Contents

1. Foreword

Welcome to the annual report for the Gwynedd Pension Fund for the year to 31/03/2015.

This year, Gwynedd achieved an increase in the value of the Fund's assets from £1,310m (31/03/2014) to £1,497m (31/03/2015) – an annual increase of £187m, as shown on page 24.

Following a better performance than the market in 2013/14, 2014/15 was a mixed year for the companies who invest on behalf of Gwynedd's Pension Fund. In the context of our investment expectations (returns of 5.9% per annum), the extremely encouraging returns of 12.2% received by the Fund for this year reflect the excellent performance by the general market.

In 2014/15 the markets, in general, produced a better performance than the previous year, with equities performing well and property performing particularly well, even though our fund suffered relatively from missing out on unexpectedly high returns on bonds this year (see pages 18 to 21 for details).

There was an excellent performance by Fidelity which invests in equity on behalf of our fund, and by UBS and Threadneedle, investing in property. Several companies reached their benchmark, while improved returns are expected in the medium-term by Veritas and Partners, who have niche markets.

Looking ahead to the triennial actuarial valuation at 31 March 2016, the high price of bonds, with a low level of returns on bonds, will have a negative effect on the discount rate, and inflate the estimated value of our pension commitments. Thus, despite a very significant increase in the value of our assets on the stock market, this will be counter-balanced by a significant increase in commitments. Employers will be aware of the increase in commitments on your balance sheet, which have been calculated in accordance with the international accounting standard. I will attempt to put that alarming "snapshot" in its context below.

At the Triennial Actuarial Valuation as at 31 March 2013, the funding level of our Scheme was 85%, ahead of the 79% average across the whole of the LGPS in England and Wales, where funds use a variety of actuarial assumptions and methodologies.

This would place Gwynedd comfortably for both deficit and recovery period across all the LGPS, but pension funds' own published results are not on a like-for-like basis. Following on from the release of the valuation results, the Gwynedd Fund's actuary, Hymans Robertson, conducted an in depth review and rebased these results on a single set of assumptions. When the true relative picture was revealed, Gwynedd's funding position was in the top ten of English and Welsh funds overall.

Gwynedd's implied deficit recovery period, on a common funding basis, is eight years, the shortest of all Welsh funds, and the seventh shortest of all 88 LGPS funds. Other Welsh funds' implied deficit recovery periods range from 11 to 44 years, hence our Fund has a lower risk funding strategy and a relatively credible funding plan.

While the position of individual employers within our Fund will differ, generally the Fund's strength should allow us to take a flexible approach to contribution rates after the next (2016) valuation.

Clearly, minimising any increase in contribution rates will be important given the ongoing squeeze on public spending.

Our primary objective once again will be to ensure that employers will have affordable, fair, and sustainable contribution strategies that reflect their own individual circumstances.

The administrative unit continued their effective performance as measured against their targets (see page 7). The communications activity has been critical in helping employers to implement the Local Government Pensions Scheme (based on career average) in 2014/15. A significant amount of work was involved in order to implement the new systems to ensure as smooth an implementation as possible, in the context of a significant increase in requests for pension estimates due to several employers' savings plans.

It has been another busy year for the Pension Fund with a number of changes and consultations taking place. The collaboration project developed by the eight funds in Wales has identified that improved efficiency could be achieved by collaborating to invest via one common framework or investment vehicle. We will investigate and explain more about this during 2015/16.

The Gwynedd Fund believes that good governance is fundamental to delivering a successfully managed scheme and is supportive of the national attention to governance of the LGPS. Gwynedd Pensions Committee has governed our Fund inclusively for several years, with elected members from other major employers voting alongside Gwynedd Council members. In March 2015, Gwynedd Council established the new local Pensions Board, with three employer representatives and three scheme member (staff / pensioner) representatives, which will meet in 2015/16 to assist scheme management in ensuring compliance with regulations and good governance.

Many thanks for your support during 2014/15, and I look forward to continuing our constructive working relationship in 2015/16. I would like to convey thanks on behalf of the Pensions Committee to all Gwynedd Council's staff involved in administering the Gwynedd Pension Fund, and to our external advisors and partners for their work during 2014/15 in supporting the management and beneficiaries of the scheme. Finally, I would like to thank the Pension Committee members for their positive and conscientious contributions during the last year.

Dafydd L. Edwards
Head of Finance

2. Management Structure

Administering Authority
Gwynedd Council

Pensions Committee 2014/15
Councillor W. Tudor Owen (Chairman)
Councillor Stephen Churchman (Vice-Chairman)
Councillor Trevor Edwards
Councillor Peredur Jenkins
Councillor Dafydd Meurig (to December 2014)
Councillor Peter Read
Councillor John Pughe Roberts
Councillor Gethin Glyn Williams (from January 2015)
Councillor Hywel Eifion Jones (Co-opted Member)
Councillor Margaret Lyon (Co-opted Member)

Pensions Board (Appointed June 2015)
Employer Representatives
Mr Anthony Deakin (Cartrefi Conwy)
Mr Huw Trainor (North Wales Police)
Councillor Aled Lloyd Evans (Gwynedd Council)
Member Representatives
Ms Victoria Hallaron
Mr Osian Richards
Mrs Sharon Warnes

Head of Finance ("Section 151 Officer")
Mr Dafydd L. Edwards

Advisor
Mr Paul Potter (Hymans Robertson)

Investment Managers
BlackRock
Fidelity International
Insight Investment
Lothbury
Partners Group
Threadneedle
UBS Global Asset Management Limited
Veritas

Custodian
Northern Trust

Actuaries
Hymans Robertson

Bankers
Barclays Bank plc

Auditors
Wales Audit Office

Contact Details
Enquiries and more detailed information regarding:

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

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

  ☎ 01286 679612
  🖹 01286 679589
  🖃 garethjones@gwynedd.gov.uk

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

  Mrs Caroline Roberts,
  Investment Manager,
  Finance Department,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH

  ☎ 01286 679128
  🖹 01286 679589
  🖃 carolineroberts@gwynedd.gov.uk

Fund Website
www.gwyneddpensionfund.org.uk

3. Review of the Year

3.1 Pensions Administration

General and Introduction

CARE (Career Average Revaluated Earnings) was the buzz word of the year in LGPS circles, following the coming into force of the new scheme on 1 April 2014. Having previously experienced the 2008 changes from a final salary accrual rate of 80ths to 60ths, the 2014 change introduced a major move away from 'final salary' to CARE, but with a legacy of having to record and administer the old scheme definition of pensionable pay for years to come. Transition into the new arrangement has proved challenging, not only for members and employers to understand, but equally for the unit's administration staff to learn and to adapt.

The late laying of the Transitional Provisions regulations, as mentioned in last year's report, meant the Government Actuary's Department's guidance on early retirement and transfer factors was delayed. Heywood the pension system software providers had to close off development for CARE modules in January 2014 for testing and distribution. The absence of the guidance on 1 April 2014 meant cases having to be checked and corrected manually for some weeks following April.

I would personally like to thank all staff for their patience, perseverance and hard work during this difficult transition, not only coping with the consequences of the late legislation and guidance, but also for their readiness to adapt and learn revised work practices and routines.

Pension and Tax

The last few years has seen a series of major steps where tax free allowances for pension accrual fell dramatically. The allowance for lifetime accrual in 2011/12 stood at £1.8m but has since reduced to £1.25m in 2014/15, with the Chancellor announcing a further reduction in his March 2015 budget to £1m in 2016/17, a level which will be indexed from 2018.

The annual allowance, which in 2010/11 stood at £255,000, had reduced to £40,000 in 2014/15 and will remain so in 2015/16. The implication of these dramatic reductions is that more scheme members become subject to tax charges on excesses to these allowances.

Analysis of Scheme Demographics

Last year's report highlighted some surprising statistics on Fund demographics whereby in 1995, the valuation year before local government reorganisation, 4,033 pensions were in payment. By the 2013 valuation the figure had risen by over 80% to 7,264; and by March 2015 to 7,947. The message highlighted last year, and emphasised again this, is the acceleration in the number of pensions in payment and the obvious implication this has on funding.

To anticipate future increase in retirements, an age profiling exercise was carried on the group of age 50 and over in 2014. Carrying this forward into 2015 confirms pensioner numbers will continue to increase at a rate approaching 5% per annum. The table below compares the number of members in the age group 50-55 and 55 and over between March 2014 and 2015.

	Actives 2014	Deferred 2014	Totals 2014	Actives 2015	Deferred 2015	Totals 2015
Age 50 - 55	2,230	1,385	**3,615**	2,483	1,625	**4,108**
Age 55+	2,929	1,569	**4,498**	3,290	1,515	**4,805**
Total	**5,199**	**2,954**	**8,113**	**5,773**	**3,428**	**8,913**

2015 saw an increase of 361 of those entering the 55+ active member age bracket. Under the provisions of the 2014 regulations, individuals may retire and claim benefits voluntarily at any time after age 55 with a potential, in extreme circumstances, that 3,290 members could become pensioners at any given time.

Active member records

Considerable resource has been devoted to splitting member pension records over the past two years to reflect individual posts rather than individual members. Historically employers were largely unable to provide 'per-post' data, but as payroll systems developed so did the ability to do so.

Adapting systems to be able to accept the 'per post' data has been challenging, as not only did records have to be broken up and split, the entire history of employment had to be researched and input to ensure details were correct to the date of start in each post. This task was time consuming, however much of it has now been accomplished resulting in a significant increase in the number of 'active' records (see para above). It's important to note that the previous method of recording membership did not result in incorrect measurement of the scheme's assets and liabilities for actuarial purposes.

All Wales Partnership

Greater administrative collaboration has been at the forefront of discussions between all the Welsh pension funds in recent years. Leaflets, booklets and benefit statements for the new scheme were produced through collaborative working and I'm proud to report that Gwynedd Pension Fund has played a prominent part in design and translation of most of these documents.

Welsh Government commissioned Mercer to carry out another review of the eight Welsh fund's governance and administrative procedures. Although the final report had not been finalised by the end of the period covered by this report, the expected recommendations are for even greater and closer collaboration, especially on governance and investments should take place. It should be noted that the study took place against the backdrop of the Williams report and suggestions to substantially reduce the current 22 unitary authorities.

End of 'Contracting Out'

Employers should be aware that 5th of April 2016 will see the abolition of the current basic state and state second pension (S2P). It is to be replaced by a single-tier state pension, the intention of which is to provide a weekly flat rate pension of £151.25 (2015) for all citizens, subject to 35 years' qualifying national insurance contributions. The minimum qualifying period for any part of the pension will be 10 years, with anything in-between producing a proportion of the full pension payable from new state pension ages.

The most important thing for employers to appreciate is that the current rebated 'D' rate national insurance will no longer apply and that employees and employers will pay the increased 'A' rate contracted-in rate.

The section intends to issue a member newsletter the coming months so that staff will be forewarned of the increase in their national insurance contributions, this newsletter will also cover issues such as 'Freedom and Choice' and other minor issues.

Another implication of ending of contracting out is that all defined benefit schemes currently contracted out of the state scheme will have to undertake an extremely challenging exercise to reconcile contracted out data with HMRC before April 2018. This exercise is not to be underestimated, and will require considerable work to avoid being left with unwarranted liabilities. This should not be too much of a concern to employers directly, but it will divert some of the section's resources for a period up to March 2018.

Performance Monitoring

A certain number of the section's activities are measured as part of the Council's Performance Targets. The following table shows the results for 2013/14 and 2014/15 against the targets set as the average number of days taken complete each task.

			2013/2014		2014/2015	
REF	**CORE ACTIVITIES**	**TARGET**	**NO OF CASES**	**AVERAGE DAYS TAKEN**	**NO OF CASES**	**AVERAGE DAYS TAKEN**
CD9.01	Average number of work days taken to send a quotation letter offering a transfer in	40 days	132	28.6	116	13.9
CD9.02	Average number of work days taken to send a quotation letter detailing a transfer out	40 days	70	5.9	126	4.8
CD9.03	Average number of work days taken to send a letter informing value of benefits – estimate	10 days	1,109	7.6	1,453	9.1
CD9.04	Average number of work days taken to send a letter informing value of benefits – actual	10 days	471	5.1	531	6.5
CD9.05	Average no of days taken to acknowledge death of active / preserved / pensioner member	10 days	23	6.4	25	4.9
CD9.06	Average number of work days taken to notify dependents benefits	10 days	162	7.7	198	5.8
CD9.07	Monthly pension payments processed and paid on time (figure based on no. of payments in Mth 12 of each year).	100%	* 8193	100% target	*8664	100% target
CD9.08	Number of cases where amended payments were necessary as a result an error in the section.	Not to exceed 8 cases for the year	2	N/A	3	N/A

The number of monthly pension payments shown includes approximately 916 former teachers in receipt of compensatory pension

Gareth Jones
Pensions Manager

3.2 Governance – Pension Board

The Department of Communities and Local Government issued regulations on scheme governance, to establish a standard structure for all LGPA funds in England and Wales during 2013/14. During 2014/15 the Westminster Government enacted provisions set out in the Public Service Pensions Act 2013 requiring funds to establish local pension boards to govern each fund by 1st April 2015. Gwynedd Council as Administering Authority complied with the regulations and amended the Constitution to establish the Pension Board at the meeting of the Full Council on 5th March 2015.

The Board's role is to assist Gwynedd Council as the Scheme Manager and it is not decision making. There are six members on the Pension Board, three to represent employers and three to represent members of the Fund. The Board members were appointed in June 2015 and the first meeting was held on July 2015. The members of the Pension Board are included in the Management Structure on page 3.

The Governance Policy Statement and the Governance Compliance Statement will be reviewed during 2015/16 and appropriate amendments will be made to reflect the responsibilities of the Pension Board.

3.3 Welsh Pension Funds Collaboration

The project to examine the opportunities for improvement through collaboration across the eight local government pension funds in Wales continued during the year. Following a delay during 2013/14 whilst the Department of Communities and Local Government consulted on the way forward for pension funds in England and Wales, the commissioned business case for a collective investment vehicle in Wales continued with a draft report produced in March 2015 and the final report received in May 2015. The next stage is to agree the shared principles for collaboration and the next steps to take the project forward.

3.4 Changes to the Accounts

The Chartered Institute of Public Finance and Accountancy produces the Code of Practice for Local Government Pension Fund Accounts. The format of the Pension Fund Account on Page 24 previously showed Investment Management Expenses in the section for Returns on Investments. It is now a requirement to show total Management Expenses, Administrative Expenses and Investment Management Expenses, as one amount in the Fund Account. An analysis of these costs is shown in Note 11 to the Accounts.

3.5 International Accounting Standard 19 (IAS19) and Financial Reporting Standard 17 (FRS17)

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 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. Two of the smaller employers also required IAS19 reports. All other employers are still subject to FRS17 reporting requirements.

Accounting for IAS19 and FRS17

Adoption of IAS19 or FRS17 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 FRS17 Reports as at 31/03/2015

In January 2015, work was undertaken to collect all the necessary data required by the Actuary to calculate the individual IAS19 or FRS17 information for each of the Fund's employers. The majority of the reports were sent to the employers between 7th May and 11th May 2015.

IAS19 and FRS17 Results as at 31/03/2015

The significant changes that have taken place during the year for a typical employer in the Fund are that:

- the deficit has increased due to falling real bond yields;
- this has been partially offset by strong asset returns;
- the projected pension expense for next year has also risen, due to falling bond yields.
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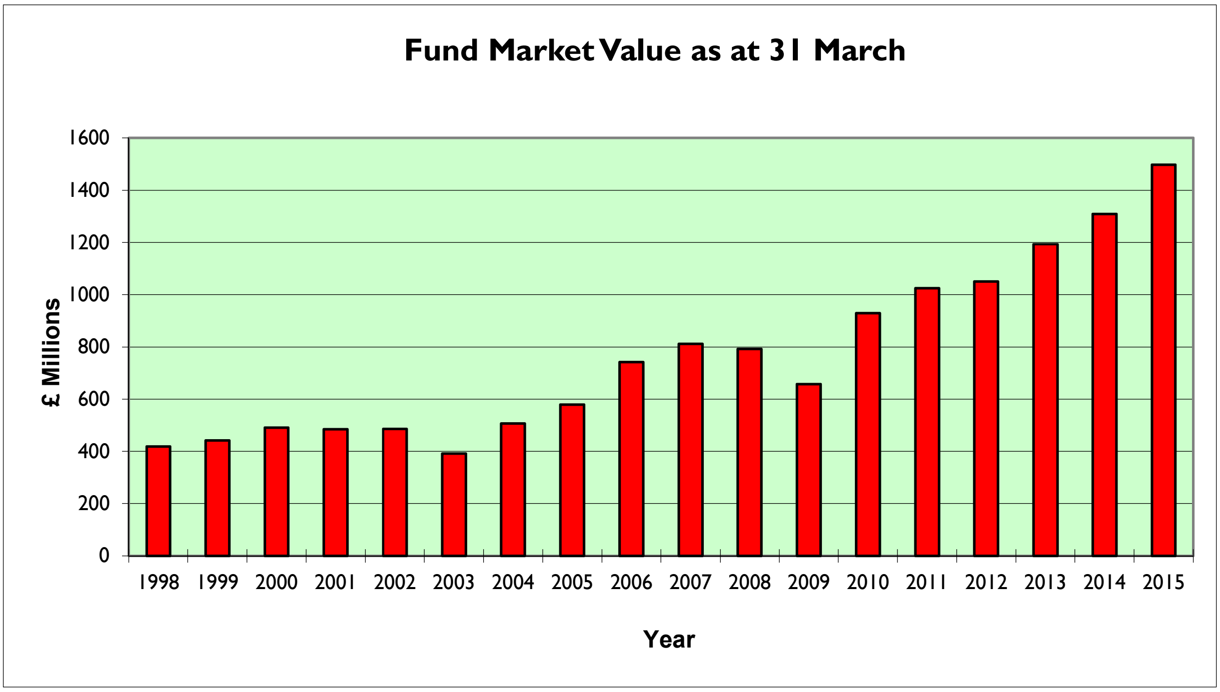
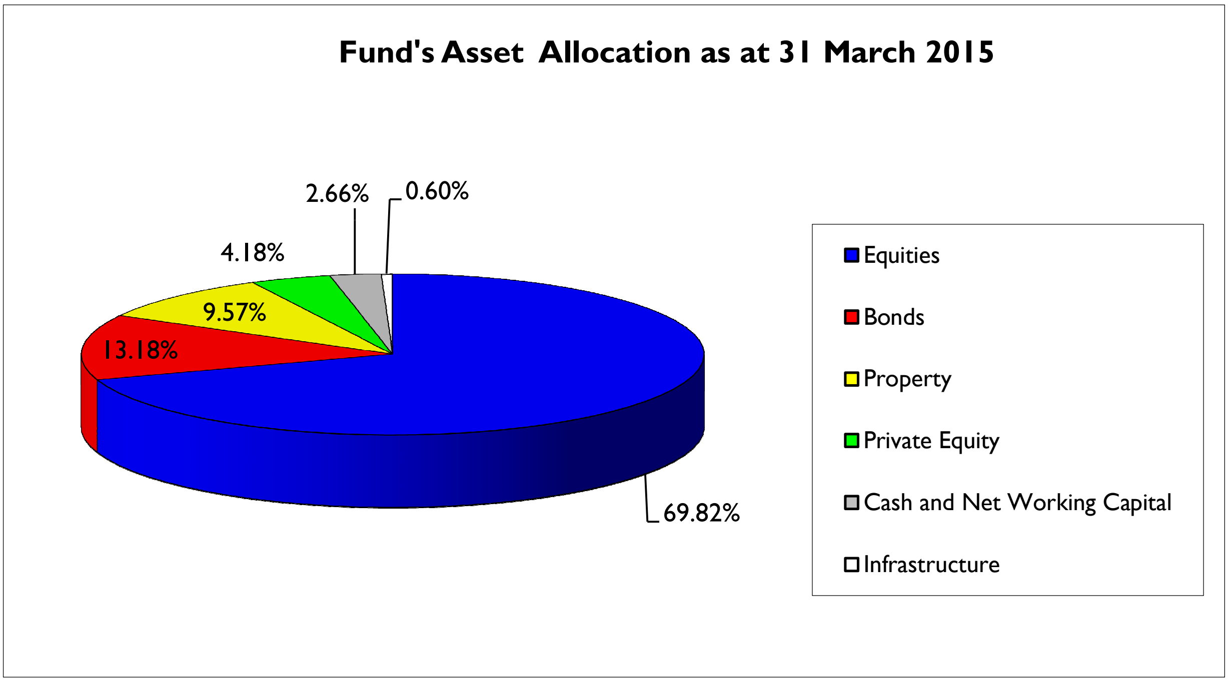
Caroline Roberts

Investment Manager

4. Recent Trends





5. Management Report

5.1 Scheme Administration

General

The basis for the Local Government Pension Scheme (LGPS) is contained in the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (also as amended).

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 23 other scheduled bodies (including 2 Local Authorities) and 17 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 employees' 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 2014 – March 2015 are shown in the table below:

Pay Bands	Contribution Rates main scheme	Contribution Rates 50/50 scheme
Up to £13,500	5.5%	2.75%
£13,501 - £21,000	5.8%	2.9%
£21,001 - £34,000	6.5%	3.25%
£34,001 - £43,000	6.8%	3.4%
£43,001 - £60,000	8.5%	4.25%
£60,001 - £85,000	9.9%	4.95%
£85,001 - £100,000	10.5%	5.25%
£100,001 - £150,000	11.4%	5.7%
More than £150,000	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 principal 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. Councillor members in England will be forced out of the scheme from the next council elections.

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 covert pension, a tax free lump sum immediately.

Benefits are calculated in the same way as for normal retirement except that if the membership period is 5 years or more, it is increased by adding extra years to compensate for premature retirement.

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 actuarial reduction to pay 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. 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 3 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

5.2 Actuarial Position

General
The most recent actuarial valuation of the Fund was undertaken as at 31st March 2013 (previously 31st March 2010), and it requires full solvency of the Fund.

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	4.7%
Pay Increases (not including increments)*	4.3%**
Price Inflation / Pension Increases	2.5%

* Plus an allowance for promotional pay increases
** 1% per annum for 2013/14, 2014/15 and 2015/16, reverting to 4.3% thereafter.

The Results
The key funding objective of the Fund is to build up sufficient assets to provide adequate security for members' benefits as they accrue. When the value of the Fund's assets match the value of its liabilities the Fund is said to be 100% funded. In the valuation report for 31 March 2013, published on the 31 March 2014 by Hymans Robertson the Funding level was 85% (compared to 84% at 31 March 2010) and there was a funding shortfall of £210m. The market value of assets at the valuation date was £1,195m and liabilities were assessed to be £1,405m.

The following table sets out the valuation results for the Fund as a whole:

	£m
Net Liabilities :-	
Active Members	699
Deferred Pensioners	185
Pensioners	521
Total Net Liabilities	**1,405**
Total Value of Assets	**1,195**
Surplus (Deficit)	**(210)**
Funding Level	**85%**

Common Rate of Contribution (CRC)

The CRC payable is the cost of future benefit accrual increased by an amount to bring the funding level back to 100% over a period of up to 20 years as set out in the Funding Strategy Statement. Based on the Fund's funding level at 31 March 2013, the future service contribution rate was set at 18.3% with a further 5.6% required to fund the past service deficit. The contribution from each employer is the CRC plus an individual adjustment, if appropriate, to reflect the individual circumstances of each employer.

5.3 Administrative and Custodial 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 (GPS) and the Governance Compliance Statement (GCS) states the governance practices of the Pension Fund.

Copies can be seen on the Pension Fund website.

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 advisers), who joins the Pensions Committee in monitoring the Investment Managers. An advisor from Hymans is always present at the Pensions Committee's quarterly meetings with the Investment Managers.

Investment Managers

Over the period of this report, there were 5 Investment Managers, as follows: BlackRock, Fidelity International (Fidelity), Insight Investment (Insight), Veritas and Partners Group. The fund has also invested directly in Lothbury Investment Management's (Lothbury) Property Fund, Threadneedle's Pensions Property Fund, UBS Life Triton Property Fund and UBS Central London Office Value Added Fund.

The target distribution of Fund assets for the year is shown in the table below. The investment in infrastructure will be built up over a period of time and therefore the actual allocation has not reached the target during the year.

The target distribution of Fund assets is as follows:

Manager	%
BlackRock	29.5
Veritas	19.0
Fidelity	19.0
Insight	15.0
UBS / Lothbury / Threadneedle / BlackRock (Property Only)	10.0
Partners – Private equity	5.0
Partners – Infrastructure	2.5
Total	100.0

Custodians

Some of the investment mangers 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;
- Fidelity's custodian is also JP Morgan Chase Bank;
- Insight's custodian is The Northern Trust Company;

As one investment manager does not have an associated custodian, the Pensions Committee has chosen to appoint:

- The Northern Trust Company as custodian of those assets managed by Veritas.

Lothbury, Threadneedle and UBS, with whom we have direct investments, have the Northern Trust Company 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 of the named officers who are on the Pension Fund's authorised signature list.

Asset Allocation

One of the key determinants of the Fund's long-term overall performance is its strategic asset allocation. The Fund's strategic asset allocation is 72.5% equities, 15% UK bonds, 10% property and 2.5% infrastructure. During the year the strategic asset allocation was changed to include passive equities measured against a fundamental indexation benchmark. The two tables below show the Fund's benchmark allocation at the beginning of the year and the revised allocation following the change.

The following table shows the Fund's benchmark allocation at the start of 2014/15.

	BlackRock %	Veritas %	Fidelity %	Insight %	UBS/Threadneedle/ Lothbury/ BlackRock Property %	Partners Group %	Total %
Percentage of Fund	**29.5**	**19.0**	**19.0**	**15.0**	**10.0**	**7.5**	**100.0**
UK Equities	**56.0**	**7.8**	**7.8**	**-**	**-**	**-**	**19.5**
Overseas Equities	**44.0**	**92.3**	**92.3**	**-**	**-**	**-**	**48.0**
North America	7.4	52.8	52.8	-	-	-	21.0
Europe ex-UK	14.1	16.7	16.7	-	-	-	10.0
Japan	6.0	7.4	7.4	-	-	-	5.0
Pacific Basin	9.0	4.4	4.4	-	-	-	5.5
Emerging Markets	7.5	10.9	10.9	-	-	-	6.5
Private Equity	**-**	**-**	**-**	**-**	**-**	**66.7**	**5.0**
Total Equities	**100.0**	**100.0**	**100.0**	**-**	**-**	**66.7**	**72.5**
UK Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	**-**	**-**	**-**	**100.0**	**-**	**-**	**15.0**
Property	**-**	**-**	**-**	**-**	**100.0**	**-**	**10.0**
Infrastructure						**33.3**	**2.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The following table shows the Fund's benchmark allocation following the change in 2014/15.

	BlackRock Market Cap %	BlackRock Funda-mental %	Veritas %	Fidelity %	Insight %	UBS/Threadneedle/ Lothbury/ BlackRock Property %	Partners Group %	Total %
Percentage of Fund	**22.5**	**7.0**	**19.0**	**19.0**	**15.0**	**10.0**	**7.5**	**100.0**
UK Equities	**69.0**	**10.3**	**7.5**	**7.5**	**-**	**-**	**-**	**19.5**
Overseas Equities	**31.0**	**89.7**	**92.5**	**92.5**	**-**	**-**	**-**	**48.0**
North America	0.0	50.3	54.1	54.1	-	-	-	22.5
Europe ex-UK	11.0	22.3	15.9	15.9	-	-	-	10.0
Japan	5.0	10.9	7.4	7.4	-	-	-	5.0
Pacific Basin	5.0	6.0	4.2	4.2	-	-	-	4.5
Emerging Markets	10.0	0.2	10.8	10.8	-	-	-	6.0
Private Equity	**-**	**-**	**-**	**-**	**-**	**-**	**66.7**	**5.0**
Total Equities	**100.0**	**100.0**	**100.0**	**100.0**	**-**	**-**	**66.7**	**72.5**
UK Bonds	-	-	-	-	100.0	-	-	15.0
Total Bonds	**-**	**-**	**-**	**-**	**100.0**	**-**	**-**	**15.0**
Property	**-**	**-**	**-**	**-**	**-**	**100.0**	**-**	**10.0**
Infrastructure	**-**	**-**	**-**	**-**	**-**	**-**	**33.3**	**2.5**
Total	**100.0**		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

5.4 Investment Powers

Investment Powers

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended. These permit a wide range of investment for Fund monies which are not immediately required to pay pensions and other benefits.

Investment Restrictions

Gwynedd's current restrictions are noted in Column (A) below. However, the regulations allow administering authorities to set limits up to those to those noted in Column (B) below:

	The Fund's Current Restrictions (A)	Regulations: Increase the Limits to (B)
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	5%	5%
3. All contributions to partnerships.	15%	30%
4. The sum of all loans and any deposits with any local authority, or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000 [4]) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	10%
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%
8. All sub-underwriting contracts.	15%	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	25%	35%
11. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body.	25%	35%
12. Any single insurance contract.	35%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

5.5 Investment Management

General

The main objective of 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 5 Investment Managers with varying briefs:

Investment Manager	Brief
BlackRock	Passive
Fidelity	Active
Insight	Active
Veritas	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.

Veritas and Fidelity have an "active" equity brief while Insight has an "active" bond brief. Partners Group has been given "active" private equity and infrastructure briefs.

5.6 Investment Performance

Quarterly Meetings

The performance of the Investment Managers is monitored on a quarterly basis. Investment Managers submit quarterly reports and valuations to the Pensions Committee, the relevant officers at Gwynedd Council and the Fund's adviser. Every quarter a meeting is held between Investment Managers, the Committee, officers and the adviser to monitor their performance.

Performance Monitoring

Gwynedd subscribes to a service provided by the State Street Global Services which calculates 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.

Manager	Benchmark	Target
BlackRock	FTSE All-Share and FTSE All-World Indices	Benchmark Return
Veritas	MSCI All Countries World Index	Benchmark + 2% p.a. (gross of fees)
Fidelity	MSCI All Countries World Index	Benchmark + 2%-3% p.a. (gross of fees)
Insight	Cash (Libor)	Benchmark +2% p.a.
Partners	MSCI World	Benchmark + 5% p.a.*

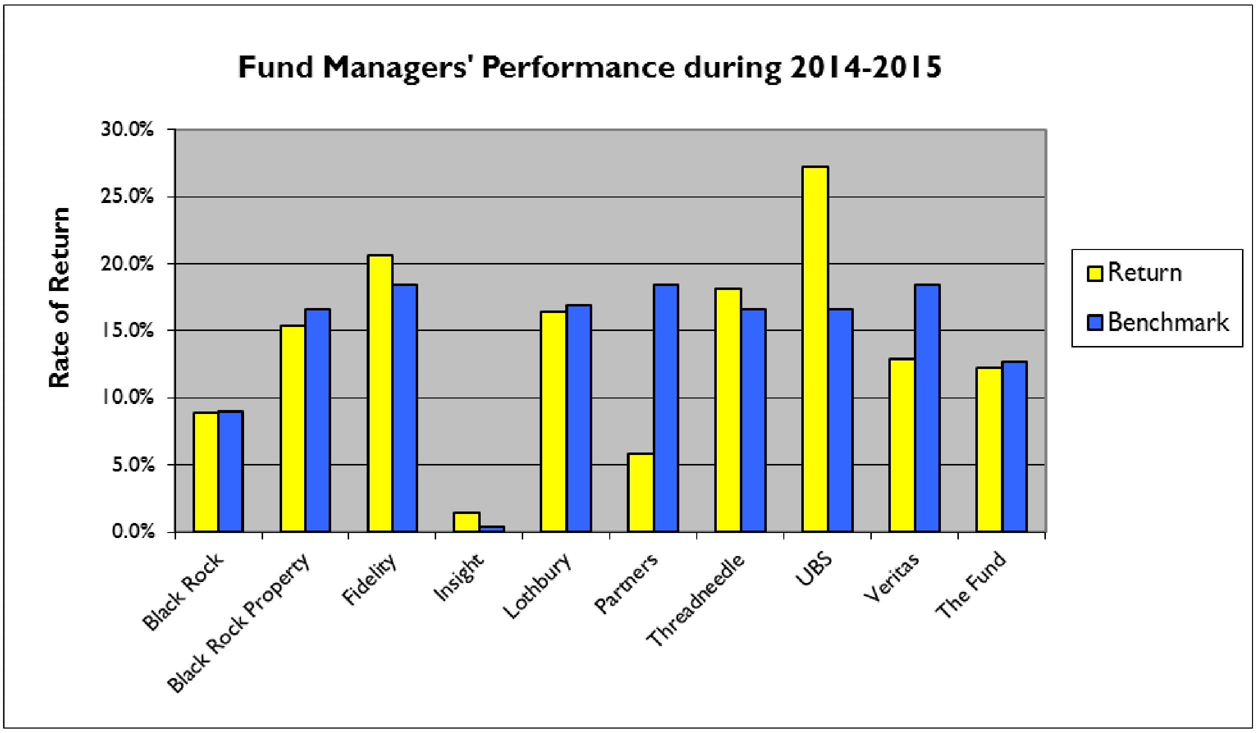
**Partners do not have an official performance target. The target stated above is purely for indicative purposes.*
MSCI=Morgan Stanley Capital International

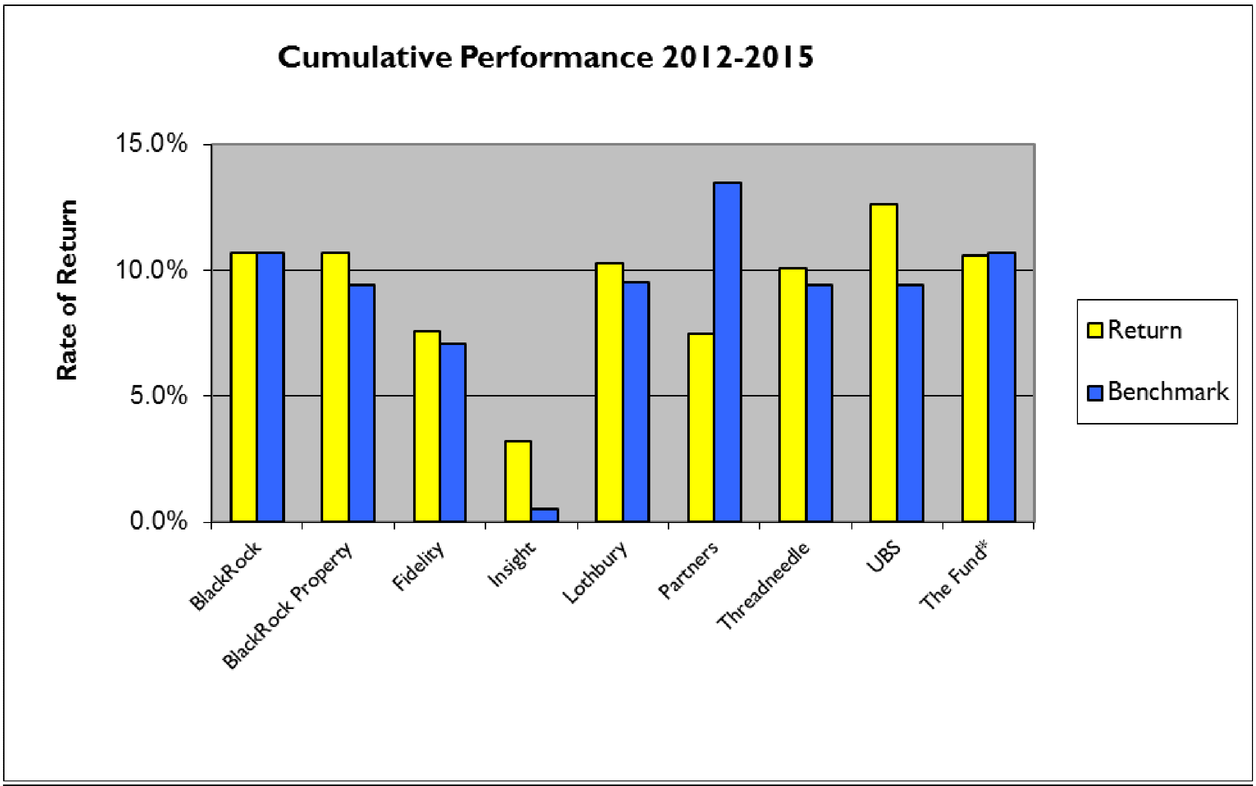
We have made direct investments with Lothbury, UBS and Threadneedle, so therefore have not given them a benchmark. However, for indicative purposes we monitor them against the IPD Balanced Property Unit Trust Index.

Fund Performance

Against the benchmark, the Fund underperformed by 0.5% during the 2014/15 financial year. The Fund achieved a return of +12.2% against a benchmark return of +12.7%. Over a three year period the Fund outperformed against the benchmark, with a return of +10.6% against a benchmark return of +10.5%.

The following graphs and table show the performance of the Managers over 1 and 3 years.





*These figures include an element of Capital's performance until their termination in July 2012 and an element of Veritas performance, since their inception in July 2012.

It is generally accepted that investment performance over a long 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.

	1 Year Return	1 Year Benchmark	3 Year Return	3 Year Benchmark
BlackRock	8.9%	9.0%	10.7%	10.7%
BlackRock Property	15.4%	16.6%	10.7%	9.4%
Fidelity	20.6%	18.4%	7.6%	7.1%
Insight	1.5%	0.4%	3.2%	0.5%
Lothbury	16.4%	16.9%	10.3%	9.5%
Partners	5.8%	18.4%	7.5%	13.5%
Threadneedle	18.1%	16.6%	10.1	9.4
UBS	27.2%	16.6%	12.6%	9.4%
Veritas	12.9%	18.4%	n/a	n/a
TOTAL FUND	**12.2%**	**12.7%**	**10.6%**	**10.7%**

5.7 Statement of Investment Principles

General

Local Government Pension Scheme administering authorities are required to prepare and publish a written Statement of Investment Principles (SIP).

Reviewing the SIP

A full review of the SIP was undertaken during 2012/13. Following consultation with employers and union representatives the following changes were made:

- Inclusion of infrastructure as an asset classification for investment by the fund.
- Change of investment limits in limited partnerships and benchmarks to include the agreed infrastructure investment.
- Inclusion of the Fund's commitment to the Stewardship Code and membership of the Local Authority Pension Fund Forum (LAPFF) to enhance consideration of and influence over social, environmental and ethical issues in investee companies.

Copies of the SIP

Copies of the current SIP have been sent out to all the Fund's employers, investment managers, the actuary, adviser and union representatives.

A copy can be seen on the Pension Fund website.

5.8 Funding Strategy Statement

General

Local Government Pension Scheme (LGPS) administering authorities are required to prepare and publish a Funding Strategy Statement (FSS).

LGPS benefits are guaranteed by statute and thereby the pensions promise is secure. The FSS 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 administering authorities with a statutory framework within which to manage their Funds' long-term pension liabilities going forward.

Reviewing the FSS

The FSS was reviewed during 2013/14 as part of the 31 March 2013 Actuarial Valuation process. The review process involved consultation with all the Fund's employers and the Fund's Actuary. The current FSS was adopted by the Pensions Committee on 17th March 2014.

Copies of the FSS
Copies of the FSS were sent out to all the Fund's employers and the fund's actuary, adviser and union representatives on 31st March 2014.

A copy can be seen on the Pension Fund website.

5.9 Knowledge and Skills Framework

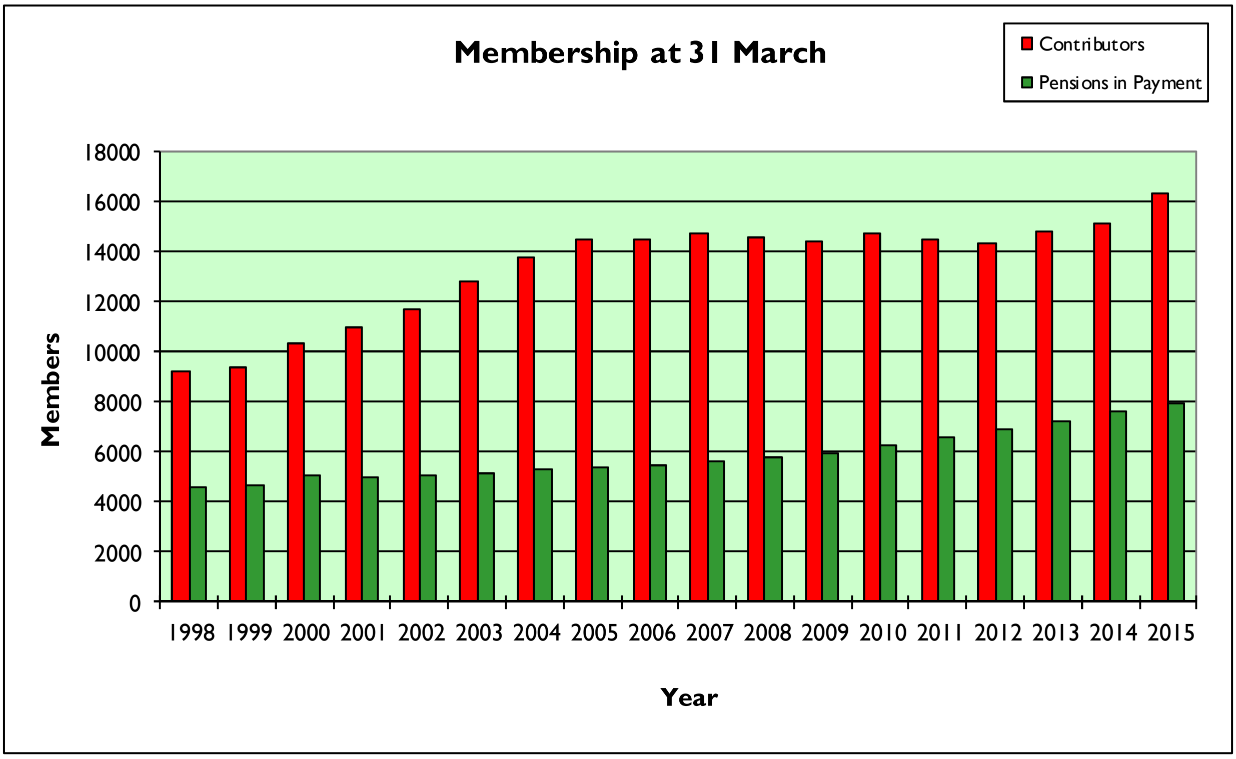
The Pensions Committee has formally adopted the following knowledge and skills policy statement:

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 pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

6. Membership Summary

The graph below shows the changes in the Fund's membership over the last 18 years. It shows that while the number of pensioners has slowly increased from 4,592 in 1998 to 7,940 in 2015, the number of active contributors has also increased from 9,224 in 1998 to 16,301 in 2015.



The table below shows the membership summary:

31 March 2014	Description	31 March 2015
15,131	Contributors	16,301
10,500	Deferred Pensioners	11,706
7,584	Pensions in Payment	7,940
1,424	Unclaimed Benefits	1,348
34,639	**Total Membership**	**37,295**

7. Statement of Accounts 2014 -15 subject to audit

GWYNEDD PENSION FUND ACCOUNTS 2014-15

31 March 2014 £'000		Notes	31 March 2015 £'000
	Dealings with members, employers and others directly involved in the Fund		
65,700	Contributions receivable	7	67,748
17	Interest on deferred contributions		14
3	Income from divorce calculations		2
0	Interest on late payment of contributions		1
3,810	Transfers in from other pension schemes	8	2,015
69,530	**Total contributions received**		**69,780**
(45,167)	Benefits payable	9	(48,610)
(1,516)	Payments to and on account of leavers	10	(1,909)
(46,683)	**Total benefits paid**		**(50,519)**
22,847			**19,261**
(8,118)	Management Expenses	11	**(8,573)**
	Returns on Investments		
13,993	Investment income	14	12,993
(466)	Taxes on income	15	(687)
88,421	Profit and (losses) on disposal of investments and changes in the market value of investments	16	164,833
101,948	**Returns on investments net of tax**		**177,139**
116,677	**Increase in the net assets available for benefits during the year**		**187,827**
	Net assets of the Fund		
1,192,869	At 1st April		1,309,546
116,677	Increase in net assets		187,827
1,309,546			**1,497,373**

NET ASSETS STATEMENT AS AT 31 MARCH 2015

31 March 2014 £'000		Notes	31 March 2015 £'000
1,280,403	Investment assets	16	1,458,025
15,453	Cash deposits	16	22,082
1,295,856			**1,480,107**
(308)	Investment liabilities	16	(229)
17,450	Current assets	21	20,312
(3,452)	Current liabilities	22	(2,817)
1,309,546			**1,497,373**

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year end, but rather summaries the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2013) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will again be able to meet 100% of future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the Fund") is part of the Local Government Pension Scheme and is administered by Gwynedd Council. The council is the reporting entity for this pension fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

b) Membership

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

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

NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council (joined 1 November 2014)
Admission Bodies	
Coleg Harlech WEA	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Ynys Môn Citizens Advice Bureau	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transferee Admission Body	
Caterlink (joined 1 September 2013)	Jewsons

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1st April 2014 to 31 March 2017 following the actuarial valuation carried out as at 31 March 2013.

NOTE 1 – DESCRIPTION OF FUND (continued)

d) Benefits

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

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

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

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

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

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets statement

g) Financial assets

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

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

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:

- Unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property are valued at the net asset value or a single price advised by the Fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

iv) Pooled investment vehicles
Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

h) Foreign currency transactions

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Cash and cash equivalents

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

j) Financial liabilities

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

k) Actuarial present value of promised retirement benefits

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

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

l) Additional voluntary contributions

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

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

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2015 was £71 million (£64 million at 31 March 2014).

Pension fund liability

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

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

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

The items in the net assets statement at 31 March 2015 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	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The net pension liability would change if the assumptions used were changed. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability, an increase in assumed earnings inflation would increase the value of liability in assumed life expectancy would increase the liability.
Debtors	At 31 March 2015, the Fund had a balance of sundry debtors of £8.3m. A review of significant balances suggested that it was not appropriate to make any impairment of the debts.	If collection rates were to deteriorate, it would be necessary to reconsider this decision.
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £71 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2015, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2013/14		2014/15
£'000		**£'000**
50,908	Employers	52,502
14,792	Employees/Members	15,246
65,700		**67,748**

By authority

2013/14		2014/15
£'000		**£'000**
23,297	Gwynedd Council	24,251
38,065	Other scheduled bodies	38,992
1,722	Admission bodies	1,753
2,369	Community admission body	2,268
31	Transferee admission body	257
162	Resolution Body	173
54	Closed fund*	54
65,700		**67,748**

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

2013/14		2014/15
£'000		**£'000**
14,792	Employees normal contributions	15,246
39,711	Employers normal contributions	45,586
11,197	Employers deficit recovery contributions	6,916
65,700		**67,748**

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2013/14		2014/15
£'000		**£'000**
3,810	Individual transfers	2,015
3,810		**2,015**

NOTE 9 - BENEFITS PAYABLE

By category

2013/14 £'000		2014/15 £'000
34,425	Pensions	37,074
9,787	Commutation and lump sum retirement benefits	9,922
955	Lump sum death benefits	1,614
45,167		**48,610**

By authority

2013/14 £'000		2014/15 £'000
11,613	Gwynedd Council	13,554
20,012	Other scheduled bodies	22,135
984	Admission bodies	1,074
1,000	Community admission body	653
75	Transferee admission body	25
69	Resolution body	72
11,414	Closed fund	11,097
45,167		**48,610**

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013/14 £'000		2014/15 £'000
(1)	Refunds to members leaving service net of tax repayments	84
1	Payments for members joining state scheme	17
1,516	Individual transfers	1,808
1,516		**1,909**

NOTE 11 – MANAGEMENT EXPENSES

2013/14 £'000		2014/15 £'000
1,218	Administrative costs	1,106
6,850	Investment management expenses (Note 13)	7,419
50	Oversight and governance costs	48
8,118		**8,573**

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

NOTE 12 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2013/14 £'000		2014/15 £'000
	Administrative costs	
427	Direct employee costs	455
209	Other direct costs	214
366	Support services including IT	323
29	External audit fees	31
187	Actuarial fees	83
1,218		**1,106**
	Oversight and governance costs	
50	Pensions Committee	48
1,268		**1,154**

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

NOTE 13 – INVESTMENT MANAGEMENT EXPENSES

2013/14 £'000		2014/15 £'000
6,720	Management fees	7,301
50	Custody fees	53
16	Performance monitoring service	15
64	Investment consultancy fees	50
6,850		**7,419**

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

The investment management expenses above include £0 (2013/14 £37,844) in respect of performance related fees paid to one of the Fund's investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. There are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 14 – INVESTMENT INCOME

2013/14 £'000		2014/15 £'000
2,816	UK equities	1,219
5,374	Overseas equities	6,448
1,264	Private equity	866
99	Infrastructure	257
4,322	Pooled property investments	4,097
118	Interest on cash deposits	106
13,993		**12,993**

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

The Council had a deposit of £4m with Heritable Bank, which went into administration in October 2008. During 2013/14 a distribution of £36,327 was received by the Pension Fund. This amount has been included in the interest on cash deposits figure for 2013/14 in the above table. There were no distributions in 2014/15. Further information is included in Note 27.

NOTE 15 – TAXES ON INCOME

2013/14 £'000		2014/15 £'000
466	Withholding tax – equities	687
466		**687**

NOTE 16 – INVESTMENTS

2013/14 £'000		2014/15 £'000
	Investment assets	
194,386	Absolute return	197,323
238,975	Equities	272,050
666,050	Pooled investments	773,481
116,800	Pooled property investments	143,288
59,695	Private equity	62,546
4,497	Infrastructure	8,917
1,280,403		**1,457,605**
15,453	Cash deposits	22,082
0	Debtors	420
1,295,856	**Total investment assets**	**1,480,107**
	Investment liabilities	
(308)	Amounts payable for purchases	(229)
(308)	**Total investment liabilities**	**(229)**
1,295,548	**Net investment assets**	**1,479,878**

Note 16a – Reconciliation of movements in investments and derivatives

2014/15	Market value at 1 April 2014	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2015
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fixed interest absolute return securities	194,386	0	0	2,937	197,323
Equities	238,975	81,252	(84,285)	36,108	272,050
Pooled investments	666,050	103,237	(89,693)	93,887	773,481
Pooled property investments	116,800	3,639	(71)	22,920	143,288
Private equity / infrastructure	64,192	9,657	(7,176)	4,790	71,463
	1,280,403	197,785	(181,225)	160,642	1,457,605
Cash deposits	15,453			63	22,082
Amount receivable for sales of investments	0				420
Amounts payable for purchases of investments	(308)				(229)
Fees within pooled vehicles				4,128	
Net investment assets	**1,295,548**	**197,785**	**(181,225)**	**164,833**	**1,479,878**

2013/14	Market value at 1 April 2013	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2014
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fixed interest absolute return securities	157,644	31,000	0	5,742	194,386
Equities	206,697	58,392	(49,222)	23,108	238,975
Pooled investments	634,387	7,834	(19,413)	43,242	666,050
Pooled property investments	105,974	1,531	0	9,295	116,800
Private equity / infrastructure	61,787	16,273	(16,894)	3,026	64,192
	1,166,489	115,030	(85,529)	84,413	1,280,403
Forward foreign currency contracts	(58)			11	0
Cash deposits	17,316			(44)	15,453
Amount receivable for sales of investments	0				0
Amounts payable for purchases of investments	(677)				(308)
Fees within pooled vehicles				4,041	
Net investment assets	**1,183,070**	**115,030**	**(85,529)**	**88,421**	**1,295,548**

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £228,201 (2013/14 £186,342). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

Note 16b – Analysis of investments

31 March 2014 £'000		31 March 2015 £'000
	Equities	
	UK	
45,272	Quoted	35,517
	Overseas	
193,703	Quoted	236,533
	Pooled funds	
	UK	
229,634	Unit trusts	247,917
	Global (including UK)	
194,386	Fixed income	197,323
231,296	Unit trusts	379,210
	Overseas	
205,120	Unit trusts	146,354
116,800	**Property unit trusts**	143,288
59,695	**Private equity**	62,546
4,497	**Infrastructure**	8,917
1,280,403		**1,457,605**

Investments analysed by fund manager

Market Value at 31 March 2014 £'000	%		Market Value at 31 March 2015 £'000	%
427,249	33.0	BlackRock	485,874	32.8
258,421	19.9	Fidelity	313,418	21.2
194,394	15.0	Insight	197,331	13.3
23,395	1.8	Lothbury	27,214	1.8
64,193	5.0	Partners Group	71,463	4.8
12,001	0.9	Threadneedle	14,170	1.0
63,323	4.9	UBS	76,366	5.2
252,572	19.5	Veritas	294,042	19.9
1,295,548	**100.0**		**1,479,878**	**100.0**

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

Market value 31 March 2014 £'000	% of total Fund	Security	Market value 31 March 2015 £'000	% of total Fund
231,295	17.66	Fidelity Institutional Select Global Equity	281,164	18.78
229,633	17.53	BlackRock Asset Management Aquila Life UK Equity Index Fund	247,916	16.56
194,386	14.84	Insight LDI Solution Bonds Plus	197,323	13.18
0	0	BlackRock Asset Management Aquila Life Global Dev Fundamental Fund	98,047	6.55

Note 16c – Stock lending

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

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

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

As at 31 March 2014				As at 31 March 2015		
Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at cost**		**Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial assets			
194,386			Fixed interest securities	197,323		
238,975			Equities	272,050		
666,049			Pooled investments	773,481		
116,800			Pooled property investments	143,288		
59,696			Private equity	62,546		
4,497			Infrastructure	8,917		
189	25,959		Cash	18	34,095	
	6,755		Debtors		8,701	
1,280,592	**32,714**	**0**		**1,457,623**	**42,796**	**0**
			Financial liabilities			
(308)		(3,452)	Creditors	(229)		(2,817)
(308)	**0**	**(3,452)**		**(229)**	**0**	**(2,817)**
1,280,284	**32,714**	**(3,452)**		**1,457,394**	**42,796**	**(2,817)**

Note 17b – Net gains and losses on financial instruments

31 March 2014		31 March 2015
Fair value		**Fair value**
£'000		£'000
	Financial assets	
84,413	Fair value through profit and loss	160,642
(33)	Loans and receivables	63
84,380	**Total financial assets**	**160,705**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	**Total financial liabilities**	**0**
84,380	**Net financial assets**	**160,705**

Note 17c – Fair value of financial instruments and liabilities

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

31 March 2014 Carrying value £'000	31 March 2014 Fair value £'000		31 March 2015 Carrying value £'000	31 March 2015 Fair value £'000
		Financial assets		
964,240	1,280,593	Fair value through profit and loss	1,037,989	1,457,624
32,728	32,714	Loans and receivables	42,795	42,795
996,968	**1,313,307**	**Total financial assets**	**1,080,784**	**1,500,419**
		Financial liabilities		
(254)	(253)	Fair value through profit and loss	(229)	(229)
(2,325)	(3,508)	Financial liabilities at cost	(2,817)	(2,817)
(2,579)	**(3,761)**	**Total financial liabilities**	**(3,046)**	**(3,046)**
994,389	**1,309,546**	**Net financial assets**	**1,077,738**	**1,497,373**

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

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

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

Values at 31 March 2015	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	638,447	747,714	71,463	1,457,624
Loans and receivables	42,795	0	0	42,795
Total financial assets	**681,242**	**747,714**	**71,463**	**1,500,419**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(229)	0	(229)
Financial liabilities at cost	(2,817)	0	0	(2,817)
Total financial liabilities	**(2,817)**	**(229)**	**0**	**(3,046)**
Net financial assets	**678,425**	**747,485**	**71,463**	**1,497,373**

Values at 31 March 2014	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	556,347	660,053	64,193	1,280,593
Loans and receivables	32,714	0	0	32,714
Total financial assets	**589,061**	**660,053**	**64,193**	**1,313,307**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(253)	0	(253)
Financial liabilities at cost	(3,508)	0	0	(3,508)
Total financial liabilities	**(3,508)**	**(253)**	**0**	**(3,761)**
Net financial assets	**585,553**	**659,800**	**64,193**	**1,309,546**

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

Risk and risk management

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

Other price risk

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

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment analytics advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

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

Asset type	**Potential market movement (+/-)**	
	31 March 2014	**31 March 2015**
	%	%
Equities	11.6	8.7
Fixed Income	1.3	1.0
Alternatives (Private Equity and Infrastructure)	6.2	5.9
Property	2.4	3.2
Cash	0.0	0.0

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

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

Asset type	**Value as at 31 March 2015**	**Percentage change**	**Value on increase**	**Value on decrease**
	£'000	%	**£'000**	**£'000**
Equities	1,045,531	8.7	1,136,597	954,465
Fixed Income	197,323	1.0	199,375	195,271
Alternatives (Private Equity and Infrastructure)	71,463	5.9	75,679	67,247
Property	143,288	3.2	147,830	138,746
Cash	34,112	0.0	34,115	34,109
Total assets available to pay benefits	**1,491,717**		**1,593,596**	**1,389,838**

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

Asset type	Value as at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Equities	905,024	11.6	1,009,826	800,222
Fixed Income	194,386	1.3	196,913	191,859
Alternatives (Private Equity and Infrastructure)	64,193	6.2	68,154	60,232
Property	116,800	2.4	119,615	113,985
Cash	25,839	0.0	25,844	25,834
Total assets available to pay benefits	**1,306,242**		**1,420,352**	**1,192,132**

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 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 2014 £'000	As at 31 March 2015 £'000
Cash and cash equivalents	10,695	12,031
Cash balances	15,452	22,082
Fixed interest securities	194,386	197,323
Total	**220,533**	**231,436**

Interest rate risk sensitivity analysis

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

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

Asset type	Carrying amount as at 31 March 2015	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	12,031	120	(120)
Cash balances	22,082	221	(221)
Fixed interest securities*	197,323	(1,460)	1,460
Total change in assets available	**231,436**	**(1,119)**	**1,119**

* 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 2014	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	10,695	107	(107)
Cash balances	15,452	155	(155)
Fixed interest securities*	194,386	(1,108)	1,108
Total change in assets available	**220,533**	**(846)**	**846**

* 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 0.7% amounting to interest of £103,645 for the year.

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

Currency risk

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

The Fund has made commitments to private equity and infrastructure in foreign currency, (€164million and $45million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

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

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous period end:

Currency exposure - asset type	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Overseas and Global Equities	630,118	762,098
Global Fixed Income	194,386	197,324
Overseas Alternatives (Private Equity and Infrastructure)	64,193	71,463
Overseas Property	3,276	2,925
Overseas Currency	189	208
Total overseas assets	**892,162**	**1,034,018**

Currency risk – sensitivity analysis

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

A 5.5% fluctuation in the currency is considered reasonable based on the Fund investment analytics advisors analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2015. The equivalent rate for the year ended 31 March 2014 was 5.2 %. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following tables show analyses of the Fund's exposure to individual foreign currencies as at 31 March 2015 and as at the previous year end:

Currency exposure - by currency	Value at 31 March 2015 £'000	Change %	Value on increase £'000	Value on decrease £'000
Australian Dollar	16,171	8.9	17,606	14,737
Brazilian Real	2,238	11.7	2,500	1,976
EURO	113,863	6.2	120,865	106,860
Hong Kong Dollar	1,232	7.7	1,327	1,137
South African Rand	6,588	10.7	7,294	5,881
Swedish Krona	6,749	7.3	7,242	6,256
Swiss Franc	20,341	9.3	22,241	18,441
US Dollar	143,949	7.8	155,150	132,747
Pooled Investments				
Global Basket	576,534	5.6	608,867	544,200
Global ex UK Basket	114,099	6.1	121,043	107,155
Emerging Basket	32,255	6.8	34,447	30,063
Total change in assets available	**1,034,019**	**5.5**	**1,090,944**	**977,092**

* The % change for total currency in the table above includes the impact of correlation across the underlying currencies.

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

Currency exposure - by currency	Value at 31 March 2014	Change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Australian Dollar	12,958	9.8	14,227	11,687
Brazilian Real	5,543	12.7	6,247	4,840
EURO	91,180	6.3	96,933	85,426
Hong Kong Dollar	8,320	8.0	8,984	7,656
South African Rand	7,290	11.3	8,114	6,465
Swedish Krona	6,701	7.0	7,172	6,230
Swiss Franc	9,897	7.4	10,631	9,163
US Dollar	119,472	8.1	129,114	109,831
Pooled Investments				
Global Basket	425,681	5.2	447,859	403,503
Global ex UK Basket	177,994	5.7	188,087	167,902
Emerging Basket	27,126	6.4	28,853	25,398
Total change in assets available	**892,162**	**5.2**	**938,366**	**845,958**

The % change for total currency in the table above includes the impact of correlation across the underlying currencies.

Currency exposure - by asset type	Carrying amount as at 31 March 2015	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	762,099	804,053	720,142
Global Fixed Income	197,324	208,187	186,460
Overseas Alternatives (Private Equity and infrastructure)	71,463	75,398	67,529
Overseas Property	2,925	3,086	2,764
Overseas Currency	208	220	197
Total change in assets available	**1,034,019**	**1,090,944**	**977,092**

Currency Exposure - by asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	630,118	662,751	597,485
Global Fixed Income	194,386	204,453	184,319
Overseas Alternatives (Private Equity and infrastructure)	64,193	67,517	60,869
Overseas Property	3,276	3,446	3,106
Overseas Currency	189	199	179
Total change in assets available	**892,162**	**938,366**	**845,958**

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

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, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

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

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

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

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 2015 was £12.0m (£12.1m at 31 March 2014).

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

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

only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 27.

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 save the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 26 three employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

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

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payment costs; and also cash to meet investment commitments.

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

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

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2014 the value of illiquid assets was £133m, which represented 8.9% of the total Fund assets (31 March 2014: £126m, which represented 9.6% of the total Fund assets).

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

All financial liabilities at 31 March 2015 are due within one year as was the case at 31 March 2014.

Refinancing risk

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

NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

Description of Funding Policy

The funding policy is set out in the Funding Strategy Statement (FSS) dated March 2015.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund (and the share of the Fund attributable to individual employers)
- to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- to help employers recognise and manage pension liabilities as they accrue
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so
- 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
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

NOTE 19 – FUNDING ARRANGEMENTS (continued)

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 80% chance that the Fund will return to full funding over the 21 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,195 million, were sufficient to meet 85% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £210 million.

The common contribution rate for the whole Fund based on the Funding level at 31 March 2013 is 18.3% for future service and a further 5.6% to Fund the past service deficit, giving a total rate of 23.9%. The common contribution rate is a theoretical figure – an average across the whole Fund. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

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 2013 valuation were as follows:

	% per annum Nominal	% per annum Real
Discount rate	4.7	2.2
Pay increases*	4.3	1.8
Price inflation / Pension increases	2.5	-

* Salary increases are assumed to be 1% per annum until 31 March 2016 reverting to the long term assumption shown thereafter.

NOTE 19 – FUNDING ARRANGEMENTS (continued)

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions that were adopted for the 31 March 2013 valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on actual data supplied by the Administering Authority. The life expectancy assumptions based on the actuary's fund-specific mortality review are as follows:

Mortality assumption at age 65	Male Years	Female Years
Current pensioners	22.0	24.0
Future pensioners (assumed current age 45)	24.4	26.6

Experience over the Period since April 2013

Real bond yields have fallen dramatically (leading to a higher liability value), but the effect of this has been only partially offset by the effect of strong asset returns. Overall funding levels are likely to have remained approximately the same, but the monetary amount of deficits will have increased over this period as both asset and liability values have increased in size.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19) and has also used them to provide the IAS19 and FRS 17 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 2015 was £2,114m (£1,747m at 31 March 2014).

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2013 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (continued)

Assumptions used

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

Assumption	31 March 2014 %	31 March 2015 %
Inflation/ pension increase rate	2.8	2.4
Salary increase rate*	4.6	4.3
Discount rate	4.3	3.2

* Salary increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long term rate shown thereafter.

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

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

NOTE 21 – CURRENT ASSETS

2013/14 £'000		2014/15 £'000
1,119	Contributions due - employees	1,173
3,861	Contributions due – employers	4,023
0	Transfer value received (individuals who join)	24
1,775	Sundry debtors	3,061
6,755	**Total debtors**	**8,281**
10,695	Cash	12,031
17,450	**Total**	**20,312**

Analysis of debtors

2013/14 £'000		2014/15 £'000
2,116	Gwynedd Council	2,458
955	Central government bodies	1,326
2,564	Other local authorities	2,795
3	NHS bodies	3
1,117	Other entities and individuals	1,699
6,755	**Total**	**8,281**

NOTE 22 – CURRENT LIABILITIES

2013/14		2014/15
£'000		£'000
1,904	Sundry creditors	1,944
0	Transfer value payable (leavers)	10
1,548	Benefits payable	863
3,452	**Total**	**2,817**

Analysis of creditors

2013/14		2014/15
£'000		£'000
1,126	Gwynedd Council	1,174
22	Central government bodies	33
0	NHS bodies	10
2,304	Other entities and individuals	1,600
3,452	**Total**	**2,817**

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2014	Market value at 31 March 2015
	£'000	£'000
Clerical Medical	2,792	2,678
Equitable Life	380	269
Standard Life	214	233
Total	**3,386**	**3,180**

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

	2013 / 2014	2014 / 2015
	£'000	£'000
Clerical Medical	331	508
Equitable Life	0	0
Standard Life	10	11
Total	**341**	**519**

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The council incurred costs of £986,723 (£1,001,991 in 2013/14) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The council is also one of the largest employers of members of the pension fund and contributed £17.74m to the Fund in 2014/15 (£17.65m in 2013/14). At the end of the year the council owed £2.458m to the Fund (see Note 21) which was primarily in respect of contributions for March 2015 and the Fund owed £1.174m to the council (see Note 22) which was primarily in respect of recharges from the council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2014/15, the Fund received interest of £103,645 (£77,251 in 2013/14) from Gwynedd Council.

Governance

There was 1 member of the pensions committee who was in receipt of pension benefits from the Gwynedd Pension Fund during 2014/15 (Committee member T.O. Edwards). In addition, committee members T.O. Edwards, P. Jenkins, H.E. Jones, D. Meurig, W.T. Owen P.Read and G.G. Williams are active members of the pension fund.

Key Management Personnel

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

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

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	Commitment at 31 March 2014	Commitment at 31 March 2015
	€'000	**€'000**	**€'000**
P.G. Direct 2006	20,000	1,384	776
P.G. Global Value 2006	50,000	4,091	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	7,883	6,034
P.G. Global Infrastructure 2012	40,000	34,039	28,285
P.G. Direct 2012	12,000	8,280	5,352
P.G. Global Value 2014	12,000	10,178	9,581
Total Euros	**164,000**	**67,815**	**55,465**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	7,000	3,843	2,648
P.G Secondary 2015	38,000	0	38,000
Total Dollars	**45,000**	**3,843**	**40,648**

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

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

NOTE 26 – CONTINGENT ASSETS

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

NOTE 27 – IMPAIRMENT LOSSES

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

b) Impairment of Icelandic bank deposit
During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,778,353 equating to 94% from the administrators up to 31 March 2014.

No distributions were received in 2014/15. Notice has been received that a further dividend will be paid in August 2015, although the amount is not yet known. The administration is ongoing, but it is likely that the full amount should eventually be recovered.

8. APPENDICES

GWYNEDD PENSION FUND
COMMUNICATION POLICY STATEMENT
March 2010 Version

Introduction

The Gwynedd Pension Fund is committed to providing a high quality and consistent service to their customers in the most efficient and cost effective manner, in compliance with the Local Government Pension Scheme regulatory requirements.

Gwynedd Council is responsible for administering the Fund for over 40 Employing Bodies, including its own employees and those of two other Unitary Bodies.

The membership of the Fund as at 1st March 2010 was:

Active members	14,885
Pensioner members	6,185
Deferred members	6,223

The Communications Policy Statement of the Gwynedd Pension Fund is drawn up to ensure clear communications to all the various stakeholders of the Local Government Pension Scheme. It will be kept under review and amended when there is a material change in the policy.

Stakeholders include:

- Contributing Scheme members
- Deferred members
- Pensioner members
- Prospective scheme members
- Employing Bodies
- Tax payer

The statement sets out the policy for the provision of information and how the Fund intends to publicise and promote the Scheme to each group.

All Gwynedd Pension Fund's publications are bilingual, in line with the Language Policy of Gwynedd Council as Administering Authority of the Gwynedd Pension Fund.

The intention is that all responses to requests are as timely as possible, are 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. 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.

All Fund communications are fully compliant with all regulations regarding:

- Confidentiality
- Disclosure
- Freedom of Information

The Gwynedd Pension Fund actively participates with the other six Welsh Pension Funds to produce common and consistent Scheme documents and literature.

Communication with contributing members

Contributing scheme members are those who are contributing to the Local Government Pension Scheme through one of the employers who participate in the Gwynedd Pension Fund. The methods of communicating with these members are described below.

Annual Benefit Statements

An Annual Benefit Statement is sent to each scheme member's home address which details their benefits accrued up to the end of the previous financial year and forecasts the benefits payable at age 65. The statement also contains the member's service history, pay details and explanatory notes as to how the benefits are calculated. Future statements will include a State Pension forecast and the statements issued from 2010/2011 will include a forecast of the pension benefits the member would receive from the Gwynedd Pension Fund if they were to retire at age 60 (the figures will include any reduction applicable for early payment of benefits). All statements also have a covering letter and include a feedback form for completion by members to note any queries or comments they have in relation to their statement.

Website

The Gwynedd Pension Fund website was launched in March 2009 and contains a section dedicated to current scheme members. The website provides general information about the Local Government Pension Scheme and has a section with frequently asked questions. The website continues to be developed and by March 2010, will include a Pensions Interactive section, which will enable scheme members to view their pension details, update their personal details and generate a range of calculations online.

A section dedicated to the Councillors Pension Scheme has been added to the Gwynedd Pension Fund website since December 2009.

Scheme Literature

A new short scheme guide was produced following the introduction of the Local Government Pension Scheme Regulations in 2008. The short scheme guide provides general information on the Local Government Pension Scheme and is issued to all new employees (through their employer) and is also issued to existing members of the scheme on request. Copies of the scheme guide are also available on request in Braille, large print and audio.

A range of fact sheets have also been produced for scheme members which give information on specific topics relating to the Local Government Pension. A full list of the fact sheets available are noted under the publications section on page 11 of this booklet and an additional fact sheet giving information on transferring previous pensions is due to be available by the end of 2010. DVD's providing information on the Local Government Pension Scheme and outlining the changes that were made to the regulations in 2008 are also available to scheme members.

Newsletters

Paper based newsletters are sent to the home address of all contributing scheme members as and when needed to inform of changes in the scheme regulations.

Gwynedd Pension Fund Road Shows

The Gwynedd Pension Fund is available to attend employer events and provide a pensions stand in order for scheme members to discuss any pensions issues with pension section staff. An extensive range of scheme literature and general forms will also be available at these events.

Communication with contributing members continued...

Presentations

The Pensions Administration Unit is always available to offer talks or presentations on the scheme.

A program of pre retirement seminars already exists, arranged by a partnership of North Wales councils and organized by Chadwick Mclean, a firm of financial advisors from Chester. Gwynedd and Flintshire Pension Fund Administration units provide alternate local government pension scheme presentations at these events.

Presentations are also held as and when needed to give information to current contributors on the local Government Pension Scheme and are used as a method of informing scheme 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. Specialised presentations given by the pension unit's Communication Officers and a representative from the Gwynedd Pension Fund's AVC provider have also been held to give information to scheme members on the methods of improving pension benefits.

Consultation Sessions (individual appointments)

The pension unit's Communication Officers hold individual consultation sessions for scheme members at the request of scheme employers. Consultation sessions are usually held at employees worksites and they offer the opportunity for scheme members to receive general and specific information about the Local Government Pension Scheme and to ask any questions they may have relating to their Local Government Pension.

Members of the Gwynedd Pension Fund can also arrange an appointment to have an individual meeting with a member of staff from the pension section 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.

Pensions Helpline

A single helpline number has been set up for all pension enquiries and a dedicated e-mail address is available for enquires by e-mail.

Retirement Pack

Members are sent a letter at retirement which outlines their benefits due from the scheme and are supplied with forms to complete and return so that the benefits can be brought into payment. The Pension Section intends to develop the retirement pack to include a leaflet giving general information relevant to those retiring from the scheme. The leaflet will be available from April 2010.

Poster campaign

The pension section intends to produce a poster which highlights the options available for increasing pension benefits through the Local Government Pension Scheme. The posters are scheduled to be available from June 2010 and 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 1 of the IDRP has been produced and is available on request.

Communication with deferred members

Deferred members are those who have left their employment with a scheme employer and who have preserved benefits in the scheme. The methods of communicating with deferred members are noted below.

Deferred Benefit Statement

A Deferred Benefit Statement is sent each year to members who have preserved benefits with the Gwynedd Pension Fund. The statement outlines the up to date value of the member's benefits and includes a feedback form where members can note any queries or comments they have in relation to their statement.

Website

A section dedicated to deferred members is included in the Gwynedd Pension Fund website. The deferred section provides general information about the Local Government Pension Scheme which is relevant to deferred members and has a section with frequently asked questions. The website continues to be developed and by March 2010, will include an interactive section, enabling deferred members to view their pension details, update their personal details and calculate relevant reductions for different retirement dates from age 60.

Deferred councillor members can access the Councillors section of the Gwynedd Pension Fund website.

Newsletters

Paper based newsletters are sent to the home address of all deferred scheme members as and when needed to inform of relevant changes in the scheme regulations.

Individual Appointments

Deferred members of the Gwynedd Pension Fund can arrange an appointment to have an individual meeting with a member of staff from the pension section 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 the employer, individual or individual's representative.

Pensions Helpline

A single helpline number has been set up for all pension enquiries and a dedicated e-mail address is available for enquires by e-mail.

Internal Dispute Resolution Procedure (IDRP) leaflet

A document covering stage 1 of the IDRP has been produced and is available on request.

Communication with Pensioners

Pensioners include retired members and the dependants of deceased members. The methods of communicating with pensioners are noted below.

Website

A section dedicated to pensioner members has been introduced on the Gwynedd Pension Fund website since December 2009. The pensioner section provides general information about the Local Government Pension Scheme which is relevant to pensioner members and has a section with frequently asked questions. By March 2010 the pensioner section of the website will include a Pensions online section which will enable pensioners to view their pension details and update their personal details.

Payslips and P60

A payslip is sent to pensioners when there is a change of 50p or more in their net 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.

Individual appointments

Pensioners of the Gwynedd Pension Fund can arrange an appointment to have an individual meeting with a member of staff from the pension section at the pension's office in Caernarfon.

Pensions Helpline

A single helpline number has been set up for all pension enquiries and a dedicated e-mail address is available for enquires by e-mail.

Birthday Congratulations

From 1st January 2010, pensioners celebrating their 100th birthday will receive a birthday card from the Gwynedd Pension Fund. This includes pensioners who were members of the Local Government Pension Scheme and pensioners who receive a widow's/widower's Local Government Pension.

Internal Dispute Resolution Procedure (IDRP) leaflet

A document covering stage 1 of the IDRP has been produced and is available on request.

Communication with prospective members

Prospective members are employees who are eligible to join the Local Government Pension Scheme but who have decided not to join. The methods of communicating with prospective members are noted below.

Scheme guide

A short scheme guide giving general information on the Local Government Pension Scheme is issued by scheme employers to all new employees (who are eligible to join the scheme). Copies of the scheme guide are also available (on request) in Braille, large print and audio.

Website

Prospective scheme members can gain general information about the Local Government Pension Scheme from the Gwynedd Pension Fund website. The website also has a section answering frequently asked questions which are relevant to those considering whether or not to join the scheme.

Consultation sessions (individual appointments)

The pension unit's Communications Officers hold individual consultation sessions for scheme members and prospective scheme members at the request of scheme employers. Consultation sessions are usually held at employee's worksites and they offer the opportunity for scheme members to receive general and specific information on the Local Government Pension Scheme and to ask any questions they may have about joining the scheme.

Prospective members can also arrange an appointment to have an individual meeting with a member of staff from the pension section at the pension office in Caernarfon.

Gwynedd Pension Fund Road shows

The Gwynedd Pension Fund encourages employers to include pensions as part of staff induction events and will provide a pensions stand in order for scheme members and also prospective scheme members to ask any questions they may have in relation to the Local Government Pension Scheme. The extensive range of scheme literature and general forms will also be available at road shows.

Poster Campaign

The pension section intends to produce a poster which highlights the benefits of joining the Local Government Pension Scheme. The posters are scheduled to be available from June 2010 and will be distributed to employers so that they can be displayed at employer's work sites.

Communication with Employers

Scheme Employers are the first point of contact for the members of the Local Government Pension Scheme. In order for Gwynedd Council as Administering Authority to effectively run the Scheme, it is essential that the Employing Bodies are aware of the latest information and guidance available, to enable them to carry out their responsibilities.

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 questions on Funding, investment performance and Valuations.

Biannual meetings

Relevant representatives from each Employing Body are invited to attend informal meetings at Gwynedd Council offices twice yearly, to discuss any practical issues with regard to the Pension Fund or its administration. It is also an opportunity to discuss any legislation changes that will affect them. The first of these pension forum meetings took place in October 2009.

The aim is to improve upon the quality of data received by both parties – the Employers and the Administering Authority, and enhance the standard of service to meet the needs of all scheme members and stakeholders.

Individual Employer Training meetings

These can be arranged on the Employing Body's request, on an individual basis as opposed to the biannual meetings where all can attend.

Employer Seminars

These can be arranged where there has been a significant change in legislation. For example, in October 2007 a meeting for Employing Bodies was held at Gwynedd offices, headed by Terry Edwards from the Local Government Employers association, who gave a presentation on how the changes in the Pension Scheme as from 1st April 2008 affected the Employers.

Contact Database

Regular updates regarding any changes or proposed changes in the LGPS are issued to all Employing Bodies by e-mail or letter. The Employer Contact database is amended as necessary on information received from the Employers.

Communication with Employers continued….

Employer Partnership Agreements and Service Level Agreements

The aim is to improve the standard of service to members by providing guidance on statutory obligations and responsibilities, and by setting targets for both Employers and the Administering Authority -

- to provide correct information
- to act on, and respond to that information within a given timescale

Any targets for the Service Level Agreements will be agreed beforehand.

Employers Guide

The new Employers Guide on procedure is in the process of being completed, and will be circulated in hard copy to all Employing Bodies. This is scheduled for distribution during 2010/2011, and will assist Employers in their responsibilities as regards maintaining accurate data. Limited extra copies can be provided. Updates will be notified by e-mail and uploaded onto the website.

Website

The new Gwynedd website was launched in March 2009. A section giving information specifically dedicated to Employing Bodies will be available in 2010/2011 to coincide with the production of the Employers Guide, which will also appear on the website.

Employers are currently issued with hard copies of: -

- Pension Fund Statement of Accounts
- Funding Strategy Statement
- Governance Policy Statement
- Statement of Investment Principles
- Communication Policy Statement
- Triennial Valuation Report

These will also be available on the Investments section of the website from 2010.

Communication with other bodies

Members Representatives

These can include any individual or group, such as Solicitors or Trade Unions, 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. All Scheme literature is available on request.

External Bodies

The Gwynedd Pension Fund participates in the: -

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

The Group meets as and when required, with a view to formalising and unifying the approach to communications within the Welsh Local Government Authorities. In the past two years, they have collectively produced

- Uniform Annual Benefit Statements for both active and deferred members
- A Short Scheme Guide for all members
- Pension fact sheets on various topics which can be distributed to members

The Gwynedd Pension Fund also communicates with: -

Scheme Actuary – with regard to Funding levels and the Triennial Valuation, FRS17 and all Funding issues.

HMRC - with regard to contracting out details and tax issues for Scheme members.

Additional Voluntary Contributions (AVC) Providers – Officers of the Pension Fund have regular contact its AVC providers regarding the funds of individual Scheme members.

Pensions Committee – with regard to reporting on administration, regulations and investment issues in order to advise and form policy.

Fund Managers – in relation to investments and Fund performance.

LGPC - The Local Government Pensions Committee (the pensions section of the Local Government Employers) provides technical advice to Pension Fund Administering Authorities and to employers on the Local Government Pension Scheme (LGPS)

Communication within the Pension Unit

Effective communication is an important part of daily operations, and an open door policy is in place.

Updates to Staff

E-mail— 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

Internet – This is available to all staff at any time ensuring timely access to LGPS information.

Internal training – General and pensions-specific training on matters arising with regard to regulatory or procedural changes is given as necessary as part of the Unit's commitment to continuous improvement.

External courses

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 appropriate Local Government pensions qualifications within the Institute of Payroll Professional (IPP), and also participate in relevant training courses held by the LGPC and Heywood.

Section Meetings

All members the Pensions Unit attend regular bi-monthly section meetings, to discuss any developments in legislation as well as any operational or procedural changes. This means that each member of staff is involved in 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.

Continuous monitoring and appraisal

Service standards are monitored regularly, to ensure staff are aware of their responsibilities in relation to the Scheme. Annually, members of staff have individual appraisals on their personal development. If necessary, more in-depth internal training on specific issues can be tailored to suit Unit members. On a daily basis, communication is encouraged between members of staff and the Management of the section on any issues arising. An automated workflow system is in operation to aid the monitoring process, and to guide officers in individual tasks.

Gwynedd Pension Fund Publications

Sources of scheme information

Communication Document	When published /Availability
Short scheme guide	Always available
Councillors guide	Always available
DVD outlining changes to LGPS in 2008	Always available
Website	Always available
Authorised Unpaid Leave fact sheet	Always available
Topping up your pension fact sheet	Always available
Changing your working arrangements fact sheet	Always available
Maternity, Paternity and adoption fact sheet	Always available
85 year rule fact sheet	Always available
Commutation fact sheet	Always available
Pensions and Divorce or the dissolution of a Civil Partnership fact sheet	Always available
Flexible Retirement Fact sheet	Always available
Ill health fact sheet	Always available
Transfer fact sheet	Available from 2010

Gwynedd Pension Fund Publications

Publications

Communication Document	**When published/Availability**
Internal Dispute Resolution Procedure	Always available
Poster promoting the LGPS	Available from June 2010
Increasing your pension benefits poster	Available from June 2010
Newsletters	As required
Annual benefit statements and deferred benefit statements	Annually
Retirement Pack with pension information leaflet	Available from April 2010
Employer's guide	Available during 2010/2011
Annual Report and Accounts	Annually
Valuation report	Triennially
Communications Policy	Always available
Funding Strategy Statement	Always available
Statement of Investment Principles	Always available
Governance Policy Statement	Always available
Governance Compliance Statement	Always available

GWYNEDD PENSION FUND

GOVERNANCE POLICY STATEMENT

Version 30/10/08

Governance Policy Statement

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.

Gwynedd Council is the Administrating Authority for Gwynedd Pension Fund. The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

Pensions Committee

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;

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.

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 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.

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.

Article 12 also stipulates that the Head of Finance will 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.

Under this Article, the Head of Finance also has responsibility for the proper administration of the Pension Fund's financial affairs

Monitoring Officer

Article 12 also stipulates that the Head of Democracy and Legal (as the Council's Monitoring Officer) will report to the Council if she 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.

GWYNEDD PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Version 30/10/08

Principle A – Structure

a)	**The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.**
	Gwynedd Council is fully compliant with this principle.
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.**
	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.
c)	**That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.**
	No secondary committee or panel exists, although the informal employer meetings ensure effective communication.
d)	**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.**
	No secondary committee or panel exists.

Principle B – Representation

a)	**That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include :-** **i) employing authorities (including non-scheme employers, e.g., admitted bodies);** **ii) scheme members (including deferred and pensioner scheme members),** **iii) where appropriate, independent professional observers, and** **iv) expert advisors (on an ad-hoc basis).**
	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.
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.**
	No lay members sit on the Committee (see Part A (b) above).

Principle C – Selection and Role of Lay Members

a)	**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.**
	Fully compliant. All members are made clear of their responsibility as laid out in the Governance Policy Statement.
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.**
	Gwynedd Council is fully compliant with this principle.

Principle D – Voting

a)	**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.**
	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)	**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.**
	Fully compliant – all members are granted equal access to training support and appropriate expenses paid.
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.**
	The policy applies to all members of the Committee.
c)	**That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.**
	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)	**That an administering authority's main committee or committees meet at least quarterly.**
	Fully compliant.
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.**
	No secondary committee or panel exists, although the informal employer meetings are synchronized with the dates of the main committee.
c)	**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.**
	Every July, an Annual Meeting of the Pension Fund takes place. 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)	**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.**
	Gwynedd Council is fully compliant with this principle.

Principle H – Scope

a)	**That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements**
	The Pensions Committee considers all issues relating to the Local Government Pension Scheme.

Principle I - Publicity

a)	**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.**
	The Governance Policy Statement is available in the Pension Fund annual report.

Gwynedd Pension Fund
Statement of Investment Principles (SIP)

1.0 Introduction

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review from time to time a written statement of the principles governing its decisions about the investment policy of the Pension Fund. These regulations also require the administering authority to state within the statement the extent to which it complies with a series of principles of good governance known as the Myners Principles. The purpose of this document is to satisfy the requirements of these regulations.

1.2 The Local Government Pension Scheme ("the scheme") was established in accordance with statute to provide death and retirement benefits for all eligible employees.

1.3 The Council have delegated the investment management of the scheme to the Pensions Committee ("the Committee") who decide on the investment policy most suitable to meet the liabilities of the scheme and the ultimate responsibility for the investment strategy lies with them. Investments and performance are monitored on a regular basis by the Committee and advice is received from professional advisers.

1.4 This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Committee have delegated the management of the Pension Fund's investments to professional investment managers whose activities are constrained by detailed investment management agreements.

1.5 In preparing this document the committee have taken professional advice from the Fund's actuaries and advisers, Hymans Robertson and have obtained and considered written observations from the scheme's investment managers. Due account has been taken of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit.

2.0 Investment Responsibilities

2.1 The Committee have responsibility for:

- preparing the statement of investment principles (SIP),
- monitoring compliance by the parties listed below with the statement and reviewing its contents from time to time,
- appointing the investment managers and any external advisers felt to be necessary,
- approving custodial arrangements and/or appointing the custodian,
- reviewing on a regular basis the investment managers' performance against established benchmarks, and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls and
- ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Fund is invested in suitable types of investments.

This responsibility has been delegated by the administering authority in accordance with its scheme of delegation reproduced in **Appendix A**.

2.2 The Investment Managers are responsible for:

- the investment of the Pension Fund assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed investment management agreements,
- tactical asset allocation around the strategic benchmark set out in Section 4 below,
- security selection within asset classes,
- preparation of a quarterly report including a review of investment performance,
- attending meetings of the Committee as requested,
- preparation of an annual confirmation that their activities comply with this statement in accordance with the provisions of section 8.1.
- voting shares in accordance with their published policy.

2.3 The Custodians are responsible for:

- their own compliance with prevailing legislation,
- providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the month,
- providing details in a timely manner to the WM Company,
- collection of income and tax reclaims.

2.4 The Investment Adviser is responsible for:

- advising the Committee on investment strategy and policy,
- assisting the Head of Finance and the Committee in the selection and appointment of investment managers and custodians,
- assisting the Head of Finance and the Committee in their regular monitoring of the investment managers performance, and
- assisting the Head of Finance and the Committee in the preparation and review of this document.

2.5 The Actuary is responsible for:

- assisting the Head of Finance and the Committee in the preparation of this document, and
- providing advice as to the maturity of the scheme and its funding level in order to aid the committee in balancing the short term and long term objectives of the Pension Fund.

2.6 The Head of Finance is responsible for:

- ensuring compliance with this document and bringing breaches thereof to the attention of the Committee,
- ensuring that this document is regularly reviewed and updated in accordance with the regulations, and
- preparing an annual report which will include amongst other issues references to investment results.

2.7 The Clerk of the Pensions Committee is responsible for:

- sending reports and papers to members of the committee sufficiently in advance of the meeting to allow them to be read and understood, and
- asking members to declare if they have a personal interest at the beginning of each meeting.

3.0 Description of the Scheme's Liabilities

3.1 The Pension Fund is a defined benefit scheme which provides benefits related to final salary for members on their retirement, or benefits for their dependants on death before or after retirement. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the scheme's assets. Full details of scheme benefits are set out in the LGPS regulations.

3.2 All active members of the scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the LGPS regulations.

3.3 The funding objective is 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, (as calculated in the triennial valuation).

3.4 Employers contribution rates are determined triennially based on the advice of the scheme's actuary, and are subject to inter-valuation monitoring. The assumptions used for this test, corresponding with the assumptions used in the latest actuarial valuation, are shown in **Appendix B**. This position will be reviewed at least at each triennial valuation. The committee will be advised by the actuary of any significant changes to the Fund during the inter-valuation period.

4.0 Investment Policy

4.1 The investment policy of the Pension Fund is, in a manner which is consistent with adopting a reasonable level of risk, intended to ensure that all statutory payments made from the Fund are at minimal cost to local taxpayers.

4.2 The investment policy is to appoint expert investment managers with clear performance benchmarks and to place the maximum accountability for performance against that benchmark on the investment manager. The performance of Fund managers will be assessed on a rolling three year basis.

4.3 As a result of a deliberate policy to diversify assets and investment styles, as well as to spread risk, the Fund has a number of investment managers with varying briefs. The details are shown in **Appendix C**.

The Fund has its own bespoke benchmark against which its performance is measured. Each investment manager has their own individual benchmark against which they are measured and their own targets. Details of the current benchmarks are shown in **Appendix C**.

4.5 The investment strategy will be reviewed annually, with a major review taking place following the triennial actuarial review.

4.6 The individual managers' current activity and transactions are reported quarterly to the Committee.

4.7 The investment managers performance is monitored quarterly and reviewed annually.

4.8 The Pension Fund has appointed Northern Trust as custodian for the fund's assets. However, where the investments are in pooled funds the investment managers appoint their own custodians.

5.0 Objectives

5.1 The investment objectives are to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives set out above on an ongoing basis.

5.2 To achieve these objectives the following have been agreed.

5.3 **Types of Investments to be held**

5.3.1 The Committee will ensure that one or more investment managers are appointed who are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to manage the assets of the Fund.

5.3.2 The Committee, after seeking appropriate advice, may give specific directions as to the strategic asset allocation and will ensure the suitability of assets in relation to the needs of the Fund. The prevailing legislation allows the scheme to invest in the following asset classes:

- UK Equities;
- UK Fixed Interest;
- UK Index Linked;
- UK Property through pooled funds;
- Overseas Equities, major classes being North America, Japan, Europe, Far East, Pacific Rim and other Emerging Markets;
- Private Equity;
- Global Bonds;
- Unquoted securities via pooled funds;
- Emerging market equities via pooled funds, unless specifically authorised;
- Infrastructure via pooled funds;
- Direct investment in development capital - subject to limit of £5 million at book cost;
- Use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging;
- Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria;
- Stock lending is permitted subject to specific approval.

5.3.3 Any instrument not explicitly permitted in para. 5.3.2 may only be purchased for the Fund with the express written consent of the Committee via the Head of Finance.

5.3.4 The investment managers will be given full discretion over the choice of individual stocks and are expected to maintain a diversified portfolio. However, the investment managers will have to comply with the prevailing legislation on the limits on individual investments specified in Part 1 as set out in the Schedule to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee having taken proper advice from the Fund's advisor, have decided to increase the limit on investments in "any single insurance contract". The new limit has now been set at 35%. The decision to increase this limit was taken because it allows the Fund to invest more in pooled funds which are much more diversified than any individual segregated portfolio. The above limit will apply until such time that the decision is revoked by the committee; and that the decision be reviewed before 31 March 2015. This decision complies with the above regulations.

The Committee having taken proper advice from the Fund's advisor, have decided to increase the limit on "all contributions to partnerships". The new limit has now been set at 15%. The decision to increase this limit was taken because investments in infrastructure funds in addition to the current investments in private equity will increase investments in partnerships to around 10% of the Fund. The above limit will apply until such time that the decision is revoked by the committee; and that the decision be reviewed before 31 March 2015. This decision complies with the above regulations.

The Committee having taken proper advice from the Fund's advisor, have decided to increase the limit on "all contributions to any single partnership". The new limit has now been set at 5%. The decision to increase this limit was taken because it allows the Fund to invest in large global infrastructure funds structured as partnerships for which a 5% limit is appropriate. The above limit will apply until such time that the decision is revoked by the committee; and that the decision be reviewed before 31 March 2015. This decision complies with the above regulations.

Full details of the limits permitted by legislation and those adopted by the Pension Fund are shown in **Appendix D**.

5.4 **Balance between different types of Investments**

5.4.1 An agreement is in place for each investment manager which sets out the relevant benchmark, performance target, and where appropriate asset allocation ranges and any restrictions, as determined by the Committee.

5.4.2 The Committee have agreed a benchmark which provides an efficient balance between risk and return, in the light of the liability profile and funding level of the Fund.

5.5 **Risk**

5.5.1 The Fund needs to manage (rather than avoid) risk on the investment markets in order to achieve rewards in the form of financial returns on assets. However, the Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks (threats) affecting the Fund are:

5.5.2 **Funding risks:**

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities; or that unexpected inflation increases the pension benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- 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 Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee regularly reviews mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at each triennial valuation.

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.

5.5.3 **Asset risks:**

- Concentration - The risk that 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.
- Manager underperformance - The failure by the Fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager. However, it is not possible to eliminate the threat of underperformance without restricting the potential for outperformance.

5.5.4 **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 takes professional advice and considers the appointment of specialist transition managers.
- 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.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

5.6 **Expected Return on Investments**

5.6.1 The strategic benchmark is expected to produce a return over the long term in excess of the investment return implied in the actuarial valuation. Investment returns are defined as the overall rates of return (capital growth and income combined).

5.6.2 The majority of the Fund's assets are managed on an active basis and are expected to outperform their respective benchmarks over the long term.

5.6.3 In this way, the investment performance achieved by the Fund is expected to exceed the rate of return assumed by the actuary in funding the liabilities on an ongoing basis.

5.7 **Realisation of Investments**

5.7.1 The majority of stocks held by the Fund's investment managers are quoted on major stock markets and may be realised quickly if required.

5.7.2 Property investments, which are relatively illiquid, currently make up around 10% of the Fund's assets.

5.7.3 Private equity and infrastructure investments, which are relatively illiquid, currently make up around 5% of the Fund's assets and are due to increase to 7.5% over the short term and to 10% over the medium term.

6.0 Social, Environmental and Ethical considerations

6.1 With regard to socially responsible investment, the Committee is mindful of legal principles which are based on decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the Fund consistent with proper diversification and prudence, is paramount.

6.2 The Committee have considered the extent to which social, environmental and ethical factors should be taken into account in the selection, retention and realisation of investments. They also recognise that these factors can also affect the return on investments.

6.3 The Committee has demonstrated its commitment to the Stewardship Code which was published by the Financial Reporting Council in 2010. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies.

6.4 The Fund is a member the of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. The LAPFF brings together a number of local authority pension funds providing an opportunity for discussion of investment issues and shareholder action. The influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest. Such influence can be used to address social, environmental and ethical issues within investee companies.

6.5 The Committee expects that the boards of companies in which the Pension Fund invests should pay due regard to social, environmental and ethical matters and thereby further long-term financial interests of the shareholders. The Committee looks to the directors of a company to manage that company's affairs taking proper account of the shareholder's long-term interests.

6.6 The investment managers have produced statements of investment policy in relation to social, environmental and ethical considerations which the Committee deem to be consistent with the aims outlined in para. 6.3. above. The Committee expects investment managers to act in accordance with their stated socially responsible investment policies.

6.7 The Committee believe that this stance is consistent with the long-term objective of the scheme.

6.8 The Committee will satisfy themselves annually that the investment managers are following this policy.

7.0 Exercise of the rights including voting rights attaching to investments

7.1 The Committee believe that the adoption of good practice in corporate governance will improve the management of companies and thereby add long term shareholder value.

7.2 The Committee expect the investment managers to make regular contact at senior executive levels with the companies in which the scheme's assets are invested, both as an important element of the investment process and to ensure good corporate governance.

7.3 Investment managers have produced statements regarding their corporate governance policies which the Committee consider compatible with the requirements stated in para. 7.2. The Committee expects investment managers to act in accordance with their stated corporate governance policies.

7.4 Voting actions will be reported on an exception basis to the Committee on a regular basis.

8.0 Stock Lending

8.1 Stock lending will be permitted subject to specific approval. The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which include both pooled and segregated mandates.

9.0 Compliance

9.1 Investment managers and custodians will provide the Committee, with annual confirmation that their activities, have in respect of that part of the Fund over which they have control, complied with the investment restrictions set out in this document (to the extent amendments thereto are notified to the Manager) and more particularly set out in their investment management agreement.

9.2 The Committee will be responsible for assessing the risks assumed by the scheme at a global level, i.e. assuming that the portfolios of the individual managers were amalgamated.

9.3 The Committee is responsible for monitoring the scheme's performance both at global level and manager by manager.

9.4 The Committee are responsible for monitoring the qualitative performance of the managers and custodians employed to ensure that they remain suitable investment managers/custodians for the scheme. These qualitative aspects include, inter alia, changes in ownership, changes in personnel, poor administrations etc.

9.5 The Committee will consider the scheme's compliance with this statement of investment principles on a regular basis.

9.6 The statement will be reviewed as required but at least in full every three years (in conjunction with the other parties to the statement) and a revised statement prepared and published.

10.0 Compliance with Investment Principles

10.1 In response to the Treasury Report "Updating the Myners Principles: A Response to Consultation (October 2008), LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles contained in the CIPFA document titled "Investment Decision Making and Disclosure in the Local Government Pension Scheme".

10.2 These principles have been adopted by the Department of Communities and Local Government (CLG) and replace the ten Myners principles previously published.

10.3 **Appendix E** notes the extent to which the Gwynedd Fund complies with these six principles and if they do not comply, the reasons why.

APPENDIX A

Delegation Scheme for Committees and Sub-Committees

The contents of this scheme are additional to all other delegated powers contained in the Council's Constitution and in particular Articles 6,7,8,9 and 10, in other places in Part 3 of the Constitution, and also any relevant rules of procedure in Part 4 of the Constitution.

The following functions have been delegated to the Pensions Committee:

(i) Decide on the strategy regarding the investing of surplus money in the superannuation Fund and other trust funds;
(ii) Appoint and terminate the appointment of managers and consultants of the specialist funds; review their performance with regard to investment;
(iii) Ensure that safe and efficient arrangements are in hand for purchasing, selling and monitoring the council's investments;
(iv) Making decisions in the context of pension administration.

APPENDIX B

Main Actuarial Assumptions as at 31 March 2013

	% per annum	Relative to CPI % per annum
CPI Inflation	3.3	-
Pay Increases	5.3	2.0
Investment Returns • equities • bonds	5.9 4.5	2.6 1.2

The actuarial valuation has taken the assets of the Fund into account at their market value as indicated in the Fund Accounts for the period ended 31 March 2013. This is consistent with the approach of valuing the liabilities by reference to spot market conditions on the valuation date.

Results Summary

Value of Accrued Liabilities	Total Liabilities £m
Employee members	699
Deferred pensioners	185
Pensioners	521
Total liabilities	**1,405**
Value of Fund Assets	**1,195**
Deficit	**210**
Funding Level (at actuarial value)	**85%**

Based on the actuarial valuation as at 31 March 2013

Asset Mix

Figures as at 31 March 2013	%
UK Equities	31
UK Bonds	14
Overseas Equities	40
Private Equity	5
Property	8
Cash & Net Current Assets	3
Total	**100.0%**

Assets Held by Managers (as at 31 March 2013)

Manager	Assets	Active/Passive
BlackRock	£413m	Passive
Fidelity	£241m	Active
Insight	£158m	Active
Lothbury	£21m	Active
Partners Group	£62m	Active
Threadneedle	£11m	Active
UBS Global Asset Management (UK) Ltd "UBS")	£56m	Active
Veritas	£223m	Active

Added Voluntary Contribution Arrangements

The options for members' added voluntary contributions (AVCs) are set out below, together with details of the principles governing the range of investment vehicles offered. Members can choose to switch to AVCs between options available to them from time to time, subject to the terms and conditions of each vehicle. At retirement, the accumulated value of a members AVC is used to purchase an annuity on the open market or to buy additional service.

Provider	Vehicle
Clerical Medical	With Profits , Managed & Building Society Funds
Equitable Life	Closed
Standard Life	Closed

Standard Life and Equitable Life are no longer offered as an option to employees wishing to start new AVC contracts. However, any employees who were already paying AVC's to Standard Life and Equitable Life may continue to do so.

The objective of the managed fund is to provide returns on members' contributions which at least keep pace with inflation. The building society fund option offers interest at competitive rates.

There is no specific "lifestyle" option. Contributors must take their own actions on switching between funds to protect investment returns.

APPENDIX C

Investment Allocation

As a result of a deliberate policy to diversify assets and investment styles, as well as to spread risk, the Fund has seven investment managers with varying briefs. They are as follows:

Investment Manager	Brief	Benchmark	Target
BlackRock	Passive	FTSE All-Share and FTSE All-World Indices	Benchmark Return
BlackRock	Active	IPD Balanced Property Unit Trust Index	Benchmark
Fidelity International (Fidelity)	Active	MSCI AC World Index	Benchmark +2-3% p.a.
Insight	Active	Cash (Libor)	Benchmark +2% p.a.
Lothbury	Active	IPD Balanced Property Unit Trust Index	Benchmark
Partners Group	Active	MSCI World	Benchmark +5.0% p.a *
Threadneedle	Active	IPD Balanced Property Unit Trust Index	Benchmark
UBS Global Asset Management (UK) Ltd ("UBS")	Active	IPD UK Pooled Property Fund Index	Benchmark +0.5%
Veritas Asset Management (Veritas)	Active	MSCI AC World Index	Benchmark +2.0% p.a (gross of fees)

**Partners Group does not have an official performance target. The target stated above is purely for indicative purposes*

The Fund has a bespoke benchmark against which its performance is measured. Each Investment Manager has an individual benchmark for measuring performance against its own targets. Following investment decisions made in 2012 the Fund's benchmark is as follows:

	Black Rock %	Veritas %	Fidelity %	Insight %	Property* %	Partners %	Total %
UK Equities	**56.0**	**8.2**	**8.2**	**-**	**-**	**-**	**19.5**
Overseas Equities	**44.0**	**91.8**	**91.8**	**-**	**-**	**-**	**48.0**
North America	7.4	50.5	50.5	-	-	-	21.4
Europe ex-UK	14.1	15.4	15.4	-	-	-	10.1
Japan	6.0	7.9	7.9	-	-	-	4.8
Pacific Basin	9.0	4.8	4.8	-	-	-	4.5
Emerging Markets	7.5	13.2	13.2	-	-	-	7.2
Private Equity	**-**	**-**	**-**	**-**	**-**	**66.7**	**5.0**
Total Equities	**100.0**	**100.0**	**100.0**	**-**	**-**	**50.0**	**72.5**
Global Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	**-**	**-**	**-**	**100.0**	**-**	**-**	**15.0**
Property	**-**	**-**	**-**	**-**	**100.0**	**-**	**10.0**
Infrastructure	**-**	**-**	**-**	**-**	**-**	**33.3**	**2.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

** Property includes BlackRock, Lothbury, Threadneedle and UBS property investments.*

APPENDIX D

Investment Restrictions

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 regulations allow administering authorities to set limits up to those to those noted in Column (B) below. Gwynedd's current restrictions are noted in Column (A) below.

	The Fund's Current Restrictions (A)	**Regulations: Increase the Limits to (B)**
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	5%	5%
3. All contributions to partnerships.	15%	15%
4. The sum of all loans and any deposits with any local authority, or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000 [4]) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	10%
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%
8. All sub-underwriting contracts	15%	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%	35%
11. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body.	25%	35%
12. Any single insurance contract.	35%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

APPENDIX E

A statement of the extent to which the Gwynedd Pension Fund complies with the six principles of investment practice set out in the Cipfa document "Investment Decision Making and Disclosure in the Local Government Pension Scheme – A guide to the Application of the Myners Principles" - 2009

Principle 1: Effective Decision Making

Administering authorities should ensure that:

- **decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**

- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The Gwynedd Fund complies to a large degree with this principle. However, responsibility for the Pensions Committee structure and composition lies with Gwynedd Council and is reviewed on a periodic basis as structural issues arise.

All members of the Pensions Committee are required to attend a three day Trustee Training Fundamentals course, after which they receive an "LGPS Fundamentals" training certificate. Ideally new members are required to complete the course prior to sitting on the Pensions Committee for the first time. From time to time members are also sent on refresher courses.

Members of the Pensions Committee are not paid - they receive the same allowances as other local authority members. No specific allowances are given in relation to their Pensions duties.

No formal annual business plan is prepared.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

The Gwynedd Fund complies to a large degree with this principle.

Contracts for advisors have not been subject to separate competition. At the time the service was originally tendered, this was not an issue and hitherto, there are no compelling reasons to place the service out to competition. No formal process exists to assess the advisors performance.

Currently the Pensions Committee do not have a strategy for ensuring that the transaction-related costs incurred are properly controlled without jeopardising the Fund's other objectives.

<u>Principle 3: Risk and Liabilities</u>

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Gwynedd Fund complies to a large degree with this principle. In order to achieve "full compliance", further work needs to be undertaken with regards to the strength of the covenants for participating employers.

<u>Principle 4: Performance Assessment</u>

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

There is partial compliance with this principle. There are processes to measure the performance of the investments and investment managers. However, no formal process exists to assess the advisors performance. The Committee has had no cause to consider that the advice received in relation to choosing benchmarks and investment managers was not up to the performance level required.

No formal process exists to assess the Committee's own performance. Ultimately in the past this has been measured in terms of the Fund's relative performance in relation to other Pension Funds and the Committee's accountability to employers and employee representatives at the Annual General Meeting.

In the coming months CIPFA will be publishing their knowledge and skills framework, which is a set of standards which Committee's should attain. Once this is published then consideration will be given to the above issues.

<u>Principle 5: Responsible Ownership</u>

Administering authorities should:

- **adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles (ISC SIP) on the responsibilities of shareholders and agents;**
- **include a statement of their policy on responsible ownership in the statement of investment principles; and**
- **report periodically to scheme members on the discharge of such responsibilities.**

The Gwynedd Fund partially complies with this principle.

Some of our investment managers have adopted the ISC SIP, others are reviewing it and some haven't adopted it. Our private equity manager does not believe that the ISC SIP applies to them. To the best of their knowledge it only applies to institutional investors located in the UK.

<u>Principle 6: Transparency and Reporting</u>

Administering authorities should:

- **act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;**

- **provide regular communication to scheme members in the form they consider most appropriate.**

The Gwynedd Fund largely complies with this principle. The Committee do not formally look at published reports and communication policies of other Pension Funds. The Committee don't formally compare the Fund's Annual Report to the regulations either.

Gwynedd Pension Fund
Statement of Compliance with the Stewardship Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Gwynedd Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice the fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pensions Committee members are required to make declarations of interest prior to committee meetings.

Principle 3 – Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our investments is delegated to our appointed asset managers and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports on voting and engagement activity are received by the Pensions Committee on a quarterly basis.

In addition, the Fund receives 'alerts' from the Local Authority Pension Fund Forum, which highlight corporate governance issues of concern and are considered accordingly.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However, on occasion, the Fund may participate in escalation of issues, principally through engagement activity through the Local Authority Pension Fund Forum.

Principle 5 – Institutional investors should be willing to act collectively with other investors as appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

In respect of shareholder voting, the Fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets.

Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code.

Regular reports are received from the asset managers on how votes have been cast and controversial issues can be discussed at panel meetings.

The Fund does not currently disclose any voting data.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities

The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.

GWYNEDD PENSION FUND
FUNDING STRATEGY STATEMENT

1.0 Introduction

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 and is effective from 1 April 2014.

1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the Local Government Pension Scheme Regulations 2013.
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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.

In publishing the FSS the Administering Authority has to have regard to guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA), most recently in 2012.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2017. More frequently, **Annex A** is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Mrs Caroline Roberts, in the first instance at carolineroberts@gwynedd.gov.uk or on 01286 679128.

2. Purpose

2.1 Purpose of FSS

The Department of Communities and Local Government (CLG)) 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 desirability of maintaining* ***as nearly constant employer contribution rates as possible****; and*
- *to take a* ***prudent longer-term view*** *of funding those liabilities."*

This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the fund as a whole, recognising that there will sometimes be conflicting objectives that need to be balanced and reconciled.

This statement focuses on the best long-term interests of the fund and sets out how the Administering Authority will balance the objectives of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding strategy.

The requirement to maintain and publish a FSS is contained in LGPS Regulations

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered.

The purpose of the Fund is to:

- receive contributions, transfer payments and investment income;
- pay scheme benefits, transfer values and administration costs.

2.3 Responsibilities of Key Parties

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Annex B.

2.4 Aims of the Funding Strategy

The objectives of the Fund's funding strategy include the following:

- to ensure the long-term solvency of the Fund [and of the share of the Fund attributable to individual employers];
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue;

- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- 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; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years – the maximum deficit recovery period applicable to the largest employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.4.

At the 2013 valuation, the Administering Authority decided that any employer's past service deficit adjustment would be expressed as a cash amount (rather than a percentage of pay) spread over an appropriate period. This move to cash deficit repayment contributions protects the Fund as it will continue to receive the right level of deficit contribution in the event of any future reduction in pay.

Annex A, contains a breakdown of each employer's contributions following the 2013 valuation for the financial years 2014/15, 2015/16 and 2016/17. It also identifies which employers' contributions have been pooled with others.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

[1] See Regulation 77(4)
[2] See Regulation 77(6)

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

If an employer is in a surplus position but the rate payable in 2013/14 is lower than the 2013 valuation future service rate, the minimum contribution rate they will pay for the financial years 2014/15, 2015/16 and 2016/17 is the 2013/14 rate.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data we have provided the Actuary with for the purposes of this valuation. There is a consensus amongst actuaries that life expectancy will continue to improve in the future. However, there is no clear consensus about the pace of this improvement (and how long it will persist). The view of the actuarial profession is that the allowance for future longevity improvements should be at the discretion of each individual pension fund, after taking advice from their actuary.

Contributions may increase in future if life expectancy exceeds the funding assumptions. 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. The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.7**%** per annum greater than the long term yield on fixed interest UK Government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset outperformance assumption (AOA) of 1.7% per annum is within a range that would be considered acceptable for the purposes of the funding valuation.

To reflect current expectations for short term pay growth, the Fund actuary has assumed a pay growth assumption of 1% per annum for 3 years from 31 March 2013, reverting to a long term assumption thereafter.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing funding basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

The Projected Unit Method is described in the Actuary's report on the valuation.

3.4.2 Employers that do not admit new entrants

Currently one Admission Body has closed the scheme to new entrants. It is expected that the closure will lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate would be expected to increase as the membership ages. In such cases the *Attained Age* funding method is adopted. This limits the degree of future contribution rises by paying higher rates at the outset.

Future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position. The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority targets the recovery of any deficit over a period which takes into account the risk status of employers and to a lesser extent the wider resource implications. The general principles followed are as follows:

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers.	a period not exceeding 20 years.
Community Admission Bodies with funding guarantees.	a period not exceeding 20 years.
Further Education Colleges which are scheduled bodies and not admitted bodies.	a period not exceeding 15 years.
Best Value Admission Bodies.	the period from the start of the revised contributions to the end of the employer's contract.
Community Admission Bodies that are closed to new entrants	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers
All other types of employer.	a period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for 2013 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 spreading periods, for example to improve the stability of contributions.

The deficit recovery will be expressed as a monetary value to be paid over the relevant period and a fixed amount will be paid each month.

3.7.2 Phasing in of Contribution Increases and Decreases

Best Value Admission Bodies are not eligible for phasing in of contribution rises. For employers facing an increase in their contributions this will be phased in over period of 6 years subject to the Administering Authority's overall satisfaction relating to the security of the Fund. Similarly, any reductions in contributions will be phased down over 3 years.

Major bodies with tax raising powers will continue to pay the same contribution rate (expressed as a percentage of payroll) as their 2013/14 rate.
The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary has modelled the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with statutory bodies with tax raising powers continuing to pay their 2013/14 contribution rate (expressed as a percentage of payroll), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

3.7.3 *The Effect of Opting for Longer Spreading or Phasing-In*

Employers who are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.4 *Pooled Contributions*

3.7.4.1 *Smaller Employers*

The Administering Authority has previously allowed smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service in the past. For the 2013 valuation these pools have been discontinued and each employer will receive their own individual contribution rate.

Smaller employers who were in the pools at the 2010 valuation and smaller employers who are closed to new entrants will be required to participate in ill-health retirement insurance. This will be arranged on a mandatory basis by the Fund. The employer's contribution to the Fund each year is used in part to pay that year's insurance premium so that the total employer contribution is unchanged.

3.7.4.2 *Other Contribution Pools*

Schools are also pooled with their funding Council.

Those employers that have been pooled are identified in **Annex A**.

3.8 Admission Bodies ceasing

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;
- 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 cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

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 there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing 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.

Under (a) and (c), 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 would look to any bond, indemnity or guarantee in place for the employer.

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.

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement 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.

The additional costs of premature retirement are calculated by reference to these ages.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2013, the asset allocation of the fund was as follows:

Asset Allocation	**Benchmark %**	**Actual %**
Equities	72.5	76.0
Property	10.0	8.9
Absolute Return Bonds	15.0	13.3
Infrastructure	2.5	0.3
Cash	0.0	1.5
TOTAL	**100.0**	**100.0**

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from fixed interest bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The current funding policy for the purpose of placing a value on liabilities at the triennial valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, is to assume that future investment returns earned by the Fund over the long term will be 1.7% per annum greater than the long term yield on fixed interest UK Government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. The asset outperformance assumption has been increased from 1.4% per annum at the 2010 valuation to 1.7% per annum at 31 March 2013. This increase is in recognition of unusual economic conditions that have led to relatively low levels of bond yields. The Fund believes that these conditions are likely to be temporary. The level of the asset outperformance assumption will be reviewed again at the 2016 valuation.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities (see para 3.1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index-linked bonds.

5. Key Risks & Countermeasures

5.1 Types of Risk

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

- Investment;
- Employer;
- Liquidity/maturity;
- Liability
- Regulatory and compliance.

5.2 Investment Risk

Number	Risk	Summary of Control Mechanisms
I1	Fund assets fail to deliver the required returns.	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.*
	Active investment manager under-performance relative to benchmark.	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their benchmark. This is now supplemented with an analysis of absolute returns against those under-pinning the valuation.* *This gives an early warning of contribution rises ahead. In the short term, volatility damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more*
I2	Systemic risk with the possibility of interlinked and simultaneous financial market volatility	*The Fund has an investment strategy with risk spread over a number of asset categories.*

I3	Inappropriate long-term investment strategy.	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.*
I4	Counterparty failure	*The Fund uses independent custodians for the safe-keeping of investment assets to protect against failure of an investment manager.* *Cash balances are invested in accordance with the Pension Fund Treasury Management Strategy Statement which prescribes the size and length of deposits with permitted counterparties.*
I5	Specific risks associated with assets and asset classes	*The Fund holds a diversified portfolio of investments over asset classes, countries, currencies and individual stocks to mitigate these risks.*

5.3 Employer Risk

Number	Risk	Summary of Control Mechanisms
E1	The mix of employers changes significantly	*The five secure scheduled bodies comprise 95 of the Fund's members.* *The Administering Authority monitors membership movements on an annual basis.*
E2	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	*Mitigate impact through deficit spreading and phasing in of contribution rises.*
E3	Deteriorating patterns of early retirements.	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.*

E4	1) Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). 2) Administering Authority not advised of an employer closing to new entrants.	*The Administering Authority monitors membership movements on an annual basis.* *The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations* *Deficit recovery contributions are expressed as monetary amounts and will be collected as monetary amounts from 1 April 2014.*
E5	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*

E6	An employer ceasing to exist with insufficient funding or adequacy of a bond.	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:* • *Seeking a funding guarantee from another scheme employer, or external body, wherever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission* • *Setting a minimum limit of 20 employees for prospective employers.* • *The Administering Authority will consider where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.* •

5.4 Liquidity / Maturity Risk

Number	Risk	Summary of Control Mechanisms
M1	Insufficient funds to meet liabilities as they fall due	*The Fund currently has a positive cash flow and monitors the position regularly to ensure that sufficient funds are available to pay pensions and other costs.*
M2	Changes to the scheme which impact on the maturity profile and future opt-out rates	*The actuarial valuation takes account of the planned changes to the scheme.* *Actual changes in the maturity profiles and opt-out rates will be monitored against the assumptions.*
M3	Implications of spending cuts which will result in • reduced membership, • reduced contributions • increased early retirements	*Deficit recovery contributions will be collected as cash amounts, rather than as a percentage of pay, from 1 April 2014.The Fund continually monitors employer contributions for major changes and assesses the impact of any reductions.* *Additional costs of early retirements will be payable by employers.*

5.5 Liability Risk

Number	Risk	Summary of Control Mechanisms
L1	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	*Some investment in bonds helps to mitigate this risk.*
L2	Pay and price inflation significantly more than anticipated.	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds also helps to mitigate this risk.* *Employers pay for their own salary awards.*

L3	Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *At the most recent valuation at 31 March 2013, analysis of current longevity specific to the Gwynedd Pension Fund was provided by Club Vita. In addition the actuary has made a separate allowance for future improvements. The allowance made at the March 2013 valuation was greater than allowed for at the last valuation in 2010. The actuary will continue to monitor emerging evidence of improvements from Club Vita and other sources and will advise at the next valuation (2016) what further allowance for future improvements is needed.*

5.6 Regulatory and Compliance Risk

<table>
<tr><th>Number</th><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>R1</td><td>Changes to regulations, e.g. introduction of the new scheme in 2014</td><td rowspan="2">The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.

It considers all consultation papers issued by the DCLG and comments where appropriate.

The Administering Authority consults employers where it considers that it is appropriate.</td></tr>
<tr><td>R2</td><td>Changes to national pension requirements and/or HMRC rules e.g. annual pensions accrual rules for tax purposes</td></tr>
</table>

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2013 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2013 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer's contributions from the 'Common Contribution Rate'.

Some employers have indicated that they are considering their future membership of the Pension Fund. It will be necessary to amend the table below if individual employers decide to change or terminate their membership.

CODE	Employer Name or Pool	Proposed Maximum Deficit Recovery Period (In years)	Phasing Period (In years)	Contribution Rates and Sums for the year ending					
				FSR 31.03.15 %	Deficit 31.03.15 £'000	FSR 31.03.16 %	Deficit 31.03.16 £'000	FSR 31.03.17 %	Deficit 31.03.17 £'000
	Major Scheduled Bodies								
100	Gwynedd	20	S	18.3	2,985	18.3	3,015	18.3	3,045
200	Isle of Anglesey	20	S	18.6	1,269	18.6	1,282	18.6	1,294
Pool	Conwy Pool								
300	- Conwy County Borough Council	20	S	19.1	1,280	19.1	1,294	19.1	1,306
55	- *Ysgol Emrys ap Iwan*	20	S	19.1	10.5	19.1	10.7	19.1	10.8
56	- *Eirias High School*	20	S	19.1	13.3	19.1	13.5	19.1	13.6
57	- *Ysgol Bryn Elian*	20	S	19.1	8.9	19.1	9.0	19.1	9.0
58	- *Ysgol Pen y Bryn*	20	S	19.1	7.1	19.1	7.2	19.1	7.3
	Major Admission Bodies								
37	Careers Wales North West	FWL	6	17.2	43	19.4	48	19.8	50
38	Cwmni Cynnal	FWL	3	17.0	72	17.0	73	17.0	74
43	Snowdonia National Park	20	S	19.5	70	19.5	70	19.5	71
76	Cartrefi Conwy	FWL	0	17.0	0	17.0	0	17.0	0
77	Cartrefi Cymunedol Gwynedd	FWL	0	16.4	0	16.4	0	16.4	0
78	Grwp Llandrillo Menai	15	6	18.8	118	18.8	159	18.8	200
81	Police and Crime Commissioner North Wales	20	S	16.3	827	16.3	835	16.3	844
	Other Scheduled Bodies								
13	Caernarfon T.C.	20	3	15.4	1.1	15.4	0.7	15.4	0.2
14	Menai Bridge T.C.	20	6	20.7	0.2	20.7	0.4	20.7	0.5
16	Bangor C.C.	20	6	19.3	1.8	19.3	2.6	19.3	3.3
17	Llangefni T.C.	20	6	21.6	0	21.6	0.4	21.6	0.6
22	Beaumaris T.C.	20	6	23.0	0	24.8	0	26.6	0
27	Holyhead T.C.	20	6	20.2	1.3	20.2	1.5	20.2	1.6
28	Llandudno T.C.	20	3	16.3	1.3	16.3	0.9	16.3	0.6
66	Tywyn T.C.	20	6	22.8	0	24.5	0	26.1	0
68	Llanllyfni C.C.	20	6	21.7	0	22.3	0	22.8	0

		Proposed Maximum Deficit		Contribution Rates and Sums for the year ending					
CODE	Employer Name or Pool	Recovery Period (In years)	Phasing Period (In years)	FSR 31.03.15 %	Deficit 31.03.15 £'000	FSR 31.03.16 %	Deficit 31.03.16 £'000	FSR 31.03.17 %	Deficit 31.03.17 £'000
70	Towyn a Kinmel Bay T.C.	20	3	14.2	1.8	14.2	1.0	14.2	0.2
72	Abergele T.C.	20	6	19.5	0.5	19.5	0.6	19.5	0.6
73	Colwyn Bay T.C.	20	3	17.4	1.7	17.4	1.3	17.4	0.9
74	Blaenau Ffestiniog T.C.	20	6	22.2	0	23.2%	0	24.2%	0
	Small Admission Bodies								
11	North Wales Society for the Blind	FWL	6	18.3	6.4	18.3	8.2	18.3	10.1
25	Cyd-Bwyllgor Claddu Caergybi	FWL	6	24.1	0	25.0	0.5	25.0	1.3
34	Coleg Harlech	FWL	6	19.1	21.3	19.1	30.3	19.1	38.9
41	Cwmni'r Fran Wen	FWL	3	13.7	6.9	13.7	5.4	13.7	3.8
61	Conwy Voluntary Services	FWL	6	20.8	3.5	20.8	5.1	20.8	7.1
62	Medrwn Môn	FWL	6	19.7	6.3	19.7	7.9	19.7	9.6
63	Mantell Gwynedd	FWL	0	22.6	0	22.6	0	22.6	0
64	Canolfan Cynghori Ynys Môn Citizens Advice Bureau	FWL	6	18.0	3.1	18.0	4.3	18.0	5.5
67	Menter Môn	FWL	3	15.9	39.1	15.9	31.9	15.9	25.4
69	Conwy Citizens Advice Bureau	FWL	6	22.5	0.5	22.5	1.3	22.5	2.1
71	CAIS	FWL	6	23.9	0	24.1	6.7	24.1	13.7
80	Jewsons Ltd	FWL	0	18.0	0	18.0	0	18.0	0

*FWL = Future Working Lifetime
*S = Statutory tax raising body – no increase in contribution rate
* FSR = Future Service Rate

Annex B – Responsibilities of Key Parties

The Administering Authority is required to:

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

The Individual Employer is required to:

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

The Fund actuary should:-

- 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;
- 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);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.