level of employees' salaries and wages to the time of retirement. There is a relationship between the level of returns achieved and the contribution rate which employers are expected to pay. The Pensions Committee considers that in the long run equity returns will exceed bond returns and it is for this reason that the majority of the Fund is invested in equities.

**Investment Manager Briefs**

As a result of a deliberate policy to diversify assets and investment styles, the Fund has Investment Managers with varying briefs:

Investment Manager	Brief
BlackRock	Passive
WPP	Active
Partners	Active

BlackRock is briefed to be a “passive” manager. The manager will allocate their mandate’s asset allocation in line with that of the benchmark and in each market they aim to track stock exchange indices. As a result, their mandates’ performance should be in line with their respective benchmarks. Appointing a passive manager reduces the risk of underperformance relative to benchmark; however, it also reduces the possibility of out-performance relative to the benchmark.

All the others are “active” managers. They are given the discretion to invest in their best investment ideas. Whilst they have a great deal of flexibility in terms of which stocks, regions and sectors they can invest in, there are a number of restrictions in place which prevents the managers deviating too far from the benchmark and taking excessive risk. Appointing active managers increases the possibility of out-performance, relative to the benchmark; however it also increases the risk of underperformance relative to benchmark.

**6.6 Wales Pension Partnership**

The WPP was established in 2017 with the objective to deliver:

- economies of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure

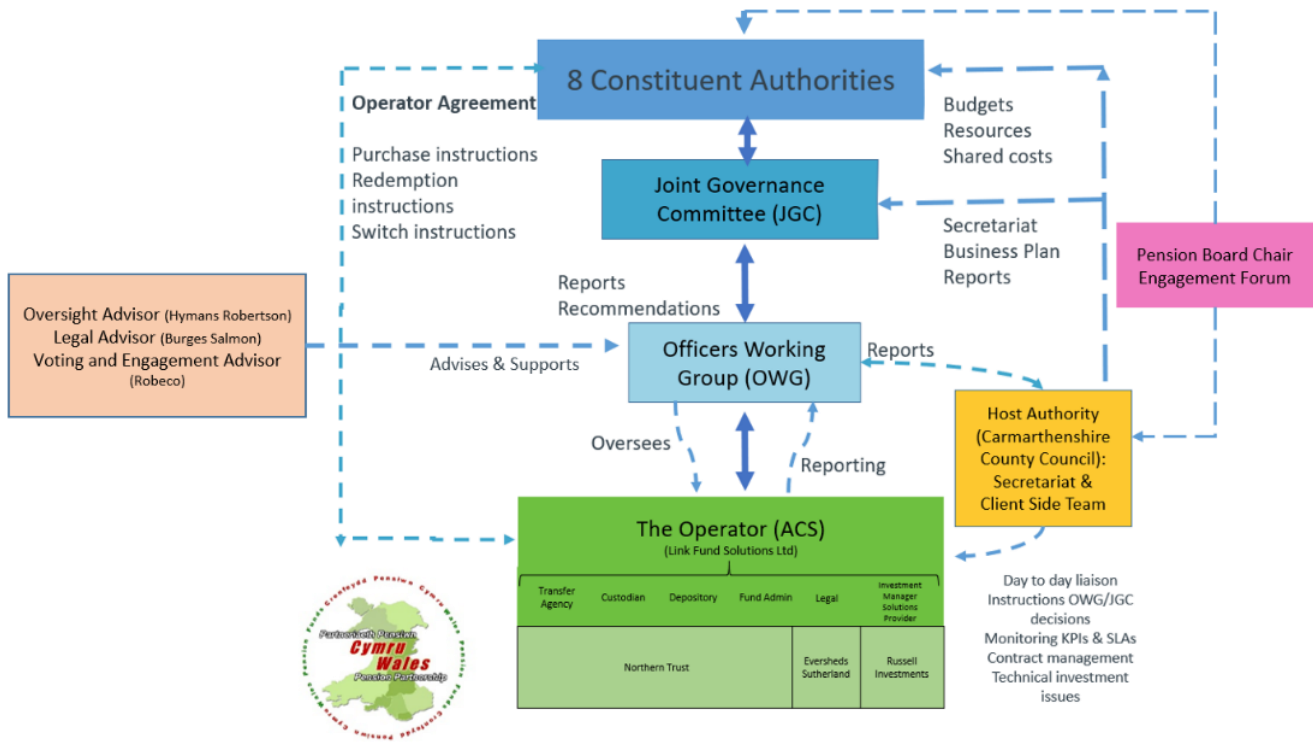
The WPP is one of the eight Local Government Pension pools nationally and is a collaboration of the eight LGPS funds in Wales. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for the Welsh funds pre-dating the Government’s pooling initiative.

Collective investment management offers the potential for investment fee savings, opportunities to broaden investment portfolios, enhanced voting and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

WPP’s operating model is designed to be flexible and deliver value for money. WPP appointed an external fund Operator and makes use of external advisers to bring best of breed expertise to support the running of the Pool. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities.

## Governance

The WPP details how it deals with all aspects of Governance through its Inter Authority Agreement (IAA) which was approved by all eight Constituent Authorities in March 2017. The IAA defines the standards, roles and responsibilities of the Constituent Authorities, its Members, Committees and Officers and includes a Scheme of Delegation outlining the decision-making process. In line with its belief that good governance should lead to superior outcomes for stakeholders, the WPP has put in place a robust governance structure:



The eight Constituent Authorities of the WPP are:



The Constituent Authorities sit at the top of the WPP's governance structure. They retain control of all activity carried out by the WPP and remain responsible for approving the WPP's Business Plan, which outlines the WPP's budget and work plan, as well as its Beliefs and Objectives.

The Joint Governance Committee (JGC) oversees and reports on the WPP and is comprised of one elected member from each of the eight Constituent Authorities.

The Officer Working Group (OWG) provides support and advice to the Joint Governance Committee and is comprised of practitioners and Section 151 officers from all eight Constituent Authorities.

Carmarthenshire County Council is the Host Authority for the WPP and is responsible for providing administrative and secretarial support to the JGC and the OWG, and liaising day to day with the Operator on behalf of all of the Welsh LGPS funds.

Link Fund Solutions (Operator) carries out a broad range of services for the WPP, which includes facilitating investment vehicles and sub-funds, performance reporting, transition implementation, manager monitoring and fee negotiations. There is an Operator Agreement in place which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The JGC and OWG, with the support of Hymans Robertson, oversee the work that Link Fund Solutions carries out on behalf of the WPP. Link engages with the Constituent Authorities by:

- Direct engagement – attendance at one committee meeting annually
- Indirect engagement – with all Constituent Authorities through the JGC and OWG

In collaboration with Link Fund Solutions, Russell Investments provide investment management solution services to the WPP and they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles.

Northern Trust is the Depository for the WPP ACS vehicle and provides numerous services including securities lending, fund administration, compliance monitoring and reporting.

Hymans Robertson are WPP's Oversight Advisor and their role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support.

Burges Salmon are WPP's legal advisors and they provide legal advice in relation to FCA regulated funds, tax and governance arrangements, including assisting with complex procurement processes.

Robeco UK has been appointed as WPP's Voting and Engagement provider and are responsible for implementing the Voting Policy across WPP's portfolio and undertaking engagement activity on behalf of the WPP.

The WPP's beliefs are the foundation for WPP's governance framework and have been used to guide all of the WPP's activities and decision making, including its objectives and policies. The WPP, in consultation with the Constituent Authorities, has developed a set of governing policies. In all instances, the WPP's policies and procedures have been developed to either complement or supplement the existing procedures and policies of the Constituent Authorities. The WPP's key policies, registers and plans are listed below and can be found on the WPP website.



Responsible Investment has been a key priority for the WPP since it was established in 2017. Various activities have been undertaken to work towards WPP’s ambition of becoming a leader in Responsible Investment. Initially the focus was on formulating a Responsible Investment Policy and since then the WPP has formulated its own Climate Risk Policy and has worked with its Voting and Engagement Provider, Robeco, to agree a Voting Policy. A WPP Responsible Investment Sub-Group has been established to take ownership of Responsible Investment related work streams and actions that are required to achieve the commitments made in the WPP’s Responsible Investment and Climate Risk Policies.

The WPP’s Business Plan, Governance Manual and all other policies detailed in the chart above can be found on the WPP website:

<https://www.walespensionpartnership.org/>

### **Risk**

Risk management is a critical element of WPP’s commitment to good governance. The WPP has developed a structured, extensive and robust risk strategy which seeks to identify and measure key risks and ensure that suitable controls and governance procedures are in place to manage these risks. The WPP’s Risk Policy has been developed in such a way that risks can be anticipated and dealt with in a swift, effective manner to minimise potential loss or harm to the WPP and its stakeholders.

WPP maintains a Risk Register which is reviewed regularly by a dedicated Risk Sub-Group which reports back to the OWG and JGC on a quarterly basis.

### **Training**

The WPP has its own training policy and develops an annual training plan which is designed to supplement existing Constituent Authority training plans. Local level training needs will continue to be addressed by Constituent Authorities while the WPP training plan will offer training that is relevant to the WPP’s pooling activities.

### Pooling progress to date

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. The WPP has made significant progress towards delivering on this objective. The launching of WPP's first three active equity sub-funds in 2019/20, five fixed income sub-funds in 2020/21 and the Emerging Markets equity sub-fund in 2021/22, alongside the Constituent Authorities' existing passive investments, has meant that that the WPP has now pooled 72% of assets.

As at 31 March 2022, WPP has total assets worth £23.1bn, £16.6bn of which sits within the pool, see breakdown below:

<b>Fund</b>	<b>Managed by</b>	<b>Launch Date</b>	<b>31 March 2022 £000</b>	<b>%</b>
Global Growth Equity	Link Fund Solutions	February 2019	3,303,494	14.3
Global Opportunities Equity	Russell Investments	February 2019	3,387,940	14.7
UK Opportunities Equity	Russell Investments	September 2019	730,278	3.2
Emerging Markets Equity	Russell Investments	October 2021	464,615	2.0
Global Credit	Russell Investments	July 2020	757,659	3.3
Global Government Bond	Russell Investments	July 2020	507,273	2.2
UK Credit	Link Fund Solutions	July 2020	574,224	2.5
Multi-Asset Credit	Russell Investments	July 2020	723,184	3.1
Absolute Return Bond	Russell Investments	September 2020	509,605	2.2
Passive Investments	BlackRock	March 2016	5,599,927	24.2
Investment not pooled			6,534,711	28.3
<b>Total Investments across all 8 Pension Funds</b>			<b>23,092,910</b>	<b>100</b>

The investment assets split between Gwynedd Pension Fund and WPP are as follows:

<b>Fund</b>	<b>31 March 2022 £000</b>	<b>%</b>
Global Opportunities	454,098	16.4
Global Growth	430,749	15.5
Multi Asset Credit	197,920	7.1
Absolute Return Bond	353,857	12.7
Emerging Markets	59,802	2.2
Passive Equity	786,196	28.7
Investment not pooled	478,649	17.4
<b>Total Investment Assets</b>	<b>2,761,271</b>	<b>100</b>

The above table provides additional details to note 14 from the financial statements and summarises Gwynedd Pension Fund's investment in the WPP, together with the assets that remain under the direct oversight of the Fund. During the year, £65,228,995 of the Fund's assets transitioned to the WPP portfolios and the table above shows the assets currently managed by the pool as at 31 March 2022.

### **Pooling costs**

Carmarthenshire County Council, as the Host Authority for the Wales Pension Partnership, is responsible for providing administrative and secretarial support and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The WPP budget is included in the WPP Business Plan and approved annually by all eight Constituent Authorities.

The Host Authority and External Advisor costs and the running costs are funded equally (unless specific projects have been agreed for individual Funds) by all eight of the Constituent Authorities and recharged on an annual basis. The amount recharged to the Gwynedd Pension Fund for the financial year ending 31 March 2022 was £135k and this is included in Note 12d in the financial statements.

In addition to the running costs, there are also transition costs associated with the transition of assets into the pool, these costs can be categorised in terms of direct and indirect costs. Direct costs include the costs of appointing a transition manager to undertake the transition, together with any additional oversight of this process undertaken from a research and reflection perspective. Indirect costs include both explicit and implicit costs, such as commissions, spread and impact, and opportunity costs known as implementation shortfall. Transition costs are directly attributable to the assets undergoing the transition and are therefore deducted from their net asset value as opposed to a direct charge to the Fund.



## **Investment Management Costs**

The table below discloses the investment management costs split between those held by the WPP (including the passive equities) and those held outside of the WPP for 2021/22.

		<b>Direct</b>	<b>Indirect</b>	<b>Total</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Management Fees</b>	Pool Assets	2,285	1,881	4,166
	Non-Pool Assets	11,558	956	12,514
<b>Transaction Costs</b>	Pool Assets	693	0	693
	Non-Pool Assets	0	1,901	1,901
<b>Custody Costs</b>	Pool Assets	227	0	227
	Non-Pool Assets	25	0	25
<b>Whole Fund Total</b>		<b>14,788</b>	<b>4,738</b>	<b>19,526</b>

## **2022/23 Objectives**

Following the launch of a number of sub-funds to date, progress will continue to be made with significant rationalisation of the existing range of mandates. The Operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the eight constituent funds and facilitate a significant move of the assets to be pooled.

In establishing the WPP pool, the focus has been on pooling the most liquid assets, namely equities and fixed income. In July 2021, the Joint Governance Committee appointed BFinance as WPP's Allocator Advisors and they will assist the WPP with the identification of Private Markets Allocations for the Private Market Asset Classes.

A transition timetable has been provided below:

<b>Investment Portfolio</b>	<b>Timeline for Launch / Implementation</b>
Sustainable Equities	Launch due by the end of 2022
Private Debt / Infrastructure	Launch due before the end of 2022/23
Private Equity	Launch scheduled for early 2023/24

During 2021/22, the WPP published its first annual Stewardship Report and has been accepted as a signatory to the 2020 UK Stewardship Code. During 2022/23, the WPP hopes to enhance its approach as a responsible investor further with the establishment of an engagement framework, enhancing reporting in accordance with the requirements of the UK Stewardship Code and the Taskforce on Climate-Related Financial Disclosure (TCFD) and to continue reviewing existing sub-fund mandates to ensure compatibility with WPP's Responsible Investment and Climate Risk Beliefs.

There will also be a focus on the review and development of additional WPP policies, as well as the provision of timely and relevant training facilitated by the pool for the benefit of its wider stakeholder groups.

### **Securities Lending**

Securities lending commenced in March 2020. Revenue is split on an 85:15 basis between WPP and Northern Trust with all costs for running the securities lending programme taken from Northern Trust's share of the fee split. A minimum of 5% of the nominal quantity of each individual equity holding is held back and a maximum of 25% of total AUM is on loan at any one time. Total revenue of LF Wales Revenue during 2021/22 was £1,296,016 (gross) / £1,101,659 (net) with £430,743,792 out on loan as at 31 March 2022.

## **6.7 Responsible Investing**

The Fund recognises that environmental, social and corporate governance (ESG) issues can represent a material financial risk to its stakeholders and can influence the Fund's long-term returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG factors and has agreed the following set of investment beliefs in relation to Responsible Investment in its March 2022 meeting:

- In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though ESG matters can materially affect risk and returns. Therefore, ESG factors should be embedded in the investment processes and in the decision-making processes of asset managers appointed by the Fund / Wales Pension Partnership.
- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.
- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action (such as that taken via Local Authority Pension Fund Forum (LAPFF) membership and commissioned from Robeco alongside WPP partners) provides the most successful route to influence outputs.
- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the Fund is.
- Shareholder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.
- Training and education are likely to form a key element in developing the Fund and its Committee position on ESG related matters.

The Committee recognises that the Fund's assets are invested globally and across many sectors, which means reducing the Fund's carbon emissions is more challenging than it would be for an individual organisation. In March 2022, the Committee committed to set a goal for the Fund to be net zero by 2050, supported by an undertaking to assess the feasibility of the Fund **reaching net zero 5,10 or 20 years earlier.**

The Committee believes it is important for LGPS funds to take a leading role in shaping the future, both in terms of supporting the transition to a low carbon economy and achieving broader ESG goals. The Committee is able to exert influence in two ways: through the investment decisions it takes; and through ongoing engagement with the companies and projects the Fund invests in. Against this background, the Committee believes it is appropriate to set a realistic goal while also looking at the feasibility to achieve a more ambitious goal.

At the same time, the Committee believes that the reduction in the Fund's carbon emissions should be achieved in a measured way. The Fund must remain focused on its primary obligation to pay benefits to its members, including consideration of any associated risks. A measured approach allows the Fund to capture investment opportunities arising from the transition to a low carbon economy, as well as mitigating the risks. Further, a measured approach supports active stewardship, giving the Committee more time and greater scope to effect change and achieve a just transition through ongoing engagement.

## **7. Management and Financial Performance**

### **7.1 Managing Risk**

The Gwynedd Pension Fund recognises the importance of effective risk management. Risk management is the process by which the Fund identifies and deals with the risks associated with the activities.

For the Gwynedd Pension Fund, the risks come from a number of sources including long-term investment strategy, funding position, investment performance, scheme administration, membership change, financial systems and communications.

The following documents explain these major risks and show how they are identified, avoided, managed and reviewed:

- Risk Register
- Investment Strategy Statement
- Funding Strategy Statement
- Gwynedd Pension Fund Accounts- reference to financial instrument risks

Expert advice is provided by Hymans Robertson, our advisers, and the Pensions Committee meets to review the performance of our investment managers on a quarterly basis.

### **7.2 Investment Strategy Statement**

The Pensions Committee approved the Investment Strategy Statement in July 2020 following the 2019 valuation. This strategy defines the types of investments that the fund may use in the long term.

There are no specific limits for types of investments. However, it is good practice to have some broad limits and these are included in the Investment Strategy Statement. A copy of the Investment Strategy Statement is available at Appendix 10.2 or on the Fund's website at:

<https://www.gwyneddpensionfund.wales/en/Investments/Statement-of-Investment-Principles.aspx>

### **7.3 Funding Strategy Statement**

Local Government Pension Scheme (LGPS) administering authorities are required to prepare and publish a Funding Strategy Statement. The Funding Strategy Statement sets out the fund-specific strategy which will identify how employers' pension liabilities are best met going forward.

LGPS benefits are guaranteed by statute and thereby the pensions promise is secure. The Funding Strategy Statement addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure. It also provides LGPS administrative authorities with a statutory framework within which to manage their Funds' long-term pension liabilities going forward.

The Funding Strategy Statement was reviewed during 2019/20 to reflect the Actuarial Valuation at 31 March 2019. It includes all employer contribution rates from 1 April 2020 onwards. Since then, a further review has taken place to reflect changes following amendments to the LGPS Regulations

2013 and an update of the Goodwin Court Case. These changes were approved by the Pensions Committee on 24 June 2021.

A copy of the Funding Strategy is available at Appendix 10.1 or on the Fund's website at <https://www.gwynedd-pensionfund.wales/en/Investments/Funding-Strategy-Statement-June-2021.pdf>

## 7.4 Financial Performance

### Income

	<b>Actual 2020/21 £'000</b>	<b>Actual 2021/22 £'000</b>
Employee / Member Contributions	18,671	19,703
Employers Contributions	59,581	63,268
Transfers In	3,356	2,664
Investment Income	30,768	26,170
Other Income	4	4
<b>Total Income</b>	<b>112,380</b>	<b>111,809</b>

Lower investment income was received during 2021/22 compared to 2020/21 as Link Asset Services paid income earned since inception on all Wales Pension Partnership sub-funds last year.

### Expenditure

	<b>Actual 2020/21 £'000</b>	<b>Actual 2021/22 £'000</b>
Benefits Payable	(62,378)	(66,979)
Payments To and Account of Leavers	(3,052)	(3,683)
Management Expenses	(22,669)	(16,525)
<b>Total Expenditure</b>	<b>(88,099)</b>	<b>(87,187)</b>

Management expenses decreased in the year due to exceptional performance fees in three specific funds by Partners last year.

## Net assets

	<b>Actual 2020/21 £'000</b>	<b>Actual 2021/22 £'000</b>
Profit and losses on disposal of investments and changes in the market value of investments	565,511	223,010
<b>Net Increase/ (Decrease) in the Net Assets available for benefits during the year</b>	<b>589,792</b>	<b>247,632</b>

The market value of investments has increased in the year as the investments performed well, however the increase was not as significant as last year as the markets bounced back during last year following the pandemic.

Further information is included in the Statement of Accounts (Section 9).

## 7.5 International Accounting Standard 19 (IAS19) and Financial Reporting Standard 102 (FRS102)

### Definition of IAS19

IAS19 effectively defines how pension scheme assets and liabilities are to be measured for financial reporting purposes and notes that any deficit or surplus should be recognised in full as a balance sheet item, with any movements being recognised in the annual profit and loss account. IAS19 is relevant to bodies required to report under International Financial Reporting Standards (IFRS). This includes the scheduled bodies in the Pension Fund, which are part of Government accounting, namely Gwynedd Council, Isle of Anglesey County Council, Conwy County Borough Council and their foundation schools, Snowdonia National Park Authority, the Police and Crime Commissioner for North Wales and Careers Wales North West. Two of the smaller employers also requested IAS19 reports. All other employers are still subject to FRS102 reporting requirements.

### Accounting for IAS19 and FRS102

Adoption of IAS19 or FRS102 means that employers have to recognise the net asset or liability, and a pensions reserve, in the balance sheet. They also have to make entries in the Consolidated Revenue Account for movements in the asset or liability relating to defined benefit schemes.

### IAS19 and FRS102 Reports as at 31/03/2022

In February 2022, the necessary data was collected to enable the Actuary to calculate the individual IAS19 or FRS102 information for the Fund's employers.

### IAS19 and FRS102 Results as at 31/03/2022

The employer had the choice to base the results on expected returns or actual returns. Each employer's results reflect their own specific circumstances. Therefore, this update should be considered as an illustrative guide to the main issues affecting most employers, rather than a detailed explanation of each employer's experience.

## **7.6 Final Accounts 2021/22**

The Final Accounts were audited by Audit Wales, and the final version in Section 9 was presented to the Pensions Committee on 14 November 2022.

## **7.7 Knowledge and Skills Framework**

Gwynedd Pension Fund recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

Therefore, Gwynedd Pension Fund seeks to utilise individuals who are both capable and experienced and it will provide training for staff and members of the pension decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

## **7.8 Investment Unit**

Collaboration has been a very important theme again this year. I would like to thank the staff within the Investment Unit for their hard work during the year and the teams at Hymans Robertson and all the Wales funds for their willing co-operation throughout.

**Delyth Jones-Thomas**  
**Investment Manager**

## 8. Actuarial Report

### General

The Fund needs to be sufficient to meet its commitments, and therefore the Fund receives a valuation every three years to assess the situation. The most recent actuarial valuation of the Fund was undertaken as at 31<sup>st</sup> March 2019 (previously 31<sup>st</sup> March 2016), and the new rates are effective from 1 April 2020.

### Method and Assumptions Used

The actuarial methods used in the valuation were the “Projected Unit Method” for the Fund as a whole and employers who will continue to admit new entrants to the Fund and the “Attained Age Method” for employers who no longer admit new entrants to the Fund. The main financial assumptions were as follows:

	% per annum
Discount Rate	3.9%
Salary Increases	2.6%
Benefit increases and CARE revaluation (CPI)	2.3%

### 2019 Valuation Results

The triennial actuarial valuation as at 31 March 2019 was completed during 2019/20. The funding position for the whole Fund improved from 91% at 31 March 2016 to 108% at 31 March 2019, mainly due to strong investment performance over the period.

Valuation Date	31 March 2016	31 March 2019
<b>Past Service Liabilities</b>	<b>(£m)</b>	<b>(£m)</b>
Employees	761	855
Deferred Pensioners	252	321
Pensioners	657	750
<b>Total Liabilities</b>	<b>1,670</b>	<b>1,925</b>
<b>Assets</b>	<b>1,525</b>	<b>2,081</b>
<b>Surplus / (Deficit)</b>	<b>(145)</b>	<b>156</b>
<b>Funding Level</b>	<b>91%</b>	<b>108%</b>

The funding position has increased from a deficit of £145m to a surplus of £156m. See the movements in the table below:



Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
<b>Last valuation at 31 March 2016</b>	<b>1,525</b>	<b>1,670</b>	<b>(145)</b>
<b>Cashflows</b>			
Employer contributions paid in	170		170
Employee contributions paid in	48		48
Benefits paid out	(167)	(167)	0
Net transfers into / out of the Fund*	4		4
Other cashflows (e.g. Fund expenses)	(4)		(4)
<b>Expected changes in membership</b>			
Interest on benefits already accrued		207	(207)
Accrual of new benefits		221	(221)
<b>Membership experience vs expectations</b>			
Salary increases greater than expected		13	(13)
Benefit increases less than expected		(0)	0
Early retirement strain (and contributions)	0	14	(14)
Ill health retirement strain		(5)	5
Early leavers less than expected		(2)	2
Pensions ceasing less than expected		(4)	4
Commutation greater than expected		(0)	0
Impact of GMP equalisation		4	(4)
Other membership experience		(29)	29
<b>Changes in market conditions</b>			
Investment returns on the Fund's assets	505		505
Changes in future inflation expectations		58	(58)
<b>Changes in actuarial assumptions</b>			
Change in demographic assumptions (excl. longevity)		(4)	4
Change in longevity assumptions		(66)	66
Change in salary increase assumption		11	(11)
Change in discount rate		7	(7)
<b>This valuation at 31 March 2019</b>	<b>2,081</b>	<b>1,925</b>	<b>156</b>

The liabilities also increased due to changes in membership. The level of accrual of benefits and interest on benefits already accrued increased in this valuation.

Broadly, contributions required from employers in respect of new benefits earned by members (the primary rate) have increased. Changes to employer contributions to fund the deficit (secondary rate) have generally decreased.

The actuary produced a provisional report for each individual employer. A forum was held for all employers in October 2019, where the Actuary presented the results and answered questions. This was a very useful session and 9 employers attended.

The final Gwynedd Pension Fund 2019 Actuarial Valuation Report was produced in March 2020 and is available on the Fund's website at

<https://www.cronfabensiwngwynedd.cymru/cy/Buddsoddiadau/Gwynedd-Pension-Fund-2019-Final-Valuation-Report.pdf>

### **Employer Contribution Rate**

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund to meet the Contribution Objective, a primary rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within each individual employer’s set time horizon.

The table below summarises the whole fund Primary and Secondary Contribution rates at this valuation.

<b>Primary Rate (% of pay)</b>	<b>Secondary Rate £</b>		
<b>1 April 2020 – 31 March 2023</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>20.1%</b>	<b>£358,000</b>	<b>£366,000</b>	<b>£375,000</b>

The next triennial actuarial valuation will be at 31 March 2022. During 2022/23 the actuary will work to agree the result for each employer contributions for April 2023 onwards.

## 9. Statement of Accounts 2021/22

### NARRATIVE REPORT

#### Introduction

Gwynedd Pension Fund's accounts and notes for the year 2021/22 are presented here on pages 44 to 82.

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

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

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

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

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

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

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

An Actuarial Valuation is required every three years to establish the level of assets available to pay pensions now and in the future. The most recent valuation was at 31 March 2019 and any changes to employers' contributions were made from 1 April 2020 onwards. The next valuation is as at 31 March 2022 with any changes to employers' contributions from 1 April 2023 onwards.

Further information relating to the accounts is available from:

Delyth Jones-Thomas  
Investment Manager  
01286 679128

Finance Department  
Gwynedd Council  
Council Offices  
Caernarfon  
Gwynedd  
LL55 1SH

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

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

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

Gwynedd Council as administrating authority (effectively the trustee) for Gwynedd Pension Fund 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.



**27th June 2022**

**Councillor Stephen Churchman**

**Pensions Committee Chair**

### **THE HEAD OF FINANCE'S RESPONSIBILITIES**

The Head of Finance is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing the statement of accounts, the Head of Finance has selected suitable accounting policies and then applied them consistently; has made judgements and estimates that were reasonable and prudent; and complied with the Code.

The Head of Finance has also kept proper accounting records which were up to date, and has taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE**

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2022 and the Pension Fund's income and expenditure for the year then ended.



**20th June 2022**

**Dewi Morgan CPFA**

**Head of Finance, Gwynedd Council**

## GWYNEDD PENSION FUND ACCOUNTS

### THE FUND ACCOUNT

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

The notes on pages 46 to 82 form part of these Financial Statements

## NET ASSETS STATEMENT

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

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the financial year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2019) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 19.

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

## **NOTE I – DESCRIPTION OF FUND**

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

### **a) General**

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

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

### **b) Membership**

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

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



## NOTE I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

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

## NOTE I – DESCRIPTION OF FUND (continued)

Membership details are set out below:

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

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 7.7% to 36.1% of pensionable pay.

## NOTE 1 – DESCRIPTION OF FUND (continued)

### d) Benefits

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

	Service pre-1 April 2008	Service post-31 March 2008
<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 Fund became a career average scheme as summarised below:

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

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

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

## NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2021/22.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account – revenue recognition

#### a) Contribution Income

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

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

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

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

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

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

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

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

#### c) Investment income

##### i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

##### ii) Dividend income

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

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

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

##### iv) Movement in the net market value of investments

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

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

### **Fund account – expense items**

#### **d) Benefits payable**

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

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

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

##### **Administrative expenses**

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

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

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

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

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

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

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

#### **f) Taxation**

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

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

### **Net assets statement**

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

All investment assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

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

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

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

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

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### **j) Financial liabilities**

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

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

#### **k) Actuarial present value of promised retirement benefits**

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

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

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

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

AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information only in Note 22.

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

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

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

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

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

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2022 was £226.1 million (£211.6 million at 31 March 2021).

### **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from assumptions and estimates made.

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and return on fund assets. Hymans Robertson is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines (December 2018). These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £226.1 million. There is a risk that this investment may be under or overstated in the accounts.

**NOTE 6 – EVENTS AFTER THE REPORTING DATE**

There are no significant events after the year end to report.



## NOTE 7 – CONTRIBUTIONS RECEIVABLE

### By category

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

### By type of employer

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

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

## NOTE 8 – OTHER INCOME

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

## NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2020/21		2021/22
£'000		£'000
3,356	Individual transfers	2,664
<b>3,356</b>		<b>2,664</b>

## NOTE 10 - BENEFITS PAYABLE

### By category

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

### By type of employer

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

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

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

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

## NOTE 12 – MANAGEMENT EXPENSES

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

## NOTE 12a – INVESTMENT MANAGEMENT EXPENSES

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

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

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment vehicles. There are no performance-related fees paid to investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments in Note 14a.

The WPP Global Opportunities, Multi Asset Credit, Absolute Return Bond and Emerging Market funds are investments which are appointed via a manager of manager approach which have their own underlying fees. The return for this mandate are net of the underlying manager fees which is reflected in Note 14a within the Change in Market value- for transparency, the fees in 2021/22 were £1,881,000 (£1,846,000 in 2020/21).

## NOTE 12b- ADMINISTRATIVE COSTS

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

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

## NOTE 12c- OVERSIGHT AND GOVERNANCE COSTS

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

## NOTE 12d- WALES PENSION PARTNERSHIP

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

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

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

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

## NOTE 13 – INVESTMENT INCOME

2020/21 £'000		2021/21 £'000
1,579	Fixed Income	4,430
20,587	Equities	12,141
1,108	Private Equity	2,090
888	Infrastructure	280
6,507	Pooled property investments	7,213
99	Interest on cash deposits	16
<b>30,768</b>	<b>Total before taxes</b>	<b>26,170</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 Pension Fund also has a Euro account to deal with receipts and payments in Euros and to minimise exchange transactions and relevant costs.

## NOTE 14 – INVESTMENTS

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

**NOTE 14a – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

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

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

## NOTE 14b – ANALYSIS OF INVESTMENTS

### Investments analysed by fund manager

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

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

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

## NOTE 14c – STOCK LENDING

The Fund's investment strategy permits stock lending subject to specific approval. The income earned by the fund through stock lending was £126,800. Currently the Fund has total quoted equities of £35.8m on loan. These equities continue to be recognised in the Fund's financial statements. No liabilities are associated with the loaned assets.

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

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

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

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

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

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



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

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

### Sensitivity of assets valued at level 3

The values reported in the Level 3 valuations represent the most accurate estimation of the portfolio values as at 31 March 2022. Any subjectivity related to the investment value is incorporated into the valuation, and the sensitivity analysis can be seen in Note 17.

### Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2021/22.

## NOTE 15a – FAIR VALUE HIERARCHY

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

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

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

## NOTE 15a – FAIR VALUE HIERARCHY (CONTINUED)

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

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

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

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

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

## NOTE 16 - CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

As at 31 March 2021			As at 31 March 2022		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
2,108,945			2,282,622		
194,581			252,521		
165,423			158,711		
46,220			67,417		
	12,282			14,481	
	4,017			3,650	
<b>2,515,169</b>	<b>16,299</b>	<b>0</b>	<b>2,761,271</b>	<b>18,131</b>	<b>0</b>
<b>Financial liabilities</b>					
		(3,339)			(3,641)
<b>0</b>	<b>0</b>	<b>(3,339)</b>	<b>0</b>	<b>0</b>	<b>(3,641)</b>
<b>2,515,169</b>	<b>16,299</b>	<b>(3,339)</b>	<b>2,761,271</b>	<b>18,131</b>	<b>(3,641)</b>

## NOTE 16a – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2021		31 March 2022	
Fair value		Fair value	
£'000		£'000	
<b>Financial assets</b>			
546,039	Fair value through profit and loss	209,909	
0	Loans and receivables	0	
<b>546,039</b>	<b>Total financial assets</b>	<b>209,909</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>546,039</b>	<b>Net financial assets</b>	<b>209,909</b>	

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

### **Risk and risk management**

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

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Pension's Fund operations, then reviewed regularly to reflect changes in activity and market conditions.

### **a) Market risk**

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

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

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

The Fund manages these risks in two ways:

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

### **Other price risk**

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

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

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

**Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund’s investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 and 2021/22 reporting period.

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

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

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

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

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

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

### Interest rate risk

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

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

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

### Interest rate risk sensitivity analysis

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

Asset type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	14,178	142	(142)
Cash balances	303	3	(3)
Pooled Fixed Income *	551,777	5,518	(5,518)
<b>Total change in assets available</b>	<b>566,258</b>	<b>5,663</b>	<b>(5,663)</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 2021	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	12,136	121	(121)
Cash balances	146	1	(1)
Pooled Fixed Income *	484,315	4,843	(4,843)
<b>Total change in assets available</b>	<b>496,597</b>	<b>4,965</b>	<b>(4,965)</b>

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.10% amounting to interest of £14,183 for the year.



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

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

### **Currency risk**

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

The Fund has made commitments to private equity and infrastructure in foreign currency (€363.2 million and \$88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 24. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

### **Currency risk – sensitivity analysis**

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

The 1 year expected standard deviation for an individual currency as at 31 March 2022 is 9.5%. The equivalent rate for the year ended 31 March 2021 was 9.8%. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2022 and at the end of the previous financial year:

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

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

### b) Credit risk

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

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

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

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

<b>Investment Manager</b>	<b>Percentage of Portfolio</b>
BlackRock	29.5%
Wales Pension Partnership Emerging Markets	2.5%
Wales Pension Partnership Global Growth	14.0%
Wales Pension Partnership Global Opportunities	14.0%
Wales Pension Partnership Multi Asset Credit	7.5%
Wales Pension Partnership Absolute Return Bond	15.0%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Partners Group	7.5%

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

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

In order to maximise the returns from short-term investments and cash deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements, any surplus cash in the Pension Fund bank accounts is not transferred to the Council’s bank accounts. 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 2022 was £14.3m (£12.5m at 31 March 2021).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council’s credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

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

Employers in the Fund are not currently assessed for their creditworthiness or individual credit limits set. There is risk of being unable to collect contributions from employers with no contributing members (e.g. risk associated with employers with a small number of declining contributing members) so the Administering Authority monitors membership movements on an annual basis.

New employers to the Fund will need to agree to the provision of a bond or obtain a guarantee to reduce the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 25 two employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

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

### **c) Liquidity risk**

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

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

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

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of illiquid assets was £479m, which represented 17.2% of the total Fund assets (31 March 2021: £406m, which represented 16.1% of the total Fund assets).

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

All financial liabilities at 31 March 2022 are due within one year as was the case at 31 March 2021.

### **Refinancing risk**

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

## **NOTE 18 – FUNDING ARRANGEMENTS**

In line with the Local Government Pension Scheme (Administration) Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation is due to take place as at 31 March 2022.

### **Description of Funding Policy**

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

The key elements of the funding policy are:

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

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

**NOTE 18 – FUNDING ARRANGEMENTS (continued)**

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 70% chance that the Fund will return to full funding over the 17 years.

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

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

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

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

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

**Method**

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

**Assumptions**

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

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

<b>Financial assumptions</b>	<b>31 March 2019</b>
Discount rate	3.9%
Salary increase	2.6%
Benefit increase (CPI)	2.3%

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

## NOTE 18 – FUNDING ARRANGEMENTS (continued)

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

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

### Experience over the period since 31 March 2019

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

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

## NOTE 19 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

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

The actuarial present value of promised retirement benefits at 31 March 2021 and 2022 are shown below:

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

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

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

**Assumptions used**

The financial assumptions used are those adopted for the Administering Authority’s IAS19 report as shown below and are different as at 31 March 2021 and 2022. The actuary estimates that the impact of the change in financial assumptions to 31 March 2022 is to decrease the actuarial present value by £281m. It is estimated that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £18m.

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

The life expectancy for the longevity assumption is based on the Fund’s VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	<b>Male</b>	<b>Female</b>
	<b>Years</b>	<b>Years</b>
Current pensioners	21.3	23.7
Future pensioners (aged 45 at the 2019 valuation)	22.4	25.7

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

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

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



## NOTE 20 – CURRENT ASSETS

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

## NOTE 21 – CURRENT LIABILITIES

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

## NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The market value of the funds is stated below:

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

AVC contributions were paid directly to the managers as follows:

	2020/21 £'000	2021/22 £'000
Clerical Medical	597	645
<b>Total</b>	<b>597</b>	<b>645</b>

**NOTE 23 - RELATED PARTY TRANSACTIONS**

**Gwynedd Council**

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

The Council incurred costs of £1,318,514 (£1,231,146 in 2020/21) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the Fund and contributed £27.87m to the Fund in 2021/22 (£25.33m in 2020/21). At the end of the year, the Council owed £0.32m to the Fund which was primarily in respect of interest paid on the Pension Fund’s balances and contributions for March 2022 and the Fund owed £1.31m to the Council which was primarily in respect of recharges to the Council for the administrative costs.

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2021/22, the Fund received interest of £14,183 (£88,037 in 2020/21) from Gwynedd Council.

**Governance**

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2021/22 (committee members P. Jenkins and J.B. Hughes). In addition, committee members S.W. Churchman, R.W. Williams, J.B. Hughes, A.W. Jones, I. Thomas, G. Edwards and S. Glyn are active members of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2021/22 (board members H.E. Jones and S. Warnes). In addition, Board members A.L.I. Evans, O. Richards, H. Trainor and S.E. Parry are active members of the Pension Fund.

**Key Management Personnel**

The key management personnel of the fund is the Fund Director.

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

31/03/2021 £'000	31/03/2022 £'000
8	7
2	1
10	8

## NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments €'000	Commitment at 31 March 2021 €'000	Commitment at 31 March 2022 €'000
P.G. Direct 2006	19,224	776	0
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	2,096	2,096
P.G. Global Infrastructure 2012	40,000	7,019	7,019
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	1,531	1,531
P.G. Direct Equity 2016	50,000	2,826	2,826
P.G. Global Value 2017	42,000	23,120	17,870
P.G. Global Infrastructure 2018	28,000	21,516	14,379
P.G. Direct Equity 2019	48,000	30,964	18,432
PG Direct Infrastructure 2020	32,000	29,602	24,800
<b>Total Euros</b>	<b>363,224</b>	<b>126,068</b>	<b>95,571</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	17,640	15,740
P.G. Direct Infrastructure 2015	43,600	13,780	9,598
<b>Total Dollars</b>	<b>88,600</b>	<b>32,502</b>	<b>26,420</b>

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

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

## NOTE 25 – CONTINGENT ASSETS

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

## NOTE 26 – CONTINGENT LIABILITIES

There are no contingent liabilities identified.

**NOTE 27 – IMPAIRMENT LOSSES**

There are no impairment losses identified.

## **10. Appendices**

### **10.1 Funding Strategy Statement**

#### **1 Introduction**

##### **1.1 What is this document?**

This is the Funding Strategy Statement (FSS) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It will be effective from 24<sup>th</sup> June 2021.

##### **1.2 What is the Gwynedd Pension Fund?**

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Gwynedd Pension Fund, in effect the LGPS for the Gwynedd area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

##### **1.3 Why does the Fund need a Funding Strategy Statement?**

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

#### **1.4 How does the Fund and this FSS affect me?**

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

#### **1.5 What does the FSS aim to do?**

The FSS sets out the objectives of the Fund's funding strategy, such as:

- 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 (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- 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.

## **I.6 How do I find my way around this document?**

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Delyth Jones-Thomas, Investment Manager in the first instance at her e-mail address [delythwynjonesthomas@gwynedd.llyw.cymru](mailto:delythwynjonesthomas@gwynedd.llyw.cymru).

## 2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

### 2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3](#) [Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary rate". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees



who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

#### **2.4 How does the calculated contribution rate vary for different employers?**

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

#### **2.5 How is a funding level calculated?**

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer term issue.

## **2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?**

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see [3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

## **2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?**

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. At the time of writing, 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 was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice 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.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

## **2.8 What approach has the Fund taken to dealing with uncertainty arising from the Goodwin court case and its potential impact on the LGPS benefit structure?**

The Goodwin tribunal was raised in the Teachers' scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teachers' scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. This finding and remedy is expected to apply across all public service pension schemes, including the LGPS, however this is not certain and the details are not yet known.

The impact, if any, of the Goodwin case on Fund liabilities is expected to be very small and will largely be an administrative issue. In the absence of a resolution or any guidance to this case, no allowance has been made for this within the 2019 formal valuation.

## **2.9 When will the next actuarial valuation be?**

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

On 7 October 2019 MHCLG confirmed the next LGPS valuation cycle in England and Wales will be 31 March 2022, regardless of the ongoing consultation. The Fund therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

### **3 Calculating contributions for individual Employers**

#### **3.1 General comments**

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### **3.2 The effect of paying lower contributions**

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Colleges, Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	Local Authorities, Police and Parc Cenedlaethol Eryri	Town and Parish Councils	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see <a href="#">Appendix E</a> )		Ongoing participation basis, but may move to “gilts basis” - see <a href="#">Note (a)</a>		Contractor exit basis, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )				
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No	No	No	No
Maximum time horizon – <a href="#">Note (c)</a>	17 years	17 years	14 years	Future working lifetime	Outstanding contract term
Secondary rate – <a href="#">Note (d)</a>	Percentage of pay				
Treatment of surplus	Covered by stabilisation arrangement	Reduce contributions through a negative secondary rate	Reduce contributions through a negative secondary rate		Reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – <a href="#">Note (e)</a>	70%	75%	75%	75%	75%
Phasing of contribution changes**	Reductions will apply in full from 2020/21. Increases will be phased in over 3 years.				
Review of rates – <a href="#">Note (f)</a>	Review of rates will be carried out in line with the Regulations and as set out in <a href="#">Note (f)</a>				Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	<a href="#">Note (g)</a>		<a href="#">Notes (g) &amp; (h)</a>
Cessation of participation: exit debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <a href="#">Note (i)</a> .		Colleges aside, can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (i)</a> .		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. Letting employer is liable for future deficits and contributions arising.

\* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in [note \(i\)](#).

\*\* Changes to contribution rates for the non-stabilised open employers (other than Transferee Admission Bodies) are subject to a phasing mechanism. This works by calculating the difference in total rates at 2016 and 2019 before application of the mechanism, and then restricting the subsequent increase or reduction as follows: a) if the difference is 5.0% or less of pay, the rate will change by the full difference, or b) if the difference is more than 5.0% of pay, then the rate will change by 5.0% plus half of the difference above 5.0%. The contribution rates for employers that are closed to new entrants, and are heading towards cessation, have been set equal to the employers' primary rates.

### **Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)**

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return for long-term gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### **Note (b) (Stabilisation)**

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.



The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2019 valuation exercise (see [Section 4](#)), it has been agreed all stabilised employers must pay their primary rate as a minimum over the next three years, with the reduction in total rate subject to a limit that depends on the 2019 funding level (i.e. a limit of 1.0% of pay if between 100% and 104%, 1.5% of pay if between 105% and 119%, and 2.0% of pay if 120% or above). The stabilised details thereafter are as follows:

Type of employer	Councils, Police and Parc Cenedlaethol Eryri
Max cont rate increase in each future year	1.0% of pay
Max cont rate decrease in each future year	1.0% of pay

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

**Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

**Note (d) (Secondary rate)**

The secondary rate will be set as a percentage of pay for all employers.

**Note (e) (Likelihood of achieving funding target)**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,

- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

**Note (f) (Regular Reviews)**

Under the Regulations the Fund may amend contribution rates between valuations for “significant change” to the liabilities or covenant of an employer: this may result in a material increase or decrease in contributions, depending on the circumstances. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of the Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership).

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

The decision on whether to amend an employer's contribution rate rests with the Administering Authority following consultation with the Fund's actuary. The Rates & Adjustments Certificate will be updated as necessary, following such a review.

The Administering Authority will also consider guidance in such matters from the Scheme Advisory Board as issued from time to time.

### **Note (g) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

**Transferee Admission Bodies:** For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

**Community Admission Bodies:** The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### **Note (h) (New Transferee Admission Bodies)**

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(i\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of exit credit (if any) payable on cessation would be determined by the Administering Authority in accordance with the Regulations and this FSS.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and does not pay any deficit or receive an exit credit. In other words, the pension risks “pass through” to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

**Note (i) (Admission Bodies Exiting the Fund)**

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.
- On termination of a Deferred Debt Agreement

On cessation, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. The Administering Authority reserves the right to put in place a Deferred Debt Agreement (as described in Regulation 64 (7A)). This is covered in further detail below.

#### Payment of cessation debt

Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. The Fund's normal policy is that this cessation debt is paid in a single lump sum within 30 days of the employer being notified.

However, subject to actuarial, covenant, legal and any other advice as necessary, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period. Such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

The length of any spreading period will depend on the employer's financial circumstances and on the strength of any security provided, and ordinarily would not exceed [five] years. The Fund will confirm the spreading period, annual repayments including any interest, and any other costs (e.g. actuarial or legal) payable by the employer prior to the repayments starting.

The Fund will monitor the employer's circumstances regularly during the spreading period and may request updated financial information that could trigger a review of the arrangement and repayments. The Fund will endeavour to accommodate any such spreading arrangement or review within three months of receipt of the relevant evidence from the employer.

#### Consideration of surplus / exit credit

Where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider:

- i) the extent of any surplus,
- ii) the proportion of surplus arising as a result of the employer's contributions,
- iii) any representations (such as risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee (or some other form of employer assistance/support) and
- iv) any other factors the Administering Authority deem relevant.

The Fund's Exit Credit Policy is provided in Appendix G.

#### Allowance for McCloud on cessation

As discussed in Section 2.7, 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 Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will review the profile of the ceasing membership and, if material, may apply a loading to the ceasing employer's post 2014 benefit accrual value, as an estimate of the possible impact of resulting benefit changes.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis as described in Appendix E;
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

#### Deferred Debt Agreement (“DDA”) alternative to immediate cessation

As an alternative, where the ceasing Admission Body is continuing in business, the Administering Authority may enter into a written agreement with the Admission Body to defer its obligations to make an exit payment and continue to make secondary contributions (a ‘Deferred Debt Agreement’ as described in Regulation 64 (7A)). The adoption of this approach will continue to expose the employer to stock market and other funding risks during the deferment period, leading to changes in the size of the debt, rather than crystallising the size of the debt at the point of cessation.

The deferred employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund Actuary until the termination of the Deferred Debt Agreement.

The Administering Authority will consider DDA’s in the following circumstances:

- The employer requests the Fund to consider a DDA;
- The employer is expected to have a deficit when the cessation valuation is carried out;
- The employer is expected to be a going concern; and
- The covenant of the employer is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- Security be put in place covering the employer’s deficit on its cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement to be met by the employer, such as the cost of actuarial or legal advice to the Fund, ongoing monitoring of the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- the deferred employer enrolls new active Fund members;
- the period specified, or as varied, under the DDA elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the Administering Authority serves a notice on the deferred employer that the Administering Authority is reasonably satisfied that the employer’s ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months;
- the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. the exiting employer is now largely fully funded on its cessation basis);

- the Fund Actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level, if the deferred employer becomes an exiting employer on the calculation date; or
- The deferred employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund Actuary on the calculation date (i.e. the employer pays its outstanding cessation debt on its cessation basis).

On the termination of a DDA, the deferred employer will become an exiting employer and a cessation valuation will be completed in line with this FSS.

### **3.4 Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### **3.5 Non ill health early retirement costs**

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies - up to 5 years

Community Admission Bodies and Designating Employers - up to 3 years

Transferee Admission Bodies - payable immediately.

### **3.6 Ill health early retirement costs**

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. The Administering Authority has arranged for an external insurance policy to cover ill health early retirement strains for smaller employers in the Fund. Each of these employer's contributions to the Fund includes its share of that year's insurance premium. When an active member retires on ill health early retirement, the claim amount received from the insurer will be credited to the respective employer's asset share in the Fund.



For all other employers that are not covered by the external insurance policy, any funding strain in excess of the allowance made in the funding basis would be met through an increase to ongoing contributions.

### **3.7 Employers with no remaining active members**

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (i)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### **3.8 Policies on bulk transfers**

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## **4 Funding strategy and links to investment strategy**

### **4.1 What is the Fund's investment strategy?**

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### **4.2 What is the link between funding strategy and investment strategy?**

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

### **4.3 How does the funding strategy reflect the Fund's investment strategy?**

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

## **5 Statutory reporting and comparison to other LGPS Funds**

### **5.1 Purpose**

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### **5.2 Solvency**

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### **5.3 Long Term Cost Efficiency**

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i) the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii) with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

- 1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

## **Appendix A – Regulatory framework**

### **A1 Why does the Fund need an FSS?**

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### **A2 Does the Administering Authority consult anyone on the FSS?**

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in January 2020 for comment;
- b) Comments were requested within 42 days;
- c) There was an Employers Forum on 24 October 2019 at which the funding strategy was outlined and questions regarding funding strategies could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in March.

### **A3 How is the FSS published?**

The FSS is made available through the following routes:

- Published on the website, at <https://www.gwynedd-pensionfund.org.uk/en/Investments/Funding-Strategy-Statement.aspx>;
- A copy sent by e-mail to each participating employer in the Fund;
- A copy sent to employee representatives;

- A summary issued to all Fund members;
- A full copy linked from the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

#### **A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [www.gwynedd-pensionfund.org](http://www.gwynedd-pensionfund.org)

## **Appendix B – Responsibilities of key parties**

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Administering Authority should:-**

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.



## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers.</p>
Effect of possible asset underperformance as a result of climate change	The Fund invests its assets in line with Responsible Investment beliefs and guidelines.

### **C3 Demographic risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.

Risk	Summary of Control Mechanisms
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and an ill-health insurance policy is in place for smaller employers.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <u>Note (b) to 3.3</u>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <u>Note (f) to 3.3</u>).</p>

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see <u>Section 5</u> ).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.

<p>Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.</p>	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>
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**C5 Governance risks**

<b>Risk</b>	<b>Summary of Control Mechanisms</b>
<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p>	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>

Risk	Summary of Control Mechanisms
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see <u>Notes (h) and (i) to 3.3</u>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f) to 3.3</u>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a) to 3.3</u>).</p>
<p>An employer ceasing to exist resulting in an exit credit being payable</p>	<p>The Administering Authority regularly monitors admission bodies coming up to cessation.</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

## **Appendix D – The calculation of Employer contributions**

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 and Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### **D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?**

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the “Primary contribution rate” (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the “Secondary contribution rate” (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### **D2 How is the Primary contribution rate calculated?**

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

### **D3 How is the Secondary contribution rate calculated?**

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see [Appendix E](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller (the "Economic Scenario Service") developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (at the end of the time horizon) is equal to the required likelihood.

### **D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;

7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

**D5 How is each employer’s asset share calculated?**

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer’s assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- 1) A technique known as “analysis of surplus” in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer’s liability value to calculate the employer’s asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
- 2) A ‘cashflow approach’ in which an employer’s assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer’s assets.

Until 31 March 2016 the Administering Authority used the ‘analysis of surplus’ approach to apportion the Fund’s assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer’s assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund’s assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers’ asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

**D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?**

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer’s asset share to the receiving employer’s asset share. This sum is equal to the member’s Cash Equivalent Transfer Value (CETV) as advised by the Fund’s administrators.



**Appendix E – Actuarial assumptions**

**E1 What are the actuarial assumptions used to calculate employer contribution rates?**

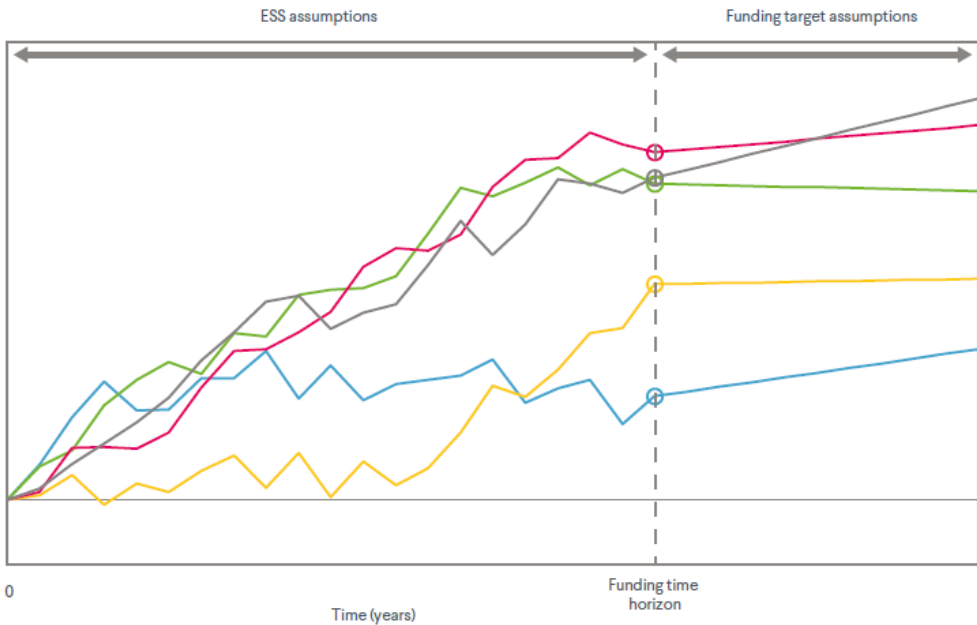
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

- 1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
- 2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

## E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	<b>Volatility (Disp) (1 yr)</b>	1%	7%	10%	17%	17%	14%	11%	1%		

## E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

<b>Funding basis</b>	<b>Ongoing participation basis</b>	<b>Contractor exit basis</b>	<b>Low risk exit basis</b>
<b>Employer type</b>	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
<b>Investment return assumption underlying the employer's funding target (at the end of its time horizon)</b>	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.7% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

#### **E4 What other assumptions apply?**

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

##### **a) Salary growth**

After discussion with the Fund officers the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2022, followed by
2. 0.5% above the Consumer Prices Index (CPI) per annum p.a. thereafter.

This is equivalent to a single salary increase assumption of CPI + 0.3% p.a.

This is a change from the previous valuation, which assumed an assumption of 1% p.a. 2020, and CPI plus 0.5% p.a. thereafter. This was equivalent to a single assumption of CPI.

The change has led to an increase in the funding target (all other things being equal).

##### **b) Pension increases**

Since 2011 CPI, rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have used a reduction of 1.0% per annum (Note that the reduction is applied on a geometric, not arithmetic, basis).

### **c) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members’ benefits.

### **d) General**

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Funding basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>the funding target at the end of the employer’s time horizon</b> . The main assumptions will relate to the <b>level of future investment returns</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Gilt</b>	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
<b>Guarantee guarantor</b>	/ A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority.
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These

Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
<b>Valuation</b>	A risk management exercise to review <b>Primary and Secondary contribution rates</b> , and other statutory information for a Fund, and usually individual employers too.

## **Appendix G – Exit Credit Policy**

The below sets out the general guidelines that the Gwynedd Pension Fund (“the Fund”) will follow when determining the amount of an exit credit payable to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”). Please note that these are guidelines only and the Fund will also consider any other factors that are relevant on a case-by-case basis. These considerations may result in a determination that would be different if these guidelines were rigorously adhered to. In all cases, the Fund will make clear its reasoning for any decision.

### Admitted bodies

- a) No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per point b). Prior to this date, the payment of an s not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or ‘rolled over’ on the same terms that applied on joining the Fund.
- b) The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month of the admission body ceasing participation in the Fund.
- c) If there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in b), the Fund will withhold payment of the exit credit until such disputes are resolved.
- d) The Fund will also consider any representations made by the letting authority/awarding authority/ceding employer regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority/awarding authority/ceding employer must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.
- e) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- f) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund’s determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers’ contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

- g) The decision of the Fund is final in interpreting how any arrangement described under b), d), e) and f) applies to the value of an exit credit payment.
- h) If an admitted body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

#### Scheduled bodies and resolution bodies

- a) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- b) Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- c) The decision of the Fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.
- d) If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- e) If a scheduled body or resolution body leaves on a gilts-based cessation (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

#### General

- a) The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- b) Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.
- c) The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.
- d) The final decision will be made by the Head of Finance, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- e) The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.



- f) The Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

## **10.2 Investment Strategy Statement**

### **1. Introduction and background**

This is the Investment Strategy Statement (“ISS”) of the Gwynedd Pension Fund (“the Fund”), which is administered by Gwynedd Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee in July 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.

### **2. The suitability of particular investments and types of investments**

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that the Fund’s investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

The Fund carried out an asset liability modelling exercise in conjunction with the 2019 actuarial valuation. A number of different contribution and investment strategies were modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee considered the chances of the Fund being fully funded at the end of the projection period, and also

considered the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund’s actual allocation on a regular basis to ensure it does not notably deviate from the target allocation.

The long term asset class returns assumed within the modelling exercise were as follows:

Asset Class	Median expected return 10 years (%pa)	Median expected return 20 years (%pa)
UK equities	4.6	5.7
Overseas equities	4.7	5.8
Private equity	5.5	6.8
Infrastructure	4.7	6.0
UK Property	3.1	4.3
Absolute Return Bonds	2.8	4.0

**3. Investment of money in a wide variety of investments**

**Asset classes**

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund’s target investment strategy, reflecting the proposed transfer from global equities into the new WPP Multi Asset Credit fund, is set out below. In line with the Regulations, the authority’s investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007”.

**Table 1: Fund allocation**

<b>Asset class</b>	<b>Target allocation %</b>
UK equities	13.5
Overseas equities	46.5
Private Equity	5.0
<b>Total equities</b>	<b>65.0</b>
Property	10.0
Infrastructure	2.5
Multi Asset Credit	7.5
Absolute Return Bonds	15.0
Total	100.0

**Managers**

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund’s investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

For the assets invested with WPP, the operator, LINK, is responsible for the appointment of investment managers for the WPP sub-funds.

**4. The approach to risk, including the ways in which risks are to be measured and managed**

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee’s overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund’s approach to managing these risks and the contingency plans that are in place:

## **Funding risks**

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2019 analysis highlighted that the Fund has a 82% probability of achieving full funding over the period to 2037 under the current investment strategy and level of agreed contributions. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

## **Asset risks**

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund’s assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns. This includes recognising the potential impact of Climate Change and the extent to which companies have addressed the potential risks.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measures and manages asset risks as follows.

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in

aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

### **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

## **5. The approach to pooling investments, including the use of collective investment vehicles and shared services**

The Fund is a participating scheme in the Wales Pensions Partnership (WPP) pool. The proposed structure and basis on which the WPP will operate was set out in the July 2016 submission to Government.

### **Assets to be invested in the WPP Pool**

The Fund's intention is to invest its assets through the pool as and when suitable investment solutions become available. An indicative timetable for investing through the pool was set out in the July 2016 submission to Government. The key criteria for assessment of pool solutions will be as follows:

1. That the pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has already invested the following assets via the WALES Pool:

Asset class	Fund	Target % of Fund assets	Benchmark and performance objective
Global Equities	Global Growth Fund	14.0	MSCI AC World plus 2% p.a.
Global Equities	Global Opportunities Fund	14.0	MSCI AC World plus 2% p.a.
Bonds	Multi Asset Credit Fund	7.5	LIBOR + 4% p.a.
Bonds	Absolute Return Bond Fund	15.0	LIBOR + 2-3% p.a.

Although the investments with Blackrock are currently retained by the Fund, the procurement process for Blackrock as index-tracking manager on behalf of partner funds (and any subsequent retender) was handled by WPP in order to achieve substantial fee savings.

The Fund will consider participating in pooling arrangements for the current and/or future property investments if a suitable solution is made available by WPP.

At the time of preparing this statement the Fund has elected not to invest the following assets via the pool:

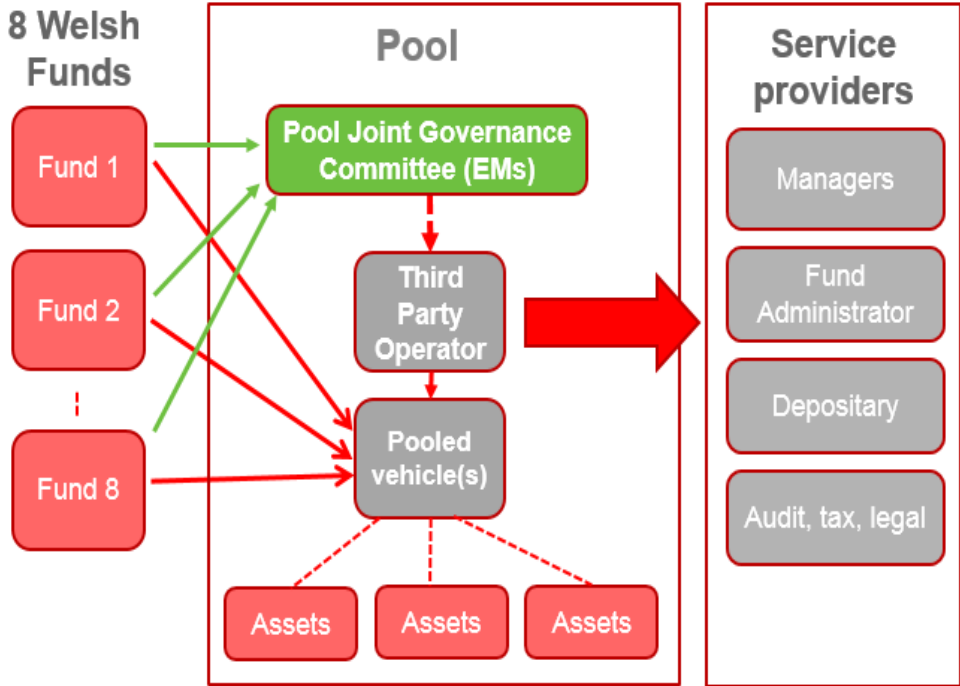
Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the WALES Pool
Private Equity	Partners	5.0	MSCI World Benchmark + 3% per annum	Existing contractual commitments in closed end funds which have a finite life.
Infrastructure	Partners	2.5	MSCI World Benchmark + 2% per annum	Existing contractual commitments in closed end funds which have a finite life.

In future, new commitments to private equity and infrastructure will be made through a WPP vehicle once that has been established.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2020.

**Structure and governance of the WPP pool**

The Pool has appointed a third party operator, LINK, authorised by the FCA to provide a series of investment sub-funds in which the assets of the participating funds will be invested.



A Joint Governance Committee (JGC) has been established to oversee the operator. The Committee comprises elected members – one from each of the eight participating funds. This arrangement will provide accountability for the operator back to individual administering authorities. The Joint Governance Committee (JGC) has been set up formally as a Joint Committee between the participating administering authorities. Each fund has one elected member on the Committee. It operates on the basis of ‘One Fund, One Vote’, though the intention is that any decisions are reached by consensus wherever possible.

The Committee is responsible for ensuring where practical that there are an appropriate range of sub-funds available to allow administering authorities to implement their own desired asset allocation. The JGC will be in regular discussions with the operator as to the specific sub-funds which should be set up within the pool, both at the outset and on an ongoing basis.

Officers from each administering authority attend JGC meetings (in a non-voting capacity). The officers advise the JGC on the establishment and monitoring of the various sub-funds as well as liaise directly with the operator on any day-to-day investment matters.

In the first instance, it is anticipated that the fund representatives on the JGC will report back to their respective individual funds’ Pensions committees who will be responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC.



However, the local Pensions Boards may also seek reassurance on aspects of the management of the funds' investments.

External scrutiny and formal due diligence of the operator and depositary will be carried out by the FCA in their role as regulator. In addition, Hymans Robertson have been appointed by the JGC to provide assistance with oversight of the arrangements.

The operator is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer, and an external valuer as necessary. Under the proposed structure, the depositary will hold legal title to the assets of the pool. The operator will be responsible for managing and operating the pool, including entering into the legal contracts with the investment managers.

The appointed operator will provide and operate a range of investment vehicles to allow collective investment by the participating funds. The operator will be responsible for selecting and contracting with investment managers for the management of the underlying assets. They will also be responsible for administration in relation to the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance. They will be responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and also for electing a depositary to the Pool.

The Pool will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

## **6. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- Sustainable investment / ESG factors – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- Stewardship and governance – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously and regularly reviews its policies in this area and its investment managers' approach to ESG. The Committee has also developed a set of Responsible Investment beliefs which are set out later in this section.

The Committee recognises that Climate Change presents a particular systemic risk to the financial stability of the global economy, and has the potential to impact on the Fund's investments and, as such, represents a long term financial risk to the Fund and its holdings.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties.

At the present time the Committee does not prioritise non-financial factors when selecting, retaining, or realising its investments.

The Committee have agreed the following set of investment beliefs in relation to Responsible Investment :-

- In accordance with the Committee's fiduciary duty, financial considerations should carry more weight than non-financial considerations when making investment decisions, even though environmental, social, and governance ('ESG') matters can materially affect risk and returns. Therefore, 'ESG' factors should be embedded in the investment processes and in the decision-making processes of managers appointed by the Fund.
- The Fund's Committee will seek to invest in sustainable assets, including investing within the Wales area when non-financial investments can derive from this, on condition that they satisfy the requirements of the fiduciary duty.
- The Committee accepts that it has a duty to be a responsible investor. It is expected that consulting with companies, rather than avoiding investing, will be more effective in changing corporate behaviour and reducing risk. Wherever possible, collaborative action provides the most successful route to influence outputs.
- As a long-term investor, the Fund is vulnerable to systemic risks such as climate change and the expectation of a transfer to a low carbon economy. Financial outcomes can be improved through managing how open to such risks the fund is.
- Share-holder comprehension and outcomes can be improved through providing transparency at each step of the value-adding chain.

## **The exercise of rights (including voting rights) attaching to investments**

### **Voting rights**

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value.

Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The voting decisions made by all its investment managers are monitored on a regular basis.

### **Stewardship**

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the WPP Pool and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website. At the FRC's most recent review, the fund was rated as a Tier 2.

In addition to the Fund's compliance with the Stewardship Code, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

## **10.3 Communication Policy Statement**

### **Introduction**

Regulation 61 of the Local Government Pension Scheme (LGPS) 2013 Regulations stipulates that all administering authorities are required to publish a statement of policy regarding communication with key stakeholders.

Gwynedd Council is the administering authority for the Gwynedd Pension Fund and the Fund's key stakeholders include:

#### **1. Scheme members:**

- I.1 Active Scheme Members
- I.2 Deferred members
- I.3 Pensioner members
- I.4 Prospective members

#### **2. Scheme Employers**

#### **3. Other bodies:**

- 3.1 Pension Committee and Pension Board
- 3.2 Fund Staff
- 3.3 Other Bodies

This communication statement sets out the policy for the provision of information and how the Fund intends to publicise, promote and develop the Scheme to each stakeholder group. It will be kept under review and amended when there is a material change in the policy.

The Fund's aim is to provide a high quality and consistent service to their stakeholders in the most efficient and cost-effective manner.

The intention is that all communications are as timely as possible, factual and in plain language, and presented in a manner appropriate to the receiver. Where individuals have specific needs in relation to the format of information, steps are taken to ensure that the required format is available, such as Braille, Audio, and Large Print.

All Gwynedd Pension Fund's publications are bilingual, in line with Gwynedd Council's Language Policy. Information in other languages may be available on request.

Where legislative Scheme changes are known in advance, procedures will be put in place to implement the changes in the most effective manner.

## 1.1 Communicating with Active Members

Active Members (including Councillor Members) are those who are contributing into the LGPS through one of the Gwynedd Pension Fund Scheme Employers. The methods of communication with these members are described below.

- **Website** - The Gwynedd Pension Fund website contains a section dedicated to Active Members. It provides general information about the LGPS including, Transfers, Improving Benefits, Retirement, Divorce, Death Benefits, Tax Allowances and Frequently Asked Questions. News items are added when required to notify members of any Scheme changes. There is a separate section dedicated to the pension benefits for Councillor Members.
- **Member Self Service** - The member self-service web portal on the Gwynedd Pension Fund website allows members to view and update their pension data securely online, such as death grant expression of wish, contact details, annual benefit statements and letters. The planning tools allow members to perform benefit calculations and prepare for retirement.
- **Employer Events** – The Gwynedd Pension Fund is available to attend employer events on request and provide a pension stand where members can discuss any pension issues with the pension fund staff and provide relevant scheme literature.
- **Presentations** – The Gwynedd Pension Fund is always available to offer presentations on the scheme. Presentations are also held when needed to inform Active Members of major changes to scheme regulations. Specialist information sessions can also be held at the request of the employer for members who are affected by the bulk transfer of pensions from the LGPS to other pension providers.
- **Pre-Retirement Courses** – A program of six courses are held by Chadwicks IFA, a firm of financial advisors' form Chester each year. The Gwynedd and Flintshire Pension Funds provide alternate LGPS presentations at these events.
- **Consultation Sessions** – The Gwynedd Pension Fund Communications Officers can hold individual consultation session for scheme members at the request of scheme employers. Consultations are usually held at the employees worksites and they offer the opportunity for scheme members to receive general and specific information about the LGPS and ask any question they may have relating to their LGPS pension.
- **Individual Appointments** - Active Members can arrange an appointment with a member of the Gwynedd Pension Fund staff at the Pension office in Caernarfon.  
In some cases (e.g terminal illness) a representative from the Gwynedd Pension Fund will visit a member at their home at the request of their employer.
- **Scheme Literature** –
  - **Pension Starter Pack.** Issued when a Scheme Employer notifies us of a new Active Member. This includes a Short Guide to the LGPS, a New Starter Form, Death Grant Expression of Wish form and a Statutory Notification of entry into the scheme.
  - **Short Scheme Guide.** The short scheme guide provides general information on the LGPS and is issued to all new employees and to existing members on request. Copies of the scheme guide in Braille, large print and audio can be provided on request.

- **Retirement Guide.** The Retirement Guide outlines the arrangements for the payment of pension benefits and sets out the benefits payable to survivors in the event of the member's death and the other most important things to note.
- **Factsheets.** A range of factsheets have been produced for scheme members which give information specific topics relating to the LGPS.
- **Newsletters** - We issue periodic newsletters to Active Members to update them of changes in the scheme regulations.
- **Annual Benefit Statements** - Each year we issue a statement to each member showing the pension they have built up to the previous 31st March and forecasts the benefits payable at State Pension Age. They are uploaded automatically to a member's Member Self Service Online portal or sent directly to their home address if they have chosen not to register.
- **Annual Report and Accounts** - An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members on the website. Hard copies are also available upon request.
- **Correspondence** - The Fund uses both paper mail and e-mail to receive and send correspondence. Response will be made in the individuals preferred language of choice.
- **Statutory Notification** - Members are notified when any change occurs to their pension record, thus affecting their pension benefits.
- **Pensions Helpline** – A single helpline number is available for all pension enquiries and a dedicated e-mail address is available for enquiries by e-mail.
- **Poster Campaign** – A poster campaign will be implemented when major scheme changes need to be communicated to Active Scheme members. They will be distributed to employers so that they can be displayed at employees work sites.
- **Internal Dispute Resolution Procedure (IDRP) leaflet** – A document covering stage I of the IDRP is available on request.

## 1.2 Communicating with Deferred Members

Deferred Members (including Councillor Members) are those who have left their employment with a scheme employer and who have preserved benefits within the fund. The methods of communication with these members are described below.

- **Website** - The Gwynedd Pension Fund website contains a section dedicated to Deferred Members. It provides general information about the LGPS including, Transfers Out, Retirement, Divorce, Death Benefits and Frequently Asked Questions. News items are added when required to notify members of any Scheme changes. There is a separate section dedicated to the pension benefits for Councillor Members leaving before retirement.
- **Member Self Service** - The member self-service web portal on the Gwynedd Pension Fund website allows members to view and update their pension data securely online, such as death grant expression of wish, contact details, annual benefit statements and letters. The planning tools allow members to perform benefit calculations and prepare for retirement.
- **Individual Appointments** - Deferred Members can arrange an appointment with a member of the Gwynedd Pension Fund staff at the Pension office in Caernarfon.  
In some cases (e.g terminal illness) a representative from the Gwynedd Pension Fund will visit a member at their home at the request of their old employer, the individual or individual's representative.
- **Scheme Literature** –
  - **Retirement Guide.** The Retirement Guide outlines the arrangements for the payment of pension benefits and sets out the benefits payable to survivors in the event of the member's death and the other most important things to note.
  - **Factsheets.** A range of factsheets have been produced for scheme members which give information specific topics relating to the LGPS.
- **Newsletters** - we issue periodic newsletters to Deferred Members to update them of changes in the scheme regulations.
- **Deferred Benefit Statements** - Each year we issue a statement to each deferred member showing the up to date value of their pension benefits. They are uploaded automatically to the member's Member Self Service online portal or sent directly to their home address if they have chosen not to register.
- **Annual Report and Accounts** - An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members on the website. Hard copies are also available upon request.
- **Correspondence** - The Fund uses both paper mail and e-mail to receive and send correspondence. Response will be made in the individuals preferred language of choice.
- **Pensions Helpline** – A single helpline number is available for all pension enquiries and a dedicated e-mail address is available for enquiries by e-mail.
- **Internal Dispute Resolution Procedure (IDRP) leaflet** – A document covering stage I of the IDRP is available on request.

### **I.3 Communicating with Pensioners**

Pensioners include retired members and the dependants of deceased members. The methods of communication with pensioners are described below.

- **Website** - The Gwynedd Pension Fund website contains a section dedicated to Pensioners. It provides general information about the LGPS including, Divorce, Death Benefits, Payment Dates, Living Abroad, Pensions Increases and Frequently Asked Questions. News items are added when required to notify pensioners of any Scheme changes.
- **Member Self Service** - The member self-service web portal on the Gwynedd Pension Fund website allows pensioners to view and update their pension data securely online, such as death grant expression of wish, contact details and letters.
- **Individual Appointments** - Pensioners can arrange an appointment with a member of the Gwynedd Pension Fund staff at the Pension office in Caernarfon.
- **Payslips and P60** – A payslip is sent to Pensioner when there is a change of £5 or more in their next payment as compared with the previous month. All pensioners receive a combined P60 and payslip at the end of each tax year.
- **Notice of Pensions Increase** – Each April, pensioners receive a notice informing them of the Pensions Increase which is to be applied on their pension (if applicable) and they also receive confirmation of the pay dates for the next 12 months.
- **Annual Report and Accounts** - An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members on the website. Hard copies are also available upon request.
- **Correspondence** - The Fund uses both paper mail and e-mail to receive and send correspondence. Response will be made in the individuals preferred language of choice.
- **Pensions Helpline** – A single helpline number is available for all pension enquiries and a dedicated e-mail address is available for enquiries by e-mail.
- **Birthday Congratulations** – Pensioners, including those receiving dependents benefits, celebrating their 100<sup>th</sup> birthday will receive a birthday card from the Gwynedd Pension Fund.
- **Internal Dispute Resolution Procedure (IDRP) leaflet** – A document covering stage I of the IDRP is available on request.

## I.4 Communicating with Prospective Members

Prospective Members are employees who are eligible to join the LGPS with one of the Gwynedd Pension Fund Scheme Employers but have decided not to. The methods of communication with prospective members are described below.

- **Website** - The Gwynedd Pension Fund website contains a section dedicated to Prospective Members. It provides general information about the LGPS including, Reasons for Joining, Transfers, Contribution Rates, Retirement, Opting Out and Frequently Asked Questions. News items are added when required to notify members of any Scheme changes. There is a separate section dedicated to the pension benefits for Councillor Members.
- **Employer Events** – The Gwynedd Pension Fund is available to attend employer events on request and provide a pension stand where prospective members can discuss any pension issues with the pension fund staff and provide relevant scheme literature and forms. The Gwynedd Pension Fund encourages employers to include pensions as part of staff induction events and will provide scheme literature and forms. The communications team could attend upon request.
- **Consultation Sessions** – The Gwynedd Pension Fund Communications Officers can hold individual consultation session for scheme members and prospective members at the request of scheme employers. Consultations are usually held at the employees worksites and they offer the opportunity for scheme members to receive general and specific information about the LGPS and ask any question they may have about joining the LGPS.
- **Individual Appointments** - Prospective Members can arrange an appointment with a member of the Gwynedd Pension Fund staff at the Pension office in Caernarfon.
- **Scheme Literature** –
  - **Short Scheme Guide.** The short scheme guide provides general information on the LGPS and is issued to all new employees and on request. Copies of the scheme guide in Braille, large print and audio can be provided on request.
  - **Factsheets.** A range of factsheets have been produced for scheme members which give information specific topics relating to the LGPS
- **Correspondence** - The Fund uses both paper mail and e-mail to receive and send correspondence. Response will be made in the individuals preferred language of choice.
- **Pensions Helpline** – A single helpline number is available for all pension enquiries and a dedicated e-mail address is available for enquiries by e-mail.
- **Poster Campaign** – A poster campaign is periodically implemented which highlights the benefits of joining the LGPS. They will be distributed to employers so that they can be displayed at employees work sites.



## 2 Communicating with Scheme Employers

For Gwynedd Council as Administering Authority to efficiently run the scheme it is essential that the flow of accurate, timely and clear information between Scheme Employers and the Fund is maintained through effective communication.

The methods of communication with Scheme Employers are described below.

- **Website** - Our website is under review to develop a section dedicated to Scheme Employers. The Website also contains all the Pension Fund Governance Documents, for example the Actuarial Valuation Report, Policy Documents and the Annual Report and Accounts. There are also links to sources of further information such as the Local Government Association's (LGA's) dedicated LGPS website.
- **i-Connect** - i-Connect is a secure online portal that takes data directly from the payroll system and feeds it directly into the pension system on a monthly basis. It automatically identifies and processes new joiners, opt-outs and leavers and enables the employer to check and cleanse the data before submission.
- **Contact Database** - Regulatory and administrative updates are frequently issued to all employers listed on the contact database via e-mail or letter. The employer Contact database is amended as necessary following updates from the Employers.
- **Annual General Meetings** - The Annual General Meeting is held specifically for Employers and Union Representatives to discuss the Annual Report and Accounts. Representatives from various professional advisory bodies, such as the Fund Actuary and Fund Managers also attend in order to answer on Funding, Investment Performance and Valuations.
- **Employer meetings** - As required to discuss topical issues, significant legislation changes, pre and post actuarial valuation and provide information and discuss improvements in the flow of information.
- **Individual Employer meetings** - Meetings with individual employers can be arranged to discuss matters specific to their participation in the Pension Fund. or to provide advice and guidance on specific issues.
- **Individual Employer Training meetings** - These can be arranged to resolve any administrative training issues identified by either the employer, or the Fund. These sessions are held at employer venues, with development being monitored and reviewed periodically thereafter.
- **Employer Guide** - The new Employer Guide is in the process of being completed and will be circulated electronically to all Employing Bodies and uploaded onto our website.
- **Service Level Agreements** - To improve the standard of service to members we aim to establish Service Level Agreements with Employers. The agreements will provide guidance on statutory obligations and responsibilities and set targets for both Employers and the Administering Authority–
  - To provide correct information
  - To act on, and respond to that information within a given timescaleAny targets for the Service Level Agreements will be agreed beforehand.

### 3.1 Communicating with the Pensions Committee and Local Pension Board

As the Gwynedd Pension Fund's administering authority, Gwynedd Council has formed a Pensions Committee and a Pensions Board which meets quarterly to discharge the duties of the Council regarding the governance and administration of the Fund.

The Pensions Committee is responsible for approving the pension fund governance documents, including the Annual Report and Accounts and the Pension Fund Policies. It is also responsible for setting the Pension Fund Investment Strategy and the appointment of Investment Managers. The Pensions Committee is made up of nine elected Councillors.

The Pension Board is responsible for overseeing the work of the Pensions Committee and assists the Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed. The Pension Board has three scheme member representatives and three employer representatives, one of which is elected as chair.

To facilitate the work of both the Pension Committee and Pension Board they are provided with access to all the Pension Fund Documents including the Annual Report and Accounts, the Actuarial Report, Policy Documents, Pensions Committee reports and decisions and Pension Board reports.

The methods of communication with Pension Committee and Board members are described below.

- **E-mails** - E-mail is the preferred method of communication for general messages.
- **Reports** – The Committee and Board members are provided with the following Reports:
  - **Annual Reports and Accounts** - The key publication on investment and administration.
  - **Actuarial Report** – Following the Fund's triennial valuation
  - **Specialised Reports** – Produced by the Gwynedd Pension Fund for their consideration.
- **Pension Fund Policies** – The committee have access to all the Gwynedd Pension Fund policies for consideration and approval
- **Presentations** – Committee and Board members are invited to presentations by The Gwynedd Pension Fund and advisers on investment, actuarial, and administration matters.
- **Training** - Committee members and Pension Board Members are required to undertake relevant training to enable them to carry out their roles effectively. Training can be done in-house, by LGA, the Pension Fund Investment Managers and advisers or the Pension Fund Actuary.
- **Agenda and Minutes** – The agenda and minutes for each meeting are published on the Gwynedd Council website.

### 3.2 Communicating with Pension Fund Staff

Effective communication with Pension Fund Staff is an important part of daily operations and enables the Gwynedd Pension Fund to deliver a quality and accurate service to our key stakeholders.

The methods of communication with Pension Fund Staff are described below.

- **Induction** – All new members of staff undergo an induction program.
- **E-mails** - E-mail is the preferred method of communication for general messages within the unit. Where necessary, this will be followed up with individual or team training.
- **WhatsApp Group Chat** – During emergencies when e-mail is not available general messages will be shared on WhatsApp.
- **In-house Training** – General and pension-specific training on matters arising with regards to regulatory or procedural changes is given as a necessary as part of the unit's commitment to continuous improvement.
- **External Training** – Professional qualifications can only improve the knowledge and confidence of the team in their communication with stakeholders. All new and existing members of staff are therefore encouraged to study for professional qualifications in pension administration with the Chartered Institute of Payroll Professionals (CIPP). Staff also attend LGA and Heywood training as appropriate
- **Staff Meetings** – Staff Meetings are held bi-monthly to discuss any developments in legislation, changes to working procedures and operational matters. Staff are encouraged to participate in these meetings and influence the decisions that affect the whole Unit.  
The operational plan, including Key Performance Indicators is also discussed on a regular basis to ensure that the members of the team are aware of and are meeting their targets.
- **Staff Appraisals** - Fund staff of all levels have an appraisal each year to discuss work issues, monitor performance and areas for development.
- **Continuous Monitoring** – Service Standards are monitored regularly to ensure staff are aware of their responsibilities in relation to the Scheme. On a daily basis communication is encouraged between members of staff and the Management team and an open door policy is in place.
- **Internet** - All staff have access to the Internet to ensure timely access to LGPS information. They also have access to Member Self Service to assist them in carrying out their roles.

### 3.3 Communication with Other Bodies

To facilitate the administration of the Gwynedd Pension Fund we must communicate with the following bodies:

- **Member Representatives** - These can include any individual or group, such as solicitors, Trade Unions or other Pension Providers, requesting information on behalf of a Scheme Member. This is only provided with the member's authority, in compliance with the Data Protection Act 1998 and GDPR. All Scheme Literature is available on request.
- **Wales Pension Partnership** - The Wales Pension Partnership (WPP) was established in 2017. The WPP is a combination of eight Local Government Pension Scheme (Constituent Authorities) funds across Wales and one of eight national funds for Local Government Pension Scheme.
- **Shrewsbury Pensions Officers Group** - Senior Pensions Officers from the Gwynedd Pension Fund meet representatives from other Local Authority Funds in the West Pennines area on a quarterly basis to share information, discuss questions on legislation and prevailing regulations as well as any technical or procedural issues.
- **All Wales Group** - Senior Pensions Officers from the Gwynedd Pension Fund meet representatives from other Local Authority Funds in Wales on a quarterly basis to share information, discuss questions on legislation and prevailing regulations as well as any technical or procedural issues.
- **All Wales Communication Group** - The Group meets as and when required, with a view of formalising and unifying approach to communications within the Welsh Local Government Authorities. The Group have collectively produced:
  - Uniform Annual Benefit Statement for both active and deferred members
  - A Short Scheme Guide
  - A Retirement Guide
  - Death Grant Expression of Wish Forms
  - Ill Health Certificates
  - Pension Fact Sheets on various topics which can be distributed to members.
- **Scheme Actuary** – Regarding Funding Levels, the Triennial Valuation, FRS17, TUPE and all funding issues.
- **HMRC** – With regards to tax issues for Scheme members.
- **Additional Voluntary Contributions** – Officers of the Pension fund have regular contact with the Fund's AVC providers regarding the funds of individual Scheme members.
- **Fund Managers** – Regarding investment and Fund performance.
- **LGA** – The Local Government Association (The Pensions Team) provides technical advice to Pension Fund Administering Authorities and to employers on the LGPS.

## **I0.4 Governance Policy Statement**

### **Introduction**

Gwynedd Council is the Administering Authority for the Gwynedd Pension Fund. This policy sets out the governance responsibilities of the Fund and is prepared in compliance with the Local Government Pension Scheme Regulations 2013, regulation 55.

This statement sets out the delegation of matters in relation to the Gwynedd Pension Fund, along with the terms of reference, structure and operational procedures of these delegations.

### **Pensions Committee**

The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

The Committee is comprised of 9 members, 7 of whom are elected members of Gwynedd Council, 1 member from Anglesey County Council and 1 member from Conwy County Borough Council, all of whom have voting rights. There is no member (staff) representation on the Committee.

The Pensions Committee's responsibilities are to:

1. Decide on the strategy for investing the Pension Fund's assets by approving a Funding Strategy Statement and Investment Strategy Statement;
2. Appoint and terminate the appointment of managers and consultants of the Pension Fund, and review their performance with regard to investment;
3. Ensure that safe and efficient arrangements are in hand for purchasing, selling and monitoring the council's investments;
4. Making some decisions in the context of pension administration in exceptions e.g. appeals;
5. Review and scrutinise the fund's financial affairs, and therefore receive the financial statements and auditors report.

As a duly constituted Committee of Gwynedd Council, the operation of the matters delegated to the Committee are governed by Gwynedd Council's constitution, and in particular, Parts 4 and 5 which govern the rules of procedure and Codes and Protocols which are to be followed by members of the Pensions Committee and officers.

The Pensions Committee is also charged with ensuring that an annual report on Pensions matters is prepared and presented to an annual meeting of employers and employee representatives, at which any of the said parties can question the Committee, their officers, investment adviser or Fund managers on issues relating to Fund performance, and administration and/or pensions matters in general.

In order to ensure an adequate review of investment performance, the Committee's investment adviser and each Fund manager provides the Committee with a quarterly monitoring report. Informal meetings are also held with the investment adviser and Fund managers in order to challenge performance and resolve any issues which arise.

All committee members will be required to undertake training to ensure competency.

All employers who are not members of the Pension Committee are afforded the opportunity to influence the Pension Committee's determinations through the series of informal meetings held periodically with various categories of employer.

Any issue requiring formal consideration is considered at a properly convened meeting of the Committee, in order to allow citizens to exercise their rights to attend any meeting of a Council Committee.

In 2014, the Government asked the 89 LGPS funds in England and Wales to work together to create investment pools to achieve efficiency savings and invest more in infrastructure. The Gwynedd Pension Fund teamed up with the other seven Welsh funds to form the Wales Pension Partnership (WPP).

The WPP Joint Committee is an oversight committee. It determines key strategic objectives and examines the day to day decisions made by a group of governing officers. The chair of Gwynedd Pension Fund sits on this committee.

### **Chief Finance Officer**

Article 12 of the Council's constitution stipulates that the Head of Finance (as the Council's Chief Finance Officer) shall have responsibility for financial strategy, and as such he is responsible to the Pensions Committee for advising on the appropriate financial strategy for the Pension Fund, and for ensuring that appropriate specialist advice is provided.

Under this Article, the Head of Finance also has responsibility for the proper administration of the Pension Fund's financial affairs. He must report to the Council and the Council's external auditor if he considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is likely to cause a loss or deficiency, or if the Council is about to enter an item of account unlawfully.

Between the period 01/01/2022 and 30/06/2023 there will be temporary arrangements in relation to the role of Chief Finance Officer. The current Head of Finance will retire on a flexible retirement basis. During this time, he will continue with his pension fund duties, while his successor will deal with other elements of the job.

The Investment Manager and team support the Head of Finance in the responsibility for the monitoring and review of the investments of the Fund including:

- preparation and maintenance of the accounts of the Gwynedd Pension Fund including preparation of the Annual Report
- regular dialogue with the Fund's advisers, investment managers and custodian

- monitoring and reconciliation of investment manager and custodian records
- preparation and maintenance of the Fund's Investment Strategy Statement, Funding Strategy Statement,
- monitoring the activity and performance of the Fund's investment managers including compliance with policy and performance objectives
- interpretation of new legislation and research in respect of the investments and accounts of the Fund
- monitoring the corporate governance activity of the Fund including attendance at the Local Authority Pension Fund Forum (LAPFF)

The Pensions Manager and team support the Head of Finance:

- to collect employee and employer contributions from participating employers
- to make payments in respect of scheme benefits
- to collect and make pension transfer payments as elected by scheme members
- to update and maintain the Fund's website
- the maintenance and update of membership records
- the calculation and authorisation of benefit payments
- the provision of membership data for actuarial valuation purposes
- the preparation and maintenance of the Communication Policy Statement and the Pensions Administration Strategy Statement.

### **Monitoring Officer**

Article 12 also stipulates that the Head of Legal Service (as the Council's Monitoring Officer) will report to the Council if he considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

### **Local Pensions Board**

The Public Service Pensions Act (2013) required all Administering Authorities to introduce a Local Pension Board to assist the Scheme Manager. The Gwynedd Pension Board was established by Gwynedd Council on 13/07/2015.

The Pensions Board has an oversight / assisting role not a decision making role, its responsibilities are to:

1. Assist the Gwynedd Pension Fund as Scheme Manager;
2. Securing compliance with regulations and requirements enforced by the Pensions Regulator and the Department for Communities and Local Government
3. Ensuring effective and efficient governance and administration of the Fund.
4. Assist with other matters as the scheme regulations may stipulate.

The Pensions Board is comprised of 6 members, 3 of whom are employer representatives, 3 are scheme member representatives, and I will be elected as a chairman.

The Pensions Board will meet on a quarterly basis.

When required, the Pensions Board will be advised by the Section 151 Officer and any other Council Officers and professional Advisers and Consultants, however all board members will be required to undertake training to ensure competency.

### **Governance Compliance Statement**

MHCLG is committed to ensure that all LGPS committees operate consistently at best practice standards. Therefore, in addition to the regulatory requirement to produce this Governance Policy, the LGPS regulations 1997 were further amended on 30 June 2007 to require administering authorities to report the extent of compliance to a set of best practice principles to be published by MHCLG, and where an authority has chosen not to comply, to state the reasons why. This Governance Policy will be updated when necessary and reviewed at least annually.



## 10.5 Governance Compliance Statement

### Principle A – Structure

a)	<p><b>The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</b></p>
	<p>Gwynedd Council is fully compliant with this principle. The management of the Fund clearly rests with the main Pensions Committee that has formally been in place within the Council’s constitutional arrangements.</p>
b)	<p><b>That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.</b></p>
	<p>Gwynedd Council is partly compliant with this principle. Representatives from two participating LGPS employers are members of the main committee. Currently there is no representation from admitted bodies or scheme members in order to retain a relatively small committee which can review manager performance in an effective manner. As the pension promise is defined by legislation for scheme members, the actions of the Committee have not hitherto been considered to impinge upon their interests and thus no representation has been afforded. All employers are afforded the opportunity to influence decisions through a series of informal employer meetings.</p>
c)	<p><b>That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</b></p>
	<p>No secondary committee or panel exists, although the informal employer meetings ensure effective communication.</p>
d)	<p><b>That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</b></p>
	<p>No secondary committee or panel exists.</p>

## Principle B – Representation

a)	<p><b>That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include :-</b></p> <ul style="list-style-type: none"> <li><b>i) employing authorities (including non-scheme employers, e.g., admitted bodies);</b></li> <li><b>ii) scheme members (including deferred and pensioner scheme members),</b></li> <li><b>iii) where appropriate, independent professional observers, and</b></li> <li><b>iv) expert advisors (on an ad-hoc basis).</b></li> </ul>
	<p>Partly compliant. We do have LGPS employing authority representation on the main committee, and we also have an expert independent advisor (on an ad-hoc basis). However, no scheme members/committed bodies or independent professional observers are given membership.</p>
b)	<p><b>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</b></p>
	<p>No lay members sit on the Committee (see Part A (b) above).</p>

## Principle C – Selection

a)	<p><b>That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</b></p>
	<p>Fully compliant. All members are made clear of their responsibility as laid out in the Governance Policy Statement.</p>
b)	<p><b>That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</b></p>
	<p>Gwynedd Council is fully compliant with this principle.</p>

## Principle D – Voting

a)	<b>The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</b>
	The Pensions Committee is comprised of 9 members, all of whom have voting rights, 7 of whom are elected members of Gwynedd Council, and 1 representative from each of the other two participating LGPS employers.

## Principle E – Training/Facility Time/Expenses

a)	<b>That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</b>
	Fully compliant – all members are granted equal access to training support and appropriate expenses paid.
b)	<b>That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</b>
	The policy applies to all members of the Committee.
c)	<b>That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.</b>
	Gwynedd council is partly compliant with this principle in that a log of all training undertaken is kept and consideration given periodically to members’ training needs but no annual formal training plans are established.

## Principle F – Meetings (Frequency/quorum)

a)	<b>That an administering authority’s main committee or committees meet at least quarterly.</b>
	Fully compliant.
b)	<b>That an administering authority’s secondary committee or panel meet at least twice a year and is synchronized with the dates when the main committee sits.</b>
	No secondary committee or panel exists, although the informal employer meetings are synchronized with the dates of the main committee.
c)	<b>That an administering authority that does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</b>
	An Annual Meeting of the Pension Fund takes place during the Autumn. Employers and employee representatives are invited to the meeting, and they can question the Committee, the administering authority’s officers, the investment advisers or the Fund managers on issues relating to the Fund’s performance, administration and/or pensions matters in general.

## Principle G - Access

a)	<b>That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</b>
	Gwynedd Council is fully compliant with this principle. The Pensions Committee is a public meetings and as such all relevant papers and documentation are available online by the Gwynedd Council democracy service and are circulated to the Committee members in advance.

**Principle H – Scope**

a)	<b>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements</b>
	The Pensions Committee considers all issues relating to the Local Government Pension Scheme.

**Principle I - Publicity**

a)	<b>That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</b>
	The Governance Policy Statement is available in the Pension Fund annual report.

## 11. Glossary

**Active Management** - A mark through either asset allocation, market timing or stock selection (or a combination of these). Directly contrasted with passive management.

**Actuary** - An independent consultant who advises on the viability of the Fund. Every three years the actuary review the assets and liabilities of the Fund and reports to the Council as Administering Authority on the financial position and the recommended employers contribution rates. This is known as the actuarial valuation.

**Active Member** - Current employee who is contributing to a pension scheme.

**Administering Authority** - The Council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

**Admitted Body** - An organisation whose staff can become members of the Fund by virtue of an admission agreement between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

**Asset Allocation** - Apportionment of investment funds among categories of assets, such as bonds, equities, cash, property and private equity. Asset allocation affects both risk and return.

**Asset Class** - A specific area/ type of investment e.g. overseas equities, fixed income, cash, property.

**Benchmark Return**- The benchmark return is the return that would be achieved if the Fund Manager had not deviated from the weightings of each asset class given to them by the Investment Panel, and had achieved returns in each of these asset classes consistent with the average return of all Local Authority Funds for that class. The benchmark weightings of asset classes are outlined within the Investment Strategy Statement.

**Corporate Governance** - Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management.

**Custodian** - Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due, and settles purchases and sales.

**Deferred pensioner** - A member who has stopped paying into the scheme but is not yet retired.

**Emerging markets** - Relatively new and immature stock markets for equities and bonds. Settlement and liquidity can be less reliable than in the more established 'developed' markets, and they tend to be more volatile.

**Employer contributions rates** - The percentage of the salary of employees that employers pay as a contributions towards the employees' pension.

**Equities** - Ordinary shares in UK and overseas companies traded on a recognised Stock Exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders meetings.

**Fair value** - The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fixed interest securities/ bonds** - Investments, especially in government stocks, with a guaranteed rate of interest. Conventional bonds have fixed rates, whilst index linked vary with inflation. They represent loans repayable at a stated future date, and which can be traded on a Stock Exchange in the meantime.

**Fund Manager** - A person or company to whom the investment of the whole, or part of the assets of a fund is delegated by the trustees.

**Investment** - An asset acquired for the purpose of producing income and capital gain for its owner.

**Market value** - The price at which an investment can be sold at a given date.

**Passive** - A style of investment management which aims to construct a portfolio in such a way as to provide the same return as to that of a chosen index.

**Pensioner** - A scheme member who receives a pension from the Fund.

**Performance** - A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period - either in absolute terms or as measured against the average fund or a particular benchmark.

**Pooled funds** - Pooled investment vehicles issue units to a range of investors. Unit prices move in response to changes in the value of the underlying portfolio, and investors do not own directly the assets in the fund.

**Portfolio** - A collective term for all investments held in a fund, market or sector.

**Private equity** - Investments made by specialist managers in all types of unlisted companies rather than through publicly tradable shares.

**Resolution body** - Bodies that have a right to allow some or all their staff to become members of the LGPS, subject to the resolution body meeting the requirements of the LGPS regulations.

**Return** - The total gain from holding an investment over a given period, including income and increase/ (decrease) in market value.

**Risk** - Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them.

**Scheme employers** - Local authorities and bodies specified in the LGPS regulations, whose employees are entitled automatically to be members of the Fund, and Admission bodies including voluntary, charitable and similar bodies, carrying out work of public nature, whose staff can become members of the Fund by virtue of an admission agreement with the Council.

**Scheduled body** - An organisation that has the right to become a member of the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted as its right to membership is automatic.

**Transfer value** - Payments made between funds when contributors leave service with one employer and decide to take the value of their contributions to the new fund.

**Unrealised increase/ (decrease) in market value** - The change in market value, since the purchase date, of those investments held at year end.