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 summarise 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 (the 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.

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	Cyngor Tref Conwy (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.

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.

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.

Net assets statement

g) Financial assets

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

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

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

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

iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:
- Unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property are valued at the net asset value or a single price advised by the Fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

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

h) Foreign currency transactions

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

i) Cash and cash equivalents

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

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

By authority

2013/14 £'000		2014/15 £'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 £'000		2014/15 £'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 £'000		2014/15 £'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 Committe	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
666,049	Pooled investments	773,481
116,800	Pooled property investments	143,288
59,696	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
231,295	Unit trusts	379,210
	Overseas	
205,120	Unit trusts	146,354
116,800	**Property unit trusts**	143,288
59,696	**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			31 March 2015	
Carrying value £'000	**Fair value £'000**		**Carrying value £'000**	**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.

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	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£'000	£'000	£'000	£'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	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£'000	£'000	£'000	£'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.

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)	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**

Asset type	**Value as at 31 March 2014**	**Percentage change**	**Value on increase**	**Value on decrease**
	£'000	%	**£'000**	**£'000**
Equities	905,024	11.6	1,009,826	800,222
Fixed Income	194,386	1.3	196,913	191,859
Alternatives (Private Equity)	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	As at 31 March 2015
	£'000	**£'000**
Cash and cash equivalents	10,695	12,031
Cash balances	15,452	22,082
Fixed interest securities	194,386	197,323
Total	**220,353**	**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:

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.

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**	**1,090,943**	**977,092**

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

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**

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 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.

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 2015 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

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.

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.

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 (indviduals 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	Administering Authority	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 £'000		2014/15 £'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 £'000		2014/15 £'000
1,126	Administering Authority	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 £'000	Market value at 31 March 2015 £'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 £'000	2014 / 2015 £'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 £18.49m 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 commitment	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 creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009, outlined that the return to creditors was projected to be 80p in the £ by the end of 2013. The Council has received a return of 93.99% from the administrators up to 31 March 2014 amounting to £3,778,352.60 against the original deposit of £4million. Recoveries are expressed as a percentage of the Authority's claim in the administration, which includes interest accrued up to 6 October 2008. No distributions were received in 2014/15.

The administration is ongoing but it is likely that further distributions will be received and that the full amount should be recovered. Notice that a dividend will be paid in August has been received but the amount is not yet known. The timing of future distributions is unclear and therefore there is no provision in the accounts at this stage.

NOTE 28 - PENSION FUND PUBLICATIONS

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

Statement of Investment Principles
Funding Strategy Statement
Governance Policy and Governance Compliance Statement
Communications Policy Statement

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