GWYNEDD PENSION FUND ACCOUNTS 2015/16

31 March 2015 £'000		Notes	31 March 2016 £'000
	Dealings with members, employers and others directly involved in the Fund		
67,748	Contributions receivable	7	67,317
14	Interest on deferred contributions		8
2	Income from divorce calculations		3
1	Interest on late payment of contributions		
2,015	Transfers in from other pension schemes	8	5,075
69,780	**Total contributions received**		**72,402**
(48,610)	Benefits payable	9	(55,186)
(1,909)	Payments to and on account of leavers	10	(2,852)
(50,519)	**Total benefits paid**		**(58,038)**
19,261			**14,365**
(8,573)	Management Expenses	11	**(10,060)**
	Returns on Investments		
12,993	Investment income	14	11,874
(687)	Taxes on income	15	(530)
164,833	Profit and (losses) on disposal of investments and changes in the market value of investments	16	12,383
177,139	**Returns on investments net of tax**		**23,727**
187,827	**Increase in the net assets available for benefits during the year**		**28,032**
	Net assets of the Fund		
1,309,546	At 1st April		1,497,373
187,827	Increase in net assets		28,032
1,497,373			**1,525,405**

NET ASSETS STATEMENT AS AT 31 MARCH 2016

31 March 2015 £'000		Notes	31 March 2016 £'000
1,458,025	Investment assets	16	1,455,230
22,082	Cash deposits	16	42,631
1,480,107			**1,497,861**
(229)	Investment liabilities	16	(64)
20,312	Current assets	21	31,887
(2,817)	Current liabilities	22	(4,279)
1,497,373			**1,525,405**

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year end, but rather summarises the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 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 2015/16 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 Bodies	
Caterlink	Jewsons
Superclean 1	

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 2016. 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.

NOTE 1 – DESCRIPTION OF FUND (continued)

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

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

iv) Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

All oversight and governance expenses are accounted for on an 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Net assets statement

g) Financial assets

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

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

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

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

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

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

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

h) Foreign currency transactions

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

i) Cash and cash equivalents

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial liabilities

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

k) Actuarial present value of promised retirement benefits

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

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

l) Additional voluntary contributions

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

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

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2016 was £82 million (£71 million at 31 March 2015).

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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

Item	Uncertainties	Effect if actual results differ from assumptions
Debtors	At 31 March 2016, the Fund had a balance of sundry debtors of £11.5m. 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 £82 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

Great Britain held a referendum on 23 June 2016 on future membership of the European Union (EU) and the majority voted to leave the EU. In the short term this decision has led to a huge amount of political and economic uncertainty.

It is certain that this result has had an immediate impact on financial markets and the funding positions of Defined Benefit pension schemes including Gwynedd Pension Fund. The full, longer-term impact remains to be seen.
Following a Brexit vote financial markets responded even more dramatically to the result than expected. Markets moved sharply and the pound hit a 30 year low against the dollar.

Defined benefit schemes are a long-term business and an immediate reaction to short term market volitality is not appropriate. Continued volatility is likely in the short term as investors decide what the result means for different investments.

The pension fund investments reported in these accounts are based on valuations at 31 March 2016 which have fallen by the 23 June and no adjustment has been made to reflect the current fall.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2014/15 £'000		2015/16 £'000
52,502	Employers	52,149
15,246	Employees/Members	15,168
67,748		**67,317**

By authority

2014/15 £'000		2015/16 £'000
24,251	Gwynedd Council	22,722
38,992	Other scheduled bodies	40,256
1,753	Admission bodies	1,660
2,268	Community admission bodies	2,227
257	Transferee admission bodies	203
173	Resolution bodies	195
54	Closed fund*	54
67,748		**67,317**

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

2014/15 £'000		2015/16 £'000
15,246	Employees normal contributions	15,168
45,586	Employers normal contributions	45,106
6,916	Employers deficit recovery contributions	7,043
67,748		**67,317**

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2014/15 £'000		2015/16 £'000
0	Group Transfers	3,889
2,015	Individual transfers	1,186
2,015		**5,075**

NOTE 9 - BENEFITS PAYABLE

By category

2014/15 £'000		2015/16 £'000
37,074	Pensions	39,477
9,922	Commutation and lump sum retirement benefits	14,070
1,614	Lump sum death benefits	1,639
48,610		**55,186**

By authority

2014/15 £'000		2015/16 £'000
13,554	Gwynedd Council	15,094
22,135	Other scheduled bodies	27,319
1,074	Admission bodies	1,275
653	Community admission body	709
25	Transferee admission body	35
72	Resolution body	86
11,097	Closed fund	10,668
48,610		**55,186**

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2014/15 £'000		2015/16 £'000
84	Refunds to members leaving service net of tax repayments	96
17	Payments for members joining state scheme	77
1,808	Individual transfers	2,679
1,909		**2,852**

NOTE 11 – MANAGEMENT EXPENSES

2014/15 £'000		2015/16 £'000
1,106	Administrative costs	1,186
7,419	Investment management expenses (Note 13)	8,815
48	Oversight and governance costs	59
8,573		**10,060**

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

2014/15 £'000		2015/16 £'000
	Administrative costs	
455	Direct employee costs	447
214	Other direct costs	368
323	Support services including IT	257
31	External audit fees	29
83	Actuarial fees	85
1,106		**1,186**
	Oversight and governance costs	
48	Pensions Committee	59
1,154		**1,245**

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

2014/15 £'000		2015/16 £'000
7,301	Management fees	8,685
53	Custody fees	54
15	Performance monitoring service	19
50	Investment consultancy fees	57
7,419		**8,815**

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 £748,578.70 (2014/15 £0) in respect of performance related fees paid to one of the Fund's investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 14 – INVESTMENT INCOME

2014/15		2015/16
£'000		£'000
1,219	UK equities	788
6,448	Overseas equities	6,019
866	Private equity	853
257	Infrastructure	302
4,097	Pooled property investments	3,764
106	Interest on cash deposits	148
12,993		**11,874**

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 2015/16 a distribution of £22,615.66 was received by the Pension Fund. This amount has been included in the interest on cash deposits figure for 2015/16 in the above table. There were no distributions in 2014/15. Further information is included in Note 27.

NOTE 15 – TAXES ON INCOME

2014/15		2015/16
£'000		£'000
687	Withholding tax – equities	530
687		**530**

NOTE 16 – INVESTMENTS

2014/15		2015/16
£'000		£'000
	Investment assets	
197,323	Fixed Interest absolute return	198,845
272,050	Equities	269,784
773,481	Pooled equity investments	746,944
143,288	Pooled property investments	157,734
62,546	Private equity	66,278
8,917	Infrastructure	15,262
1,457,605		**1,454,847**
22,082	Cash deposits	42,631
420	Debtors	383
1,480,107	**Total investment assets**	**1,497,861**
	Investment liabilities	
(229)	Amounts payable for purchases	(64)
(229)	**Total investment liabilities**	**(64)**
1,479,878	**Net investment assets**	**1,497,797**

Note 16a – Reconciliation of movements in investments and derivatives

2015/16	Market value at 1 April 2015	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	197,323	0	0	1,522	198,845
Equities	272,050	66,295	(82,842)	14,281	269,784
Pooled investments	773,481	7,279	(5,532)	(28,284)	746,944
Pooled property investments	143,288	2,266	0	12,180	157,734
Private equity / infrastructure	71,463	13,516	(12,066)	8,627	81,540
	1,457,605	89,356	(100,440)	8,326	1,454,847
Cash deposits	22,082			(47)	42,631
Amount receivable for sales of investments	420				383
Amounts payable for purchases of investments	(229)				(64)
Fees within pooled vehicles				4,104	
Net investment assets	**1,479,878**	**89,356**	**(100,440)**	**12,383**	**1,497,797**

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**

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 £193,820 (2014/15 £228,201). 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 2015 £'000		31 March 2016 £'000
	Equities	
	UK	
35,517	Quoted	32,396
	Overseas	
236,533	Quoted	237,388
	Pooled funds	
	UK	
247,917	Unit trusts	234,401
	Global (including UK)	
197,323	Fixed income	198,845
379,210	Unit trusts	274,408
	Overseas	
146,354	Unit trusts	238,135
143,288	**Property unit trusts**	157,734
62,546	**Private equity**	66,278
8,917	**Infrastructure**	15,262
1,457,605		**1,454,847**

Investments analysed by fund manager

Market Value at 31 March 2015 £'000	%		Market Value at 31 March 2016 £'000	%
485,874	32.8	BlackRock	470,435	31.4
313,418	21.2	Fidelity	305,122	20.4
197,331	13.3	Insight	198,852	13.3
27,214	1.8	Lothbury	29,845	2.0
71,463	4.8	Partners Group	81,540	5.4
14,170	1.0	Threadneedle	15,931	1.0
76,366	5.2	UBS	83,346	5.6
294,042	19.9	Veritas	312,726	20.9
1,479,878	**100.0**		**1,497,797**	**100.0**

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

Market value 31 March 2015 £'000	**% of total Fund**	**Security**	**Market value 31 March 2016** £'000	**% of total Fund**
281,164	18.78	Fidelity Institutional Select Global Equity	274,408	17.99
247,916	16.56	BlackRock Asset Management Aquila Life UK Equity Index Fund	234,400	15.37
197,323	13.18	Insight Umbrella Holdings	198,845	13.04
98,047	6.55	BlackRock Asset Management Aquila Life Global Dev Fundamental Fund	95,490	6.26

Note 16c – Stock lending

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

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

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

As at 31 March 2015				As at 31 March 2016		
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			
197,323			Fixed interest securities	198,845		
272,050			Equities	269,784		
773,481			Pooled investments	746,944		
143,288			Pooled property investments	157,734		
62,546			Private equity	66,278		
8,917			Infrastructure	15,262		
18	34,095		Cash	0	63,065	
	8,701		Debtors		11,836	
1,457,623	**42,796**	**0**		**1,454,847**	**74,901**	
			Financial liabilities			
(229)		(2,817)	Creditors	(64)		(4,279)
(229)	**0**	**(2,817)**		**1,454,783**	**74,901**	**(4,279)**
1,457,394	**42,796**	**(2,817)**				

Note 17b – Net gains and losses on financial instruments

31 March 2015		31 March 2016
Fair value		Fair value
£'000		£'000
	Financial assets	
160,642	Fair value through profit and loss	8,325
63	Loans and receivables	(36)
160,705	**Total financial assets**	**8,289**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	**Total financial liabilities**	**0**
160,705	**Net financial assets**	**8,289**

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 2015 Carrying value £'000	31 March 2015 Fair value £'000		31 March 2016 Carrying value £'000	31 March 2016 Fair value £'000
		Financial assets		
1,037,989	1,457,624	Fair value through profit and loss	1,057,007	1,454,847
42,795	42,795	Loans and receivables	74,901	74,901
1,080,784	**1,500,419**	**Total financial assets**	**1,131,908**	**1,529,748**
		Financial liabilities		
(229)	(229)	Fair value through profit and loss	(64)	(64)
(2,817)	(2,817)	Financial liabilities at cost	(4,279)	(4,279)
(3,046)	**(3,046)**	**Total financial liabilities**	**(4,343)**	**(4,343)**
1,077,738	**1,497,373**	**Net financial assets**	**1,127,565**	**1,525,405**

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

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

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

Values at 31 March 2016	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	633,363	739,944	81,540	1,454,847
Loans and receivables	74,901	0	0	74,901
Total financial assets	**708,264**	**739,944**	**81,540**	**1,529,748**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(64)	0	(64)
Financial liabilities at cost	(4,279)	0	0	(4,279)
Total financial liabilities	**(4,279)**	**(64)**	**0**	**(4,343)**
Net financial assets	**703,985**	**739,880**	**81,540**	**1,525,405**

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**

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 2016/17 reporting period.

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

Following analysis of the observed historical volatility of asset class returns in consultation with the Fund's investment 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 2015 %	31 March 2016 %
Equities	8.7	9.3
Fixed Income	1.0	1.5
Alternatives (Private Equity and Infrastructure)	5.9	6.5
Property	3.2	2.3
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 2016 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Equities	1,016,728	9.25	1,110,775	922,681
Fixed Income	198,845	1.48	201,788	195,902
Alternatives (Private Equity and Infrastructure)	81,540	6.54	86,873	76,207
Property	157,734	2.33	161,409	154,059
Cash	42,950	0.01	42,954	42,946
Total assets available to pay benefits	**1,497,797**		**1,603,799**	**1,391,795**

Asset type	Value as at 31 March 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'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**

Interest rate risk

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

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 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 2015 £'000**	**As at 31 March 2016 £'000**
Cash and cash equivalents	12,031	20,434
Cash balances	22,082	42,631
Fixed interest securities	197,323	198,845
Total	**231,436**	**261,910**

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

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

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.

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 0.63% amounting to interest of £147,689 for the year.

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

Currency risk

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

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

The Fund has made commitments to private equity and infrastructure in foreign currency, (€184million and $88.6million). 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 2016 and as at the previous period end:

Currency exposure - asset type	**As at 31 March 2015 £'000**	**As at 31 March 2016 £'000**
Overseas and Global Equities	762,098	749,931
Global Fixed Income	197,324	198,845
Overseas Alternatives (Private Equity and infrastructure)	71,463	81,540
Overseas Property	2,925	3,116
Overseas Currency	208	0
Total overseas assets	**1,034,018**	**1,033,432**

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 6.0% 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 2016. The equivalent rate for the year ended 31 March 2015 was 5.5 %. 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 2016 £'000**	**Change %**	**Value on increase £'000**	**Value on decrease £'000**
Australian Dollar	9,279	9.3	10,138	8,419
Brazilian Real	2,091	13.9	2,382	1,801
EURO	118,178	6.8	126,182	110,175
South African Rand	2,478	10.3	2,734	2,223
Swedish Krona	5,280	7.7	5,683	4,876
Swiss Franc	2,540	10.0	2,794	2,288
US Dollar	182,196	7.8	196,377	168,016
Pooled Investments				
Global Basket	608,790	6.0	645,270	572,307
Global ex UK Basket	71,886	6.5	76,537	67,235
Emerging Basket	30,714	6.8	32,800	28,628
Total change in assets available*	**1,033,432**	**6.0**	**1,094,878**	**971,986**

* 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 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.

Currency exposure - by asset type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	749,931	794,521	705,341
Global Fixed Income	198,845	210,668	187,022
Overseas Alternatives (Private Equity and infrastructure)	81,540	86,388	76,692
Overseas Property	3,116	3,301	2,931
Overseas Currency	0	0	0
Total change in assets available	**1,033,432**	**1,094,878**	**971,986**

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**

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.

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

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 2016 was £25m (£12.0m at 31 March 2015).

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

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

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 2016 the value of illiquid assets was £143m, which represented 9.4% of the total Fund assets (31 March 2015: £133m, which represented 8.9% 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 2016 are due within one year as was the case at 31 March 2015.

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 2013.

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	-

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:

NOTE 19 – FUNDING ARRANGEMENTS (continued)

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, FRS17 and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2016 was £1,974m (£2,114m at 31 March 2015).

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 2015 %	31 March 2016 %
Inflation/ pension increase rate	2.4	2.2
Salary increase rate*	4.3	4.2
Discount rate	3.2	3.5

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

2014/15 £'000		2015/16 £'000
1,173	Contributions due - employees	932
4,023	Contributions due – employers	3,221
24	Transfer value received (individuals who join)	3,901
3,061	Sundry debtors	3,399
8,281	**Total debtors**	**11,453**
12,031	Cash	20,434
20,312	**Total**	**31,887**

Analysis of debtors

2014/15 £'000		2015/16 £'000
2,458	Gwynedd Council	2,073
1,326	Central government bodies	732
2,795	Other local authorities	5,631
3	NHS bodies	3
1,699	Other entities and individuals	3,014
8,281	**Total**	**11,453**

NOTE 22 – CURRENT LIABILITIES

2014/15 £'000		2015/16 £'000
1,944	Sundry creditors	1,714
10	Transfer value payable (leavers)	27
863	Benefits payable	2,538
2,817	**Total**	**4,279**

Analysis of creditors

2014/15 £'000		2015/16 £'000
1,174	Gwynedd Council	901
33	Central government bodies	43
0	Other Local Authorities	1
10	NHS bodies	19
1,600	Other entities and individuals	3,315
2,817	**Total**	**4,279**

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2015 £'000	Market value at 31 March 2016 £'000
Clerical Medical	2,678	2,936
Equitable Life	269	258
Standard Life	233	51
Total	**3,180**	**3,245**

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

	2014/2015 £'000	2015/2016 £'000
Clerical Medical	508	526
Equitable Life	0	0
Standard Life	11	1
Total	**519**	**527**

NOTE 24 - RELATED PARTY TRANSACTIONS

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

The council incurred costs of £1,075,225 (£986,723 in 2014/15) 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 £17.31m to the Fund in 2015/16 (£18.49m in 2014/15). At the end of the year the council owed £2.07m to the Fund (see Note 21) which was primarily in respect of contributions for March 2016 and the Fund owed £0.90m 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 2015/16, the Fund received interest of £147,611 (£103,645 in 2014/15) from Gwynedd Council.

Governance
There were 2 members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2015/16 (Committee members T.O. Edwards and P. Jenkins). In addition, committee members T.O. Edwards, S. Glyn, P. Jenkins, H.E. Jones, W.T. Owen P.Read and G.G. Williams are active members of the pension fund.

There was 1 member of the Pension Board who was in receipt of pension benefits from the Gwynedd Pension Fund during 2015/16 (Board member S. Warnes). In addition, Board members A.W. Deakin, V. Halloran, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the pension fund.

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

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

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments €'000	Commitment at 31 March 2015 €'000	Commitment at 31 March 2016 €'000
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	6,034	5,044
P.G. Global Infrastructure 2012	40,000	28,285	22,005
P.G. Direct 2012	12,000	5,352	1,813
P.G. Global Value 2014	12,000	9,581	7,119
P.G Direct 2016	20,000	0	18,202
Total Euros	**184,000**	**55,465**	**60,396**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	7,000	2,648	2,078
P.G Secondary 2015	38,000	38,000	34,804
P.G Direct Infrastructure 2015	43,600	0	42,111
Total Dollars	**88,600**	**40,648**	**78,993**

'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 £3,938,407 equating to 98% from the administrators up to 31 March 2016.

In August 2016 a distribution of £22,615.66 was received by the Pension Fund. The administration is ongoing, but it is likely that the full amount should eventually be recovered.

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.