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I. Foreword

The fund assets stood at £1,050m at 31 March 2012, an increase of £25.9m during the year, as shown in the accounts on page 29.

It has been a difficult year for investments with volatile markets and significant problems within the Euro zone which inevitably impact on returns. The performance was slightly below the benchmark for the year with the Fund returning 0.5% on investments, compared with a benchmark of 0.7% for that period.

During the year the performance of individual managers is regularly assessed and due to consistently poor returns from Capital International the decision was made to terminate their mandate and appoint a new manager in their place. Following the due process Veritas Asset Management (UK) Ltd were appointed with an active global equity mandate. The transfer of assets to Veritas will take place in July 2012.

Bonds performed well with Insight Investment returning 3.2% (2.4% above the benchmark) and UBS property returned 6.3% (0.6% above the benchmark). In addition Partners Group performance with Private Equity was 8.4% for the year (8.8% above the benchmark) (see pages 21 to 23 for details).

A review of investments resulted in a decision to reduce the allocation to equity investments in order to invest in infrastructure fund of funds. This type of investment produces steady income streams over the longer term which match the longer term nature of pension liabilities. The investment will be made with Partners Group and will commence the first quarter of 2012-13.

It is likely that the extremely poor economic conditions and their effects on bond yields and asset values will not be good news when we come round to the next triennial valuation. However I hope that the Gwynedd Fund's conservative approach to funding assumptions and setting contribution rates will give some element of protection in this regard.

Since the 2010 actuarial valuation we have received an annual update on the funding projection for the Fund. The estimated funding level at 31 March 2012 was around 70% which is a decrease from the previous level projected. The main reason for this decrease is the exceptionally low level of bond yields which creates a higher valuation of future employer liabilities. In addition, the return on the Fund's assets for the year has been lower than expected due to the general poor performance of the markets.

The planned review of the Statement of Investment Principles is underway and the proposed revised Statement is out for consultation until 31 August 2012. All interested parties are encouraged to take part in this process.

The administrative unit continued their efficient performance as measured against their targets (see page 6). The communications activity continues to develop the relationship with employers in order to encourage dialogue and a deeper understanding of pensions issues.

During the year the review of public sector pensions schemes continued following the reports published by Lord Hutton in 2010-11. Significant efforts were made to ensure that the Local

Government pension scheme be considered separately from the other public pension schemes due to its funded status. This was successful and agreement was reached that the proposed average 3% increase in all employee contributions be deferred for the local government scheme in order to produce a package of changes which recognise the difference in funding.

The proposals for the new scheme are not unexpected and include a pension based on career average earnings rather than final salary and retirement age linked to state pension age which will increase to 67 in the short term and is likely to increase in the future. An adjustment to the accrual rate for every year of service is also included. Consultation on these proposals is taking place during July 2012. Mechanisms for future cost management will also be implemented. The new scheme is expected to start in 2014.

Although the object of the new scheme is to establish a more sustainable scheme and reduce employer costs this is unlikely to happen to the extent expected in the short term due to the current poor performance of markets which will probably offset any reductions which might have achieved by the new scheme rules. However, in the longer term we should see the benefit as employer contributions will be less than they would otherwise have to be.

A more immediate challenge for employers is auto-enrolment of employees into a pension scheme. Dates for compliance depend on the size of the employer, with larger employers starting by late 2012/13 or early 2013/14. Compliance is compulsory for all employers and will result in significant additional administration for both employers and the Fund. A seminar will be arranged for employers to explain their responsibilities and attendance is encouraged. (See pages 4 – 5 for further details on auto enrolment).

Pensions, especially those in the public sector, have become increasingly high profile in recent years and the volume of change is increasing each year bringing with it increased complexity. This is likely to continue and is certainly a challenge to the Fund; the employer organisations within the Fund and more importantly perhaps those 14,000 contributing members of the fund who are expected to understand it all.



Dilwyn O. Williams
Corporate Director

2. Review of the Year

2.1 Pensions Administration

General and Introduction

There was no let up in announcements on both public sector pension schemes or state scheme revisions during the past year. Discussion and negotiations on the review of the local government pension scheme continued, and announcements made by the Government on extending state pension ages still further.

On the local front all eight Welsh Pension funds are working together to carry out a study on how best to proceed in terms of administration in Wales. Options include remaining with the status quo, work on more collaboration, or to amalgamate into different models of administration units. This work is still ongoing at the time of writing this report.

Continuing the review of public sector pension schemes

Stakeholders began negotiations in the Autumn of 2011 to decide on the design a new Local Government Scheme. It was already clear that a new scheme would be a Career Average Revalued Earnings (CARE) scheme, most probably with a normal retirement age linked to state pension age, which was originally intended to come into force from April 2015. Negotiations continued well into 2012 and beyond the period covered by this report, but what became clear early on was that, as a trade off against an immediate increase in employee contribution rates, the new scheme would be brought forward from 2015 to 2014. This compromise originated from a risk that increasing contributions rates would trigger large volumes of opt outs, that could have devastating effect on funding levels and consequently drive up employer contribution rates. Full details of the latest proposals can be seen on the LGPS website www.lgps.org.uk.

Pensions Act 2011 and the Chancellor's Autumn Statement

The Pensions Act 2011 received Royal Assent on 3 November 2011 and amongst many other things it amended the timetable for increasing State Pension Age to 66. Furthermore, in his Autumn Statement on 29 November, the Chancellor announced that the Government intended to bring forward by 8 years the period over which the State pension age is increased to age 67, with the intention of this now happening in April 2026 and April 2028. Those born on or after 6 April 1960 but before 6 April 1961 will have a state pension age between 66 and 67. People born on or after 6 April 1961 will have a State pension age of 67 or higher.

This change is not yet law and will require the approval of Parliament. The Government is considering how to make sure that state pension age continues to keep pace with increases in life expectancy and will bring forward proposals in due course. Hence, it may be that the rise in the state pension age to age 68, for example, could occur earlier than currently planned and will impact on the retirement date of the new local government pension scheme, as it will be linked to state pension age.

Restriction on Pension Tax Relief for high earners

Last year it was mentioned that the Chancellor was to repeal the restrictions on tax relief on pensions contributions introduced in Finance Act 2010 and was to come into force from April 2011. As a result the annual allowance previously set at £255k for 2010/11 reduced to £50k for the year 2011/12, and from April 2012, the Life Time Allowance for tax-privileged pension saving was reduced from £1.8m to £1.5m. All these were issues for individual tax payers to address, but nevertheless the Gwynedd Pension Unit sent out leaflets and information to those that might be affected

Annual Benefit Statements (ABS)

Due to the changes to state pension age announced by the Government, the Department of Work and Pensions' computer system could not be updated in time to enable administrators to provide a combined state and local government pension statement. However, a fully illustrated version with the local government pension scheme benefit only was produced and sent out, albeit with a warning that the values of projected benefits would be affected by the change of scheme in 2014.

There continues to be great concern about late submissions of end of year contribution reports by employers. As explained in last year's report, it is essential that these reports are sent accurately and on time. 2013 will again be a valuation year, so prompt returns will be paramount in providing data to the actuary for timely valuation results. The new lower tax allowances will require annual benefit statements to be amended to include a notice of the value of that year's pension accrual, in order for individuals who have exceeded limits to submit their tax returns by October of 2013, and annually subsequent to this. With these factors in mind, employers are asked to provide adequate resources and greater urgency so that the pension contribution returns are given the same priority as HMRC returns.

Other administrative issues – Auto Enrolment

The Government's auto enrolment requirements are due to impact on the larger employers of the Gwynedd Pension Fund late in 2012/13 and early 2013/14. These employers will have their own staging dates for auto enrolment and from which they should auto enrol 'jobholders' into a 'qualifying' workplace pension scheme, (the LGPS is a qualifying workplace pension scheme). These are employees who:-

- Are not already in a workplace pension
- Are at least 22 years old, but have not attained state pension age
- Earn more than the minimum earnings threshold £8,105 (April 2013)

Workers who don't meet the above description can also elect to enrol if they choose.

For all employers, compliance with the new employer duties and safeguards is compulsory. It is crucial that all employers understand how their workforce will be categorised under the new legislation. They will need to know:-

- The criteria that determine whether someone is considered as a 'worker'
- The criteria that determine what category of 'worker' that person is

Before a jobholder can choose to opt out of pension scheme membership, they must have become an active member of the pension scheme under the automatic enrolment or opt in provisions, and have received the enrolment information from their employer

The latter is important to ensure the jobholder will have been provided with sufficient information about the effect of the enrolment, so they can make an informed choice about whether to opt out.

There are specific timescales during which jobholders can opt out of active pension scheme membership. They can only opt out during what is known as the 'opt-out period', which starts after active membership has been achieved. This is generally one month after automatic enrolment date.

If the jobholder wishes to opt out after receiving this information, they must do so by giving an 'opt-out notice' to the employer. On receipt of the opt-out notice, the employer must take action to unravel the membership of the scheme so that the jobholder is treated as if they were never a member on that occasion. This includes giving refunds of any contributions that have been deducted. An employer must keep records of any opt outs, because they will be required to re-enroll on the three-yearly re-enrolment date.

Extensive information on auto enrolment can be obtained on the Pensions Regulator's website at: <http://www.thepensionsregulator.gov.uk/index.aspx>

Auto enrolment will mean a significant amount of additional complications and work for both employers and LGPS administrators alike. New processes and documentation will have to be introduced and employers will, at risk of fines, have to provide the administrators with the necessary data significantly quicker than is currently the case. With this in view, the Gwynedd Pension Fund are in the process of evaluating software that could, via interfaces, link in to employers' payrolls and can daily and automatically download the required data without the current need to fill in forms.

A seminar on auto enrolment is being arranged in Caernarfon in early September, where it is hoped a representative of the Pensions Regulator will speak and an active demonstration of the proposed software will be made. I would encourage all employers, small, medium and large to send a payroll and/or personnel representative.

Communication and the All Wales Partnership

As was mentioned in the introduction some significant work has been carried out on evaluating how far the partnership has and can be further progressed. Issues being considered include joining together for joint procurement of various products and services, consideration of funds mergers, possibly to an All Wales model. It's early days in the business case exercise, however it is progressed employers will be consulted and kept informed of any options and pending decisions.

Under the current partnership set up, annual benefit statements and numerous leaflets have been jointly produced and updated. This collaborative work has allowed all eight funds to benefit from better quality material at reduced costs.

Performance Monitoring

Some of the Section's core activities are measured as part of the Council's performance monitoring regime. From 2010/11, targets CD9.05 and CD9.06 were reduced from an average of twelve working days to ten. Both of these involve the administrative work required to process death and dependant benefits.

In comparing the figures for 2011/12 against those for 2010/11, although these were similar, there were increases in the number of actual retirements and deaths. I anticipate that this pattern will continue, as employers continue to reduce their workforce and as the fund matures. It should also be noted that the number of payslips (payments) made on the pensioner payroll increased from 7,408 in April of 2011, to 7,718 in March of 2012. Approximately 1,000 of these are former teachers in receipt of early retirement compensation, and therefore are not paid from the pension fund.

REF	CORE ACTIVITIES	TARGET	2010/2011		2011/2012	
			NO OF CASES	AVERAGE DAYS TAKEN	NO OF CASES	AVERAGE DAYS TAKEN
CD9.01	Average number of work days taken to send a quotation letter offering a transfer in	40 days	103	14.8	111	18.5
CD9.02	Average number of work days taken to send a quotation letter detailing a transfer out	40 days	46	34.4	34	16.1
CD9.03	Average number of work days taken to send a letter informing value of benefits – estimate	10 days	1587	7.5	1547	5.3
CD9.04	Average number of work days taken to send a letter informing value of benefits – actual	10 days	474	4.5	521	4.3
CD9.05	Average no of days taken to acknowledge death of active / preserved / pensioner member	10 days	22	6.6	15	7.2
CD9.06	Average number of work days taken to notify dependents benefits	10 days	174	6.8	195	7.2
CD9.07	Monthly pension payments processed and paid on time	100%	*Approx Average 7,350 per month	Reached 100% target	*Approx Average 7,700 per month	Reached 100% target
CD9.08	Number of cases where amended payments were necessary as a result an error in the section	Not to exceed 8 cases for the year	0	N/A	5	N/A
CD9.09	No of surgeries to be offered to employers	90 surgeries	105	N/A	**82	N/A

**The number of monthly pension payments shown includes approx 1,000 ex-teachers.*

*** The target wasn't reached due to a long-term staff illness*



Gareth Jones
Pensions Operations
Manager

2.2 Investment Strategy and Statement of Investment Principles

Following the actuarial valuation during 2010/11, the Fund has been considering its investment strategy and a number of changes are being made.

During 2011/12 the Fund changed its regional allocation of equities, changing the target listed equity split from 40% UK and 60% overseas, to 30% UK and 70% overseas. This was achieved by transitioning assets within BlackRock's passive equity mandate.

To provide further diversification from equity investments and provide more consistent income streams which are usually inflation proofed, the Pensions Committee has decided to make an allocation to infrastructure through a fund of funds arrangement. The initial commitment will be 2.5% of fund assets, building up to 5% over the longer term. This investment will be made during 2012/13 with Parters Group, who currently manage the Fund's private equity mandate.

Towards the end of 2011/12, the Pensions Committee appointed Veritas Asset Management as an investment manager for the Pension Fund. During 2012/13 the mandate with Capital International will be terminated and the assets transferred to Veritas. The mandate continues to be active equity.

Following the actuarial valuation completed in 2010/11 and the above changes, the Statement of Investment Principles will be reviewed during 2012/13. This process will include consultation with all employers in the Fund and other stakeholders.

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

Definition of IAS19

IAS19 effectively defines how pension scheme assets and liabilities are to be measured for financial reporting purposes and notes that any deficit or surplus should be recognised in full as a balance sheet item, with any movements being recognised in the annual profit and loss account. IAS19 is relevant to bodies required to report under IFRS. This affected the scheduled bodies in the Pension Fund, which are part of Government accounting, namely Gwynedd Council, Isle of Anglesey County Council, Conwy County Borough Council and their foundation schools, Snowdonia National Park Authority and the North Wales Police Authority. All other employers are still subject to FRS17 reporting requirements.

Accounting for IAS19 and FRS17

Adoption of IAS19 or FRS17 means that employers have to recognise the net asset or liability and a pensions reserve in the balance sheet, and they have to make entries in the Consolidated Revenue Account for movements in the asset or liability relating to defined benefit schemes.

IAS19 and FRS17 Reports as at 31/03/2012

In January 2012, work was undertaken to collect all the necessary data required by the Actuary to calculate the individual IAS19 or FRS17 information for each of the Fund's employers. The majority of the reports were sent to the employers between 2nd May 2012 and 4th May 2012. One employer requested bespoke assumptions for use in preparation of a report which was sent on 9th May 2012.

IAS19 and FRS17 Results as at 31/03/2012

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

- the deficit has increased due to falling real bond yields;
- the deficit has further increased due to poor asset returns;
- the projected pension expense for next year has risen for the above reasons and due to the reduced expected asset rates of return.

2.4 Stewardship Code

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

The Pensions Committee agreed with the principle of publishing a statement of compliance with the Stewardship Code. As part of this compliance the Pension Fund has joined the Local Authority Pension Funds Forum (LAPFF) in order to be able to exert more influence over investee companies.

It is also appropriate to include consideration of social, environmental and ethical matters in the scrutiny and performance of equity managers engagement with investee companies; the Pensions Committee will continue with the system of exception reporting on the engagement of investment managers.

2.5 Knowledge and Skills Framework

Under current training arrangements, all members of the Pensions Committee are required to attend a three day Trustee Training Fundamentals Course, after which they receive an “LGPS Fundamentals” training certificate. From time to time members are also sent on refresher courses and attend appropriate conferences on a rota basis. In addition, many of the reports to the Investment Panel present new information to officers and elected members, contributing to their knowledge of investment matters.

During 2011/12 CIPFA published a Code of Practice on Public Sector Finance Knowledge and Skills. The launch of the Code is timely as Lord Hutton recommended that “every public service pension scheme (and individual LGPS fund) should have a properly constituted, trained and competent Pension Board”.

In November 2011 Gwynedd Pensions Committee considered the recommendations of the Code and adopted the following statement:

- (i) Gwynedd Pension Fund adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
- (ii) Gwynedd Pension Fund recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.

- (iii) Accordingly Gwynedd Pension Fund will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
- (iv) These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
- (v) Gwynedd Pension Fund will report on an annual basis how these policies have been put into practice throughout the financial year.
- (vi) Gwynedd Pension Fund has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Head of Finance, who will act in accordance with the organisation's policy statement and with CIPFA Standards of Professional Practice.

The Pensions Committee has formally adopted the following knowledge and skills policy statement (as referred to in (iii) above):

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

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

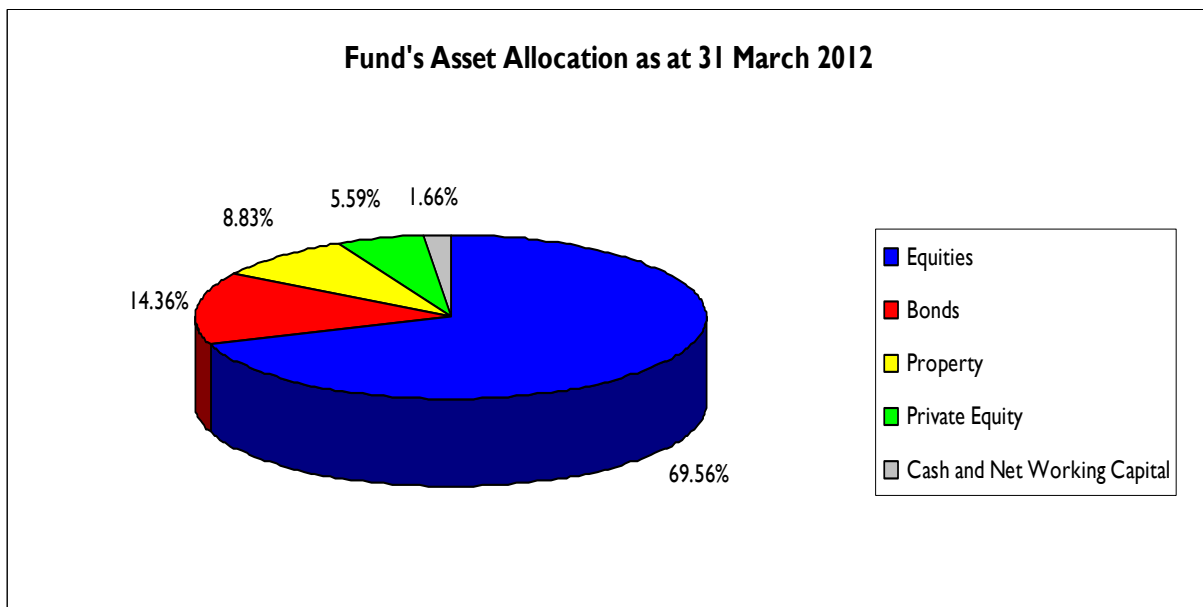
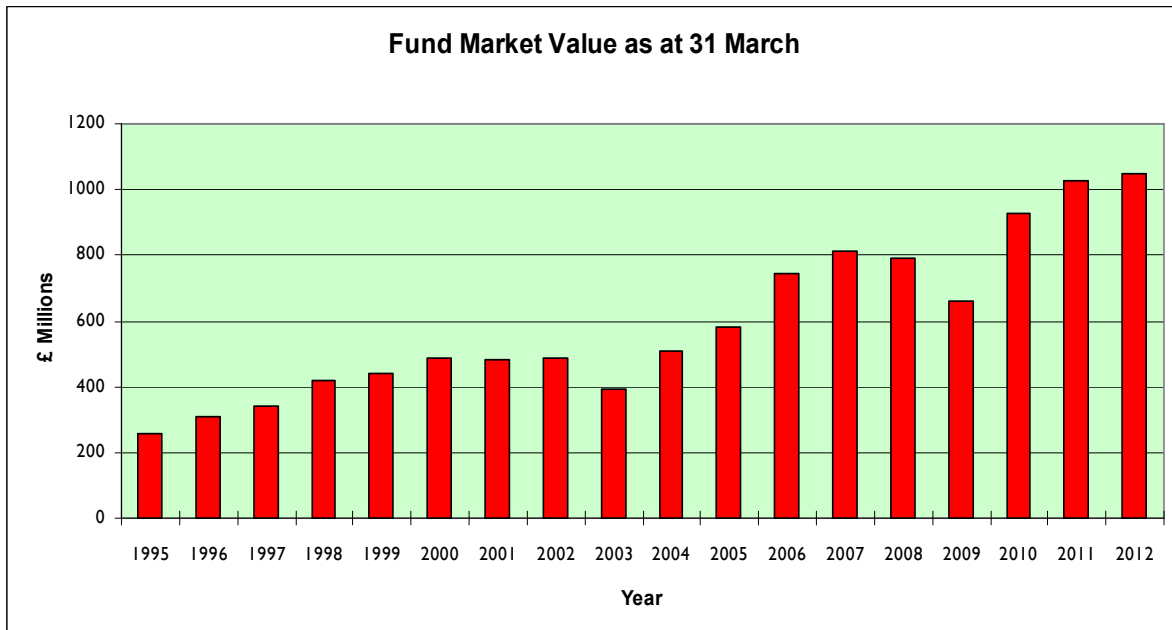
The Pensions Committee agreed that a self assessment questionnaire be circulated to members of the Committee in order to establish the training requirements before moving on to develop an appropriate training programme. The circulation of this questionnaire was postponed until after the local government elections in May 2012 in order to include new members of the Committee after that date.

An activity report will be included in future Pension Fund annual reports explaining how the framework has been applied, what assessment of training needs has been undertaken, and what training has been delivered against identified training needs.



Dafydd L. Edwards
Head of Finance

3. Recent Trends



4. Management Report

4.1 Scheme Administration

General

The basis for the Local Government Pension Scheme (LGPS) is contained in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) and the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 24 other scheduled bodies (including 2 Local Authorities) and 16 admitted bodies. The Fund does not cover teachers, for whom separate arrangements exist. The Fund is financed by contributions from employees and employers, together with income earned from investments. Up to March 2008 employees contributed to the Fund at the statutory rate of 6%, with manual workers who were paying at 5% prior to 31st March 1998 contributing at this protected rate. The employer's contribution rate is assessed periodically by the Fund's Actuary.

Since April 2008 employees' contribution rates have been determined in bands according to their full time equivalent pay indexed annually in line with inflation. The bandings from 1 April 2011 are shown in the table below:

Band	Salary Range	Contribution rate
1	£0 - £12,900	5.5%
2	£12,901 - £15,100	5.8%
3	£15,101 - £19,400	5.9%
4	£19,401 - £32,400	6.5%
5	£32,401 - £43,300	6.8%
6	£43,301 - £81,100	7.2%
7	More than £81,100	7.5%

Manual workers previously protected at a contribution rate of 5% have been assimilated to the above rates by April 2011.

Benefits

The LGPS provides significant benefits to members. Listed below are brief details of some of the principal benefits available to members.

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

- **Annual Pension**

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

***Final Pay x 1/80 x Total Membership to 31 March 2008, plus
Final Pay x 1/60 x Total Membership from 1 April 2008***

Once the pension is in payment it will rise each April in line with the increase in the Retail Price Index up to 2010 and as from 2011 in line with the Consumer Price Index.

- **Lump Sum**

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

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

- **Conversion of Benefits**

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

Councillor Pensions

The scheme also provides access to Councillors. The benefit package is based on the pre April 2008 formula for pension and lump sum shown above but using Career Average Salary instead of Final Pay.

III-Health Retirement

If the membership period is 3 months or more, and an administering authority approved independent registered medical practitioner certifies that the member has become permanently unable to do their job or any comparable job with their employer, they will receive a pension and tax free lump sum immediately.

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

Early Retirement

If the membership period is 3 months or more, a member can elect to retire and receive their LGPS benefits at any time from age 60 onwards.

Between and including the ages of 55 and 59 members can elect to retire and receive their LGPS benefits, but only if their employer gives their consent.

If a member retires before the age of 65 and has not reached their normal retirement date, their pension and lump sum, may be reduced, and if retiring after age 65 benefits would be increased.

Preserved Benefits

Leavers with 3 or more months of membership are awarded preserved benefits, calculated in the same way as described in the paragraph 'Benefits', but with payment being deferred and index linked until Normal Retirement Date. Alternatively, it may be possible to transfer the equivalent value of benefits to another pension scheme.

Leavers with less than 3 months membership and no transfer of benefits in to the scheme are to be treated as if they had never been in the scheme and should have their contributions refunded directly through their pay.

Death in Service

A death grant of 3 times Final Pay is payable, regardless of the length of membership. For part-time employees, the Final Pay is not increased to its whole-time equivalent rate.

In addition, pensions are payable to surviving spouses for life, and dependent children while still in full-time education, based on the former employee's Membership and Final Pay.

Death after Retirement

Spouses and partners' pensions are payable for life whilst dependant eligible children's pensions are payable up to a maximum age of 23 and are all based on the former employee's membership in the scheme. If death of a pensioner occurs before the pension has been paid for ten years (five years if retired before 1 April 2008), the balance will be paid as a lump sum.

4.2 Actuarial Position

General

The most recent actuarial valuation of the Fund was undertaken as at 31st March 2010 (previously 31st March 2007), and it requires full solvency of the Fund.

Method and Assumptions Used

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

	% per annum
Investment Returns	
Equities	6.25%
Bonds	4.75%
75% Equities / 25% Bonds	5.9%
Pay Increases (excl. increments) *	5.3%
Price Inflation / Pension Increases	3.3%

* 1% per annum for 2010/11 and 2011/12, reverting to 5.3% thereafter.

The Results

The key funding objective of the Fund is to build up sufficient assets to provide adequate security for members' benefits as they accrue. When the value of the Fund's assets match the value of its liabilities the Fund is said to be 100% funded. In the valuation report for 31 March 2010, published on the 31 March 2011 by Hymans Robertson, it was said that, "The Funding level was 84% (compared to 84% at 31 March 2007) and there was a funding shortfall of £183m. The market value of assets at the valuation date was £931m". Liabilities were assessed to be £1,114m.

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

	£m
Net Liabilities :-	
Active Members	608
Deferred Pensioners	123
Pensioners	383
Total Net Liabilities	1,114
Total Value of Assets	931
Surplus (Deficit)	(183)
Funding Level	84%

Common Rate of Contribution (CRC)

The CRC payable is the cost of future benefit accrual increased by an amount to bring the funding level back to 100% over a period of up to 20 years as set out in the Funding Strategy Statement. Based on the Fund's funding level at 31 March 2010, the future service contribution rate was set at 17.1% with a further 5.0% required to fund the past service deficit. The contribution from each employer is the CRC plus an individual adjustment, if appropriate, to reflect the individual circumstances of each employer.

4.3 Administrative and Custodial Arrangements

Governance

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

Governance Policies

The Governance Policy Statement (GPS) and the Governance Compliance Statement (GCS) states the governance practices of the Pension Fund.

Copies can be seen in Part 8, pages 70 - 76.

Specialist Advice

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

Investment Managers

Over the period of this report, there were 7 Investment Managers, as follows: BlackRock, Capital International (Capital), Fidelity International (Fidelity), Legal and General (whose contract was terminated in May 2010), Insight Investment (Insight), UBS Global Asset Management (UBS) and Partners Group. We have also invested directly in Lothbury Investment Management's (Lothbury) Property Fund and Threadneedle's Property Fund.

The target distribution of Fund assets is as follows:

Manager	%
BlackRock	32.0
Capital	19.0
Fidelity	19.0
Insight	15.0
UBS / Lothbury / Threadneedle / BlackRock (Property Only)	10.0
Partners	5.0
Total	100.0

Custodians

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

- BlackRock's custodian is JP Morgan Chase Bank;
- Fidelity's custodian is also JP Morgan Chase Bank;
- Insight's custodian is The Northern Trust Company;

As two of our investment managers do not have an associated custodian, the Pensions Committee has chosen to appoint:

- The Northern Trust Company as custodian of those assets managed by Capital, and
- JP Morgan Chase Bank as custodian of those assets managed by UBS.

During 2011/12 the UBS / Threadneedle assets were transferred to The Northern Trust Company as custodians.

Lothbury, with whom we have a direct investment, has the Northern Trust Company as their custodian.

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

Administrative Procedures

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

Asset Allocation

One of the key determinants of the Fund's long-term overall performance is its strategic asset allocation. The Fund's strategic asset allocation is 75% equities, 15% UK bonds and 10% property. This asset allocation was established following the strategic review of the Fund that took place in 2006.

The following table shows the Fund's benchmark allocation at the beginning of 2011/12.

	BlackRock %	Capital %	Fidelity %	Insight %	UBS/Thread- needle/ Lothbury %	Partners Group %	Total %
Percentage of Fund	32.0	19.0	19.0	15.0	10.0	5.0	100.0
UK Equities	77.0	8.4	8.4	-	-	-	28.0
Overseas Equities	23.0	91.6	91.6	-	-	-	42.0
North America	-	47.1	47.1	-	-	-	17.6
Europe ex-UK	8.0	17.6	17.6	-	-	-	9.7
Japan	7.0	8.9	8.9	-	-	-	4.2
Pacific Basin	3.0	5.0	5.0	-	-	-	4.2
Emerging Markets	5.0	13.0	13.0	-	-	-	6.3
Private Equity	-	-	-	-	-	100.0	5.0
Total Equities	100.0	100.0	100.0	-	-	100.0	75.0
UK Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	-	-	-	100.0	-	-	15.0
Property	-	-	-	-	100.0	-	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The following table shows the Fund's benchmark allocation following the change made to regional equity allocations on 1 September 2011.

	BlackRock %	Capital %	Fidelity %	Insight %	UBS/Thread- needle/ Lothbury %	Partners Group %	Total %
Percentage of Fund	32.0	19.0	19.0	15.0	10.0	5.0	100.0
UK Equities	56.0	8.4	8.4	-	-	-	21.0
Overseas Equities	44.0	91.6	91.6	-	-	-	49.0
North America	7.4	47.1	47.1	-	-	-	20.4
Europe ex-UK	14.1	17.6	17.6	-	-	-	11.2
Japan	6.0	8.9	8.9	-	-	-	4.9
Pacific Basin	9.0	5.0	5.0	-	-	-	4.9
Emerging Markets	7.5	13.0	13.0	-	-	-	7.6
Private Equity	-	-	-	-	-	100.0	5.0
Total Equities	100.0	100.0	100.0	-	-	100.0	75.0
UK Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	-	-	-	100.0	-	-	15.0
Property	-	-	-	-	100.0	-	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

4.4 Investment Powers

Investment Powers

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

Investment Restrictions

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

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

4.5 Investment Management

General

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

At the last valuation it was established that if the Pensions Committee were to decide to invest wholly in Bonds the corresponding result would be a lowering of the funding level to 64% with a corresponding increase in future employers contribution rate of 10.3% of pay.

Investment Manager Briefs

As a result of a deliberate policy to diversify assets and investment styles, the Fund has 6 Investment Managers with varying briefs:

Investment Manager	Brief
BlackRock	Passive
Capital	Active
Fidelity	Active
Insight	Active
UBS	Active
Partners	Active

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

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

Capital and Fidelity have an “active” equity brief while Insight has an “active” bond brief. UBS has an “active” property brief. Partners Group has been given an “active” private equity brief.

4.6 Investment Performance

Quarterly Meetings

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

Performance Monitoring

Gwynedd subscribes to a service provided by the WM Company which calculates the rate of return for Gwynedd and for other Pension Funds and provides comparisons.

Targets

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

Manager	Benchmark	Target
BlackRock	FTSE All-Share and FTSE All-World Indices	Benchmark Return
Capital	MSCI All Countries World Index	Benchmark + 2% p.a. (gross of fees)
Fidelity	MSCI All Countries World Index	Benchmark + 2%-3% p.a. (gross of fees)
Insight	Cash (Libor)	Benchmark +2% p.a.
UBS	IPD UK Pooled Property Fund Index	Benchmark + 0.5% p.a.
Partners	MSCI World	Benchmark + 5% p.a.*

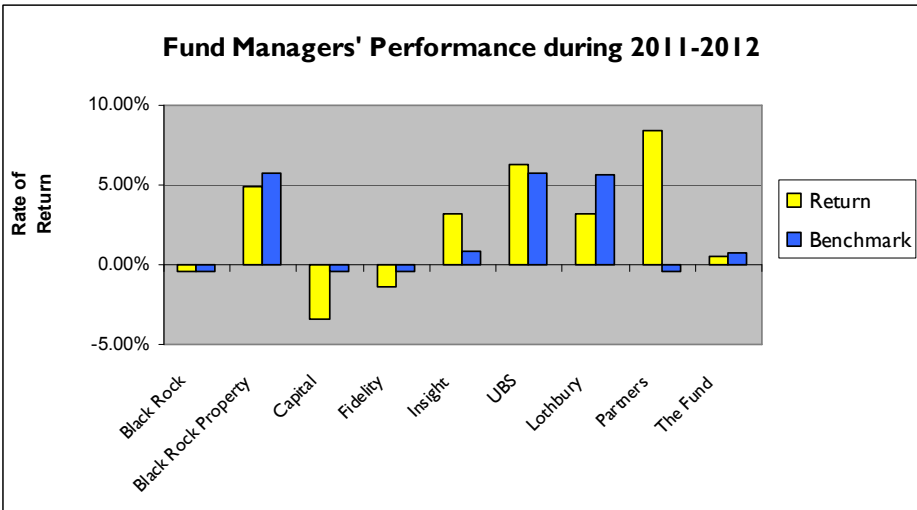
*Partners don’t have an official performance target. The target stated above is purely for indicative purposes.
 MSCI=Morgan Stanley Capital International

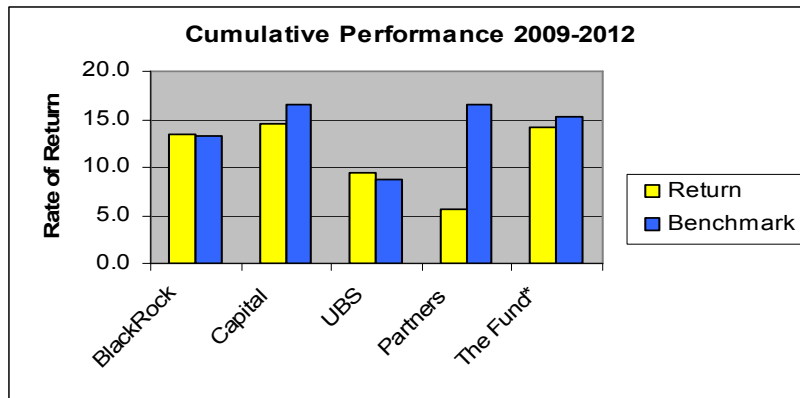
We have made direct investments with Lothbury and Threadneedle, so therefore have not given them a benchmark. However, for indicative purposes we will monitor them against the IPD Balanced Property Unit Trust Index.

Fund Performance

Against the benchmark, the Fund underperformed by 0.2% during the financial year. The Fund achieved a return of +0.5% against a benchmark return of +0.7%. Over a three year period the Fund underperformed against the benchmark, with a return of +14.1% against a benchmark return of +15.3%.

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





* These figures include an element of Fidelity, Insight, Lothbury and Threadneedle's performance, since their inception.

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

	1 Year Return	1 Year Benchmark	3 Year Return	3 Year Benchmark
BlackRock	-0.4%	-0.4%	13.4%	13.3%
BlackRock Property	4.9%	5.7%	n/a	n/a
Capital	-3.4%	-0.4%	14.6%	16.5%
Fidelity (commenced their brief on 1 July 2009)	-1.4%	-0.4%	n/a	n/a
Insight (commenced their brief on 31 March 2010)	3.2%	0.8%	n/a	n/a
UBS	6.3%	5.7%	9.5%	8.8%
Lothbury (commenced their brief on 4 January 2010)	3.2%	5.6%	n/a	n/a
Partners	8.4%	-0.4%	5.7%	16.5%
TOTAL FUND	0.5%	0.7%	14.1%*	15.3%*

* These figures include an element of Fidelity, Insight and Lothbury's performance, since their inception.

Local Authority League Table

Each year The WM Company produces a League Table that ranks Local Authority Pension Funds according to their investment performance during the financial year. Out of the 84 pension funds who subscribe to the service, Gwynedd was 77th and ranked in the 92nd percentile with a return of +0.5% compared to the median of +3.0%.

The following table shows the performance of the Fund in the Local Authority League Tables each year over the past 8 years.

The Year to	Fund Benchmark	Fund Target	Fund Return	Median Return	Percentile
31 March 2012	0.70%	0.99%	0.50%	3.0%	92 nd
31 March 2011	7.80%	9.26%	8.50%	8.10%	40 th
31 March 2010	40.80%	41.59%	39.70%	35.60%	20 th
31 March 2009	-20.60%	-20.25%	-20.60%	-20.30%	57 th
31 March 2008	-3.70%	-2.80%	-5.70%	-3.10%	85 th
31 March 2007	7.70%	8.56%	6.70%	7.00%	56 th
31 March 2006	25.70%	26.89%	24.4%	25.0%	54 th
31 March 2005	12.30%	13.15%	11.5%	11.3%	43 rd
31 March 2004	24.80%	25.60%	26.7%	23.9%	9 th

4.7 Statement of Investment Principles

General

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

Reviewing the SIP

The Pensions Committee made some minor changes to the SIP during 2011/12 and the revised statement was approved by the Pensions Committee on 23 March 2012. A full review of the SIP will be undertaken during 2012/13 following the Actuarial Valuation and changes to investment allocation and managers. The reviewing process will involve consultation with all Funds' employers, the Investment Managers and the Fund's advisers.

Copies of the SIP

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

A copy can be seen in Part 8, pages 77 - 91.

4.8 Funding Strategy Statement

General

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

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

Reviewing the FSS

The Pensions Committee reviewed the FSS during 2010/11 as part of the 31 March 2010 Actuarial Valuation process. The reviewing process involved consultation with all the Fund's employers and the Fund's Actuary.

The new FSS was adopted by the Pensions Committee on 22nd March 2011.

Copies of the FSS

Copies of the new FSS were sent out to all the Fund's employers and the fund's actuary, adviser and union representatives on 31st March 2011.

A copy can be seen in Part 8, pages 92 - 109.

5. Management Structure

Administering Authority

Gwynedd Council

Pensions Committee 2011/12

Councillor Keith Greenly-Jones (Chairman 11/12)

Councillor W. Tudor Owen (Vice-Chairman 11/12)

Councillor Stephen Churchman (joined the Pensions Committee in September 2011)

Councillor Trevor Edwards

Councillor Simon Glyn

Councillor John Gwilym Jones

Councillor John W. Jones

Councillor Tom Jones (Co-opted Member)

Councillor Margaret Lyon (Co-opted Member)

Corporate Director

Mr Dilwyn O. Williams

Head of Finance (“Section 151 Officer”)

Mr Dafydd L. Edwards

Advisor

Mr Paul Potter (Hymans Robertson)

Investment Managers

BlackRock

Capital International Limited

Fidelity International

Insight Investment

Legal & General Investment Management*

*(Their contract was terminated in May 2010)

Lothbury (formerly KBC)

Partners Group

Threadneedle

UBS Global Asset Management Limited

Actuaries

Hymans Robertson

Contact Details

Enquiries and more detailed information regarding:

- the Gwynedd Pension Fund can be obtained by contacting:

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

☎ 01286 679612

📠 01286 679589

✉ garethjones@gwynedd.gov.uk

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

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

☎ 01286 679128

📠 01286 679589

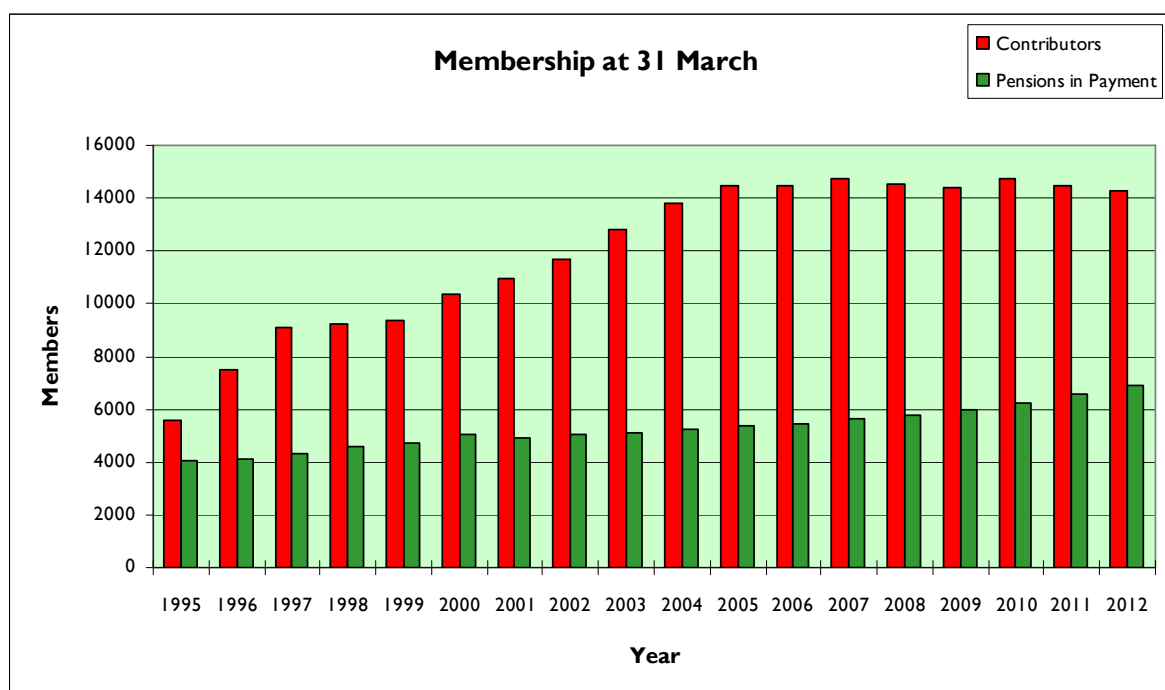
✉ carolineroberts@gwynedd.gov.uk

Fund Website

www.gwyneddpensionfund.org.uk

6. Membership Summary

The graph below shows the changes in the Fund's membership over the last 18 years. It shows that while the number of pensioners has slowly increased from 4,043 in 1995 to 6,927 in 2012, the number of active contributors has nearly trebled, from 5,544 in 1995 to 14,301 in 2012.



The table below provides the membership summary:

31 March 2011	Description	31 March 2012
14,450	Contributors	14,301
7,054	Deferred Pensioners	7,749
6,542	Pensions in Payment	6,927
1,185	Unclaimed Benefits	1,416
29,231	Total Membership	30,393

7. Statement of Accounts 2011-12

Gwynedd Pension Fund Accounts 2011-12

31 March 2011 £'000		Notes	31 March 2012 £'000
Dealings with members, employers and others directly involved in the fund			
60,679	Contributions Receivable	7	61,525
49	Interest on Deferred Contributions		48
1	Income from Divorce Calculations		1
0	Interest on Late Payment of Contributions		0
1,440	Transfers in from other pension schemes	8	3,099
62,169	Total contributions received		64,673
(38,320)	Benefits Payable	9	(40,541)
(2,661)	Payments to and on account of leavers	10	(1,035)
(1,061)	Administrative Expenses	11	(1,011)
(42,042)	Total benefits paid		(42,587)
20,127	Net additions from dealings with members		22,086
Returns on Investments			
7,959	Investment income	12	10,228
(186)	Taxes on income	13	(291)
70,763	Profit and (losses) on disposal of investments and changes in the market value of investments		(1,474)
(4,275)	Investment management expenses	14	(4,656)
74,261	Net returns on investments		3,807
Net assets of the Fund			
929,390	At 1 st April		1,023,778
20,127	Net additions from dealings with members		22,086
74,261	Net returns on investments		3,807
1,023,778			1,049,671

NET ASSETS STATEMENT AS AT 31 MARCH

31 March 2011		Notes	31 March 2012
£'000			£'000
1,005,886	Investment assets	15	1,036,066
10,029	Cash deposits	15	17,624
1,015,915			1,053,690
(4,029)	Investment liabilities	15	(10,274)
15,012	Current assets	20	9,496
(3,120)	Current liabilities	21	(3,241)
1,023,778			1,049,671

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 2010 and the next valuation will be 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 19.

NOTES TO THE ACCOUNTS

NOTE I – 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 2011/12 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- the LGPS (Administration) Regulations 2008 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2009.
-

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 scheduled, resolution and admission bodies within the old Gwynedd County Council area. Teachers, police officers and firefighters are not included as they come within 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 parish 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.

There are 57 employer organisations within Gwynedd Pension Fund including the council itself, as detailed below:

Gwynedd Pension Fund	31 March 2011	31 March 2012
Number of employers with active members	40	40
Number of employees in scheme		
Gwynedd Council	5,092	5,020
Other employers	9,162	9,281
Total	14,254	14,301
Number of pensioners		
Gwynedd Council	1,395	1,534
Other employers	5,168	5,393
Total	6,563	6,927
Deferred pensioners		
Gwynedd Council	2,929	3,089
Other employers	4,631	4,660
Total	7,560	7,749

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
North Wales Police Authority	Pen y Bryn School
Coleg Llandrillo	Eirias High School
Coleg Menai	
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	
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	
Eden Foods	

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 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently, employer contribution rates range from 5.1% to 29.1% of pensionable pay.

d) Benefits

Pension benefits under the LGPS are 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 $1/80 \times$ final pensionable salary.	Each year worked is worth $1/60 \times$ 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.

There are a range 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. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer price index. This change took effect from 1 April 2011.

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 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. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

Normal contributions, 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' 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 (including investment properties) 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) 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. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) 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 the following managers that an element of their fee be performance related:

Capital International – Global Equity

Fidelity – Global Equity

No performance-related fees were paid to the managers in 2011/12 (£0 in 2010/11).

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

h) 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:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other 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 and infrastructure pooled funds 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) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) 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.

i) 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.

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) 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.

l) 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.

m) 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 19).

n) 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.

AVC's 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 22).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity 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 are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted private securities at 31 March 2012 was £59 million (£51 million at 31 March 2011).

Pension fund liability

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates 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 2012 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 liabilities and an increase in assumed life expectancy would increase the liability.
Debtors	At 31 March 2012, the fund had a balance of sundry debtors of £6.4m. 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	Private equity investments are valued at fair value in accordance with IFRS accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £59 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

Since 31 March 2012, there has been a marked decline in the global stock markets which would impact upon the market value of the fund's investments were they to be valued as at the date these accounts were authorised. This change is deemed to be a non-adjusting post-balance-sheet event.

A decision has been made to terminate the investment management agreement with Capital International and to transfer the assets to Veritas Asset Management in 2012/13. This change is deemed to be a non-adjusting post-balance-sheet event.

There have been no events since 31 March 2012, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2010/11		2011/12
£'000		£'000
46,162	Employers	47,301
14,517	Employees/Members	14,224
60,679		61,525

By authority

2010/11		2011/12
£'000		£'000
20,766	Gwynedd Council	20,700
35,770	Other Scheduled bodies	36,573
2,170	Admission bodies	2,209
1,652	Community admission body	1,778
186	Transferee admission body	64
126	Resolution Body	147
9	Closed fund*	54
60,679		61,525

* Closed fund – These are contributions received from Theatr Harlech, Theatr Gwynedd and North Wales Magistrates Court Committee. They were admitted bodies but they are now closed funds.

NOTE 8 – TRANSFERS IN FROM OTHER PENSION FUNDS

2010/11		2011/12
£'000		£'000
1,440	Individual transfers	3,099
1,440		3,099

NOTE 9 - BENEFITS PAYABLE

By category

2010/11		2011/12
£'000		£'000
27,177	Pensions	29,785
10,198	Commutation and lump sum retirement benefits	10,013
945	Lump sum death benefits	743
38,320		40,541

By authority

2010/11		2011/12
£'000		£'000
9,707	Gwynedd Council	10,137
15,707	Other Scheduled bodies	16,925
9,707	Gwynedd Council	10,137
649	Admission bodies	1,103
534	Community admission body	660
16	Transferee admission body	34
10,994	Closed Fund	10,945
130	Resolution Body	54
583	Employers with no contributors	683
38,320		40,541

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2010/11		2011/12
£'000		£'000
18	Refunds to members leaving service	3
8	Payments for members joining state scheme	6
2,635	Individual transfers	1,026
2,661		1,035

NOTE 11 – ADMINISTRATIVE EXPENSES

2010/11		2011/12
£'000		£'000
397	Direct employee costs	393
159	Other direct costs	162
320	Support services including IT	332
75	Pension fund committee	50
25	External audit fees	25
85	Actuarial fees	49
1,061		1,011

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 23 below.

NOTE 12 – INVESTMENT INCOME

2010/11		2011/12
£'000		£'000
605	UK equities	768
4,143	Overseas equities	4,119
113	Private equity	1,244
2,945	Pooled property investments	3,899
153	Interest on cash deposits	198
7,959		10,228

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 has a deposit of £4m with Heritable Bank, which went into administration in October 2008. The impairment on this investment to the Pension Fund was £178,094 in 2008/09 and there was a reduction in this impairment of £54,814 in 2009/10 and £13,248 in 2010/11. A further reduction of £14,897 was made in 2011/12. This amount has been included in the interest on cash deposits figure for the relevant year in the above table. Further information is included in Note 26 below.

NOTE 13 – TAXES ON INCOME

2010/11		2011/12
£'000		£'000
186	Withholding tax – equities	291
186		291

NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

2010/11		2011/12
£'000		£'000
4,167	Management fees	4,477
41	Custody fees	47
13	Performance monitoring service	14
54	Investment consultancy fees	118
4,275		4,656

NOTE 15 – INVESTMENTS

2010/11		2011/12
£'000		£'000
	Investment assets	
141,937	Absolute return	150,723
156,986	Equities	153,058
562,696	Pooled investments	577,137
89,207	Pooled property investments	92,685
50,967	Private Equity	58,645
	Derivative contracts:	
3,453	Forward currency contracts	3,534
640	Amounts receivable for sales	284
1,005,886		1,036,066
10,029	Cash deposits	17,624
1,015,915	Total investment assets	1,053,690
	Investment liabilities	
	Derivative contracts:	
(3,625)	Forward currency contracts	(3,518)
(404)	Amounts payable for purchases	(6,756)
(4,029)	Total investment liabilities	(10,274)
1,011,886	Net investment assets	1,043,416

Note 15a – Purchases and Sales

The total amount of purchases and sales of investments is set out below

Purchases Book Value 2010/11	Market Value of Sales 2010/11		Purchases Book Value 2011/12	Market Value of Sales 2011/12
£'000	£'000		£'000	£'000
228,931	225,205	UK Equities	10,393	85,358
106,282	110,476	Overseas Equities	182,713	96,512
633	374	Global Equities (including UK)	12,904	640
10,315	1,986	Private Equity	13,175	7,572
6,001	-	Fixed Interest Absolute Return Securities	4,000	-
17,793	3,000	Property Unit Trusts	7,316	5,611
369,955	341,041	Total	230,501	195,693

Note 15b – Analysis of investments (excluding derivative contracts)

2010/11		2011/12
£'000		£'000
	Equities	
	UK	
15,152	Quoted	14,999
0	Unquoted	0
	Overseas	
141,265	Quoted	136,758
569	Unquoted	1,302
	Pooled funds	
	UK	
264,246	Unit trusts	187,377
1	Ventures - unquoted	1
	Global (including UK)	
141,937	Fixed income	150,723
166,179	Unit trusts	179,653
	Overseas	
132,270	Unit trusts	210,104
89,207	Property unit trusts	92,685
50,967	Private equity	58,645
1,001,793		1,032,247

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund has a passive currency programme in place managed by the global custodian. The fund hedges a proportion of the Euro within the portfolio managed by UBS.

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £'000	Liability Value £'000
Up to three months	GBP	3,534	GBP	3,534	3,534	
Up to three months	EUR	(4,220)				(3,518)
					3,534	(3,518)
Net forward foreign currency contracts at 31 March 2012						16
Prior year comparative						
Open forward foreign currency contracts at 31 March 2011					3,453	(3,625)
Net forward foreign currency contracts at 31 March 2011						(172)

Investments analysed by fund manager

Market Value at 31 March 2011			Market Value at 31 March 2012		
£'000	%		£'000	%	
344,697	34.1	BlackRock	346,858	33.3	
196,683	19.4	Capital International	190,046	18.2	
191,692	19.0	Fidelity	206,287	19.8	
141,941	14.0	Insight	150,519	14.4	
18,712	1.9	Lothbury	20,099	1.9	
50,967	5.0	Partners Group	58,645	5.6	
0	0.0	Threadneedle	10,601	1.0	
67,194	6.6	UBS	60,361	5.8	
1,011,886	100.0		1,043,416	100.0	

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

Market value 31 March 2011 £'000	% of total fund	Security	Market value 31 March 2012 £'000	% of total fund
264,246	25.79	BlackRock Asset Management Aquila Life UK Equity Index Fund	187,377	17.85
166,179	16.22	Fidelity Institutional Select Global Equity	179,653	17.12
141,937	13.85	Insight LDI Solution Bonds Plus	150,516	14.34

Note 15c – 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 16 – FINANCIAL INSTRUMENTS

Note 16a – 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 2011			As at 31 March 2012		
Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Designated as fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities as amortised cost £'000
Financial assets					
141,937			150,723		
156,987			153,058		
562,697			577,137		
89,207			92,685		
50,967			58,645		
3,453			3,534		
	19,411			20,710	
	6,269			6,693	
1,005,248	25,680	0	1,035,782	27,403	0
Financial liabilities					
(3,625)			(3,518)		
		(3,525)			(9,996)
(3,625)	0	(3,525)	(3,518)	0	(9,996)
1,001,623	25,680	(3,525)	1,032,264	27,403	(9,996)

Note 16b – 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.

Carrying value £'000	Fair value £'000		Carrying value £'000	Fair value £'000
Financial assets				
808,509	1,005,248	Fair value through profit and loss	876,237	1,035,781
25,698	25,680	Loans and receivables	27,405	27,404
834,207	1,030,928	Total financial assets	903,642	1,063,185
Financial liabilities				
(3,453)	(3,625)	Fair value through profit and loss	(3,534)	(3,518)
(3,525)	(3,525)	Financial liabilities at amortised cost	(10,006)	(9,996)
(6,978)	(7,150)	Total financial liabilities	(13,540)	(13,514)
827,229	1,023,778	Net financial assets	890,102	1,049,671

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

Note 16c – 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. Valuations are usually undertaken annually at the end of

December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate. The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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 2012	Quoted	Using	With	Total
	market price	observable	significant	
	Level 1	Level 2	unobservable	
	£'000	£'000	inputs	£'000
			Level 3	
			£'000	
Financial assets				
Financial assets at fair value through profit and loss	442,352	534,784	58,645	1,035,781
Loans and receivables	27,404	0	0	27,404
Total financial assets	469,756	534,784	58,645	1,063,185
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(3,518)	0	(3,518)
Financial liabilities at amortised cost	(9,996)	0	0	(9,996)
Total financial liabilities	(9,996)	(3,518)	0	(13,514)
Net financial assets	459,760	531,266	58,645	1,049,671

Values at 31 March 2011	Quoted	Using	With	Total
	market price	observable	significant	
	Level 1	Level 2	unobservable	
	£'000	£'000	inputs	£'000
			Level 3	
			£'000	
Financial assets				
Financial assets at fair value through profit and loss	420,849	533,432	50,967	1,005,248
Loans and receivables	25,680	0	0	25,680
Total financial assets	446,529	533,432	50,967	1,030,928
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(3,625)	0	(3,625)
Financial liabilities at amortised cost	(3,525)	0	0	(3,525)
Total financial liabilities	(3,525)	3,625	0	(7,150)
Net financial assets	443,004	529,807	50,967	1,023,778

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

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). 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.

Other price risk – sensitivity analysis

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 2012	31 March 2011
	%	%
Equities	14.97	19.92
Fixed Income	1.80	7.32
Alternatives (Private Equity)	11.61	16.00
Property	4.29	11.97
Cash	0.50	0.70

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	Percentage change	Value on	Value on
	March 2012		increase	decrease
	£'000	%	£'000	£'000
Equities	730,195	14.97	839,504	620,884
Fixed Income	150,723	1.80	153,436	148,010
Alternatives (Private Equity)	58,645	11.61	65,454	51,836
Property	92,685	4.29	96,661	88,708
Cash	17,624	0.50	17,712	17,536
Total assets available to pay benefits	1,049,872		1,172,767	926,974

Asset type	Value as at 31	Percentage change	Value on	Value on
	March 2011		increase	decrease
	£'000	%	£'000	£'000
Equities	719,684	19.92	863,044	576,322
Fixed Income	141,937	7.32	152,327	131,547
Alternatives (Private Equity)	50,967	16.00	59,123	42,813
Property	89,207	11.97	99,885	78,529
Cash	10,029	0.70	10,099	9,959
Total assets available to pay benefits	1,011,824		1,184,478	839,170

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 2012 and 31 March 2011 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	As at 31 March 2011
	2012	
	£'000	£'000
Cash and cash equivalents	3,086	9,382
Cash balances	17,624	10,029
Fixed interest securities	150,724	141,937
Total	171,434	161,348

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 2012	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	3,086	31	(31)
Cash balances	17,624	176	(176)
Fixed interest securities	150,724	528	(528)
Total change in assets available	171,434	735	(735)

Asset type	Carrying amount as at 31 March 2011	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	9,382	94	(94)
Cash balances	10,029	100	(100)
Fixed interest securities	141,937	440	(440)
Total change in assets available	161,348	634	(634)

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.

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 in foreign currency, (€100million and \$7million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in note 24. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the fund is fully funded. The fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

The following table summarises the fund's currency exposure as at 31 March 2012 and as at the previous period end:

Currency exposure - asset type	As at	As at
	31 March 2012	31 March 2011
	£'000	£'000
Overseas and Global Equities	526,356	440,110
Global Fixed Income	150,723	141,937
Overseas Alternatives (Private Equity)	58,645	50,967
Overseas Currency	14	0
Total overseas assets	735,738	633,014

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.

An 8.1% 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 2012. The equivalent rate for the year ended 31 March 2011 was 11.9%. 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 2012 and as at the previous year end:

Currency exposure - by currency	Value at 31 March 2012	Change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Australian Dollar	2,210	10.49	2,442	1,978
Brazilian Real	167	12.83	189	146
Canadian Dollar	6,198	9.63	6,794	5,601
Danish Krone	729	8.31	790	669
EURO	78,049	8.36	84,574	71,524
Hong Kong Dollar	4,517	9.60	4,951	4,084
Japanese Yen	29,015	13.29	32,873	25,158
Norwegian Krone	1,973	10.52	2,180	1,765
Swedish Krone	1,328	10.22	1,463	1,192
Swiss Franc	7,293	10.25	8,041	6,546
US Dollar	143,996	9.75	158,039	129,952
Pooled Investments				
Global Basket	330,377	6.55	352,007	308,746
Europe Basket	48,156	5.42	50,765	45,548
Asia Pacific ex Japan Basket	30,319	7.19	32,498	28,140
Emerging Basket	51,411	7.89	55,467	47,354
Total change in assets available	735,738	7.79	793,073	678,403

Currency exposure - by currency	Value at 31 March 2011	Change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Australian Dollar	2,937	15.37	3,389	2,486
Brazilian Real	449	12.87	506	391
Canadian Dollar	6,376	10.94	7,073	5,678
EURO	76,234	13.87	86,805	65,663
Hong Kong Dollar	1,632	12.38	1,834	1,430
Japanese Yen	35,722	19.20	42,580	28,864
Norwegian Krone	995	11.03	1,105	885
Singapore Dollar	659	10.97	731	586
Swedish Krone	638	13.40	724	553
Swiss Franc	7,248	16.48	8,442	6,053
US Dollar	110,985	12.39	124,731	97,238
Pooled Investments				
Global Basket	308,115	9.64	337,830	278,403
Europe Basket	27,192	8.84	29,597	24,787
Asia Pacific ex Japan Basket	12,573	10.65	13,912	11,234
Emerging Basket	41,259	10.70	45,674	36,845
Total change in assets available	633,014	11.36	704,933	561,096

Currency Exposure - by asset type	Carrying amount as at 31 March 2012 £'000	Change in year in the net assets available to pay benefits	
		Value on increase £'000	Value on decrease £'000
		Overseas and Global Equities	526,356
Global Fixed Income	150,723	162,469	138,978
Overseas Alternatives (Private Equity)	58,645	63,215	54,075
Overseas Currency	14	15	13
Total change in assets available	735,738	793,073	678,404

Currency Exposure - by asset type	Carrying amount as at 31 March 2011 £'000	Change in year in the net assets available to pay benefits	
		Value on increase £'000	Value on decrease £'000
		Overseas and Global Equities	440,110
Global Fixed Income	141,937	158,063	125,811
Overseas Alternatives (Private Equity)	50,967	56,758	45,177
Total change in assets available	633,014	704,933	561,095

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	32%
Capital International	19%
Fidelity	19%
Insight	15%
Partners Group	5%
UBS	7%

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 2012 was £3.4m (£10m at 31 March 2011).

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 26.

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

This risk has increased by a recent 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 2012 the value of illiquid assets was £58.6m, which represented 5.6% of the total fund assets (31 March 2011: £51.5m, which represented 5% 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 2012 are due within one year as was the case at 31 March 2011.

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 18 – 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 2010. The next valuation will take place at 31 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 aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a longer period can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

At the 2010 actuarial valuation, the fund was assessed as 84% funded (84% at the March 2007 valuation). This corresponded to a deficit of £183m (2007 valuation: £160m) at that time.

Contribution increases were phased in as follows:

- Bodies with tax raising powers are subject to a maximum increase of 0.5% per annum. Should the contribution rate decrease in future these bodies would also be subject to a maximum decrease of 0.5%.
- Employers with a contribution rate increase of 0.5% or less at the 2010 valuation moved to the new rate immediately. As the increases were over 3% in some cases there was an option to phase the increase in over a period of 6 years with an increase of at least 0.5% per annum until the full increase is achieved, subject to the Administering Authority's overall satisfaction relating to the security of the fund.
- Best Value Admission Bodies are not eligible for phasing in of contribution rises.

The common contribution rate for the whole fund based on the funding level at 31 March 2010 is 17.1% for future service and a further 5.0% to fund the past service deficit, giving a total rate of 22.1%. The common contribution rate is a theoretical figure – an average across the whole fund. Individual employer's rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2010 actuarial valuation report and the funding strategy statement on the fund's website.

The valuation of the fund has been undertaken using the projected unit method for the fund as a whole and employers who continue to admit new entrants to the fund and the attained age method for employers who no longer admit new entrants to the fund. The salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principle assumptions were:

Financial assumptions

	% per annum
Investment returns	
Equities	6.25
Bonds	4.75
75% Equities / 25% Bonds	5.9
Pay increases (excluding increments) *	5.3
Price inflation / Pension increases	3.3

* 1% per annum for 2010/11 and 2011/12 reverting to 5.3% thereafter.

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Mortality assumption at age 65	Male	Female
Current pensioners	20.5	23.0
Future pensioners (assumed current age 45)	23.3	25.6

Historic mortality assumptions

The life expectancy assumptions that were adopted for the 31 March 2010 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 allowances for future life expectancy are:

Longevity assumptions	31 March 2010
Longevity - baseline	VitaCurves
Longevity - improvements	Medium cohort with 1% minimum improvements from 2007

Commutation assumption

Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 50% of HMRC limits for service up to 31 March 2008 and 75% of HMRC limits for service from 1 April 2008.

NOTE 19 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS19 basis every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18) and has also used them to provide the IAS19 and 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 2012 was £1,342m (£1,197m at 31 March 2011). All the retirement benefits are vested. The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2010 triennial funding valuation (see Note 18) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

Assumptions used

Assumption	31 March 2012	31 March 2011
	%	%
Inflation/ pension increase rate	2.5	2.8
Salary increase rate	4.8*	5.1**
Discount rate	4.8	5.5

* Salary increases are 1% p.a. nominal for the three years to 31 March 2015 reverting to the long term rate thereafter

** Salary increases are 1% p.a. nominal for the period to 31 March 2012, reverting to the long term rate thereafter.

NOTE 20 – CURRENT ASSETS

2010/11		2011/12
£'000		£'000
760	Contributions due - employees	1,096
2,479	Contributions due – employers	3,575
13	Transfer values receivable (joiners)	0
2,378	Sundry Debtors	1,739
5,630	Total Debtors	6,410
9,382	Cash	3,086
15,012	Total	9,496

Analysis of debtors

2010/11		2011/12
£'000		£'000
1,943	Administering Authority	1,902
568	Central government bodies	709
1,669	Other local authorities	2,566
3	NHS bodies	3
1,447	Other entities and individuals	1,230
5,630	Total	6,410

NOTE 21 – CURRENT LIABILITIES

2010/11		2011/12
£'000		£'000
1,459	Sundry creditors	1,431
0	Transfer values payable (leavers)	0
1,661	Benefits payable	1,810
3,120	Total	3,241

Analysis of creditors

2010/11		2011/12
£'000		£'000
1,017	Administering Authority	887
14	Central government bodies	14
1	Other local authorities	0
2,088	Other entities and individuals	2,340
3,120	Total	3,241

NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2012 £'000	Market value at 31 March 2011 £'000
Clerical Medical	2,380	2,412
Equitable Life	454	546
Standard Life	215	211
Total	3,049	3,169

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

	2011 / 2012 £'000	2010 / 2011 £'000
Clerical Medical	343	287
Equitable Life	0	1
Standard Life	13	14
Total	356	302

NOTE 23 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The council incurred costs of £891,420 (£906,391 in 2010/11) 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 £16.02m to the fund in 2011/12 (£16m in 2010/11). At the end of the year the council owed £1,902,000 to the fund (see Note 20) which was primarily in respect of contributions for March 2012 and the fund owed £887,000 to the council (see Note 21) 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 2011/12, the fund received interest of £156,562 (£103,483 in 2010/11) 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 2011/12 (Committee member T Edwards). In addition, committee members T Edwards, J G Jones and T Jones are active members of the pension fund.

Two senior managers of Gwynedd Council who hold key positions in the financial management of the Gwynedd Pension Fund are active members of the Pension Fund (D O Williams and D L Edwards).

Five members of the pensions committee and two chief officers of Gwynedd Council have declared an interest in bodies which have dealings with the fund. In all cases these bodies are employers which are part of the fund.

NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitment	Commitment at 31 March 2012	Commitment at 31 March 2011
	€'000	€'000	€'000
P.G. Direct 2006	20,000	1,384	2,036
P.G. Global Value 2006	50,000	5,832	12,663
P.G. Secondary 2008	15,000	2,680	4,901
P.G. Global Value 2011	15,000	11,345	15,000
Total Euros	100,000	21,241	34,600
	\$'000	\$'000	\$'000
P.G. Emerging Markets 2011	7,000	5,971	7,000

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

NOTE 25 – CONTINGENT ASSETS

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

NOTE 26 – 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 end 2013, with the first dividend payment of 15p in the £ due in the summer of 2009. This was the basis for closing the 2008/09 accounts. So far the Council has received a return of £2,729,629 from the administrators up to 31 March 2012 and the administrators now expect a return of 88p per £ by the middle of 2013. Based on this information, the impairment in the accounts is based on recovering 88p in the £.

The percentages received to date are as follows:

Date	%
July 2009	16.13
December 2009	12.66
March 2010	6.19
July 2010	6.27
October 2010	4.14
January 2011	4.72
April 2011	6.25
July 2011	4.05
October 2011	4.18
January 2012	3.32
Total at 31 March 2012	67.91

It is anticipated that there will be further repayments and that the final sale of assets will take place after the books have been run down to mid 2013. Therefore, in calculating the impairment the Council has made the following assumptions regarding timing of subsequent recoveries:

Date	%
April 2012	3.79
July 2012	3.50
October 2012	3.50
January 2013	3.50
April 2013	5.81
Total	20.10

A payment of £152,298 was received in April 2012, namely the 3.79% expected in the table above. Recoveries are expressed as a percentage of the Authority's claim in the administration, which includes interest accrued up to 6 October 2008.

The relevant proportion of the decrease in impairment (£14,897) and the increase in notional interest (£6,854) has been allocated to the pension fund.

Of course, the actual loss by mid 2013 could be more or less than the potential loss estimated above. However, the impairment has been estimated in accordance with the agreed interpretation of the position at 31 March 2012.

NOTE 27 - PRIOR PERIOD ADJUSTMENTS

A prior period adjustment has been made in respect of the 2010/11 accounts relating to Investment Income and Investment Management Expenses. A rebate of £1,028,000 was received in respect of performance related investment management fees. This amount was netted off the investment management expenses. It is now included in Investment Income. The following tables show the effects of this adjustment:

Effect on Investment Income (see note 12)

	As previously stated 2010/11	As restated 2010/11	Restatement 2010/11
	£'000	£'000	£'000
Overseas Equities (Note 12)	3,115	4,143	1,028
Other Investment Income	3,816	3,816	0
Total	6,931	7,959	1,028

Effect on Investment Management Expenses (see note 14)

	As previously stated 2010/11	As restated 2010/11	Restatement 2010/11
	£'000	£'000	£'000
Management Fees	(3,139)	(4,167)	(1,028)
Other Expenses	(108)	(108)	0
Total	(3,247)	(4,275)	(1,028)

8. Appendices

GWYNEDD PENSION FUND COMMUNICATION POLICY STATEMENT March 2010 Version

Introduction

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

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

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

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

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

Stakeholders include:

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

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

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

The intention is that all responses to requests are as timely as possible, are factual and in plain language, and presented in a manner appropriate to the receiver.

Where individuals have specific needs in relation to the format of information, steps are taken to ensure that the required format is available, such as Braille, Audio, and Large Print. Information in other languages may be available on request.

Where legislative Scheme changes are known in advance, procedures will be put in place to implement the changes in the most effective manner.

All Fund communications are fully compliant with all regulations regarding:

- Confidentiality
- Disclosure
- Freedom of Information

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

Communication with contributing members

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

Annual Benefit Statements

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

Website

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

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

Scheme Literature

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

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

Newsletters

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

Gwynedd Pension Fund Road Shows

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

Communication with contributing members continued...

Presentations

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

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

Presentations are also held as and when needed to give information to current contributors on the local Government Pension Scheme and are used as a method of informing scheme members of major changes to scheme regulations. Specialist information sessions can also be held at the request of the employer for members who are affected by the bulk transfer of pensions from the LGPS to other pension providers. Specialised presentations given by the pension unit's Communication Officers and a representative from the Gwynedd Pension Fund's AVC provider have also been held to give information to scheme members on the methods of improving pension benefits.

Consultation Sessions (individual appointments)

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

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

In some cases (e.g. terminal illness) a representative from the Gwynedd Pension Fund will visit a member at their home at the request of their employer.

Pensions Helpline

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

Retirement Pack

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

Poster campaign

The pension section intends to produce a poster which highlights the options available for increasing pension benefits through the Local Government Pension Scheme. The posters are scheduled to be available from June 2010 and they will be distributed to employers so that they can be displayed at employees work sites.

Internal Dispute Resolution Procedure (IDRP) leaflet

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

Communication with deferred members

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

Deferred Benefit Statement

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

Website

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

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

Newsletters

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

Individual Appointments

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

In some cases (e.g. terminal illness) a representative from the Gwynedd Pension Fund will visit a member at their home at the request of the employer, individual or individual's representative.

Pensions Helpline

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

Internal Dispute Resolution Procedure (IDRP) leaflet

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

Communication with Pensioners

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

Website

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

Payslips and P60

A payslip is sent to pensioners when there is a change of 50p or more in their net payment as compared with the previous month. All pensioners receive a combined P60 and payslip at the end of each tax year.

Notice of Pensions Increase

Each April, pensioners receive a notice informing them of the Pensions Increase which is to be applied on their pension (if applicable) and they also receive confirmation of the pay dates for the next 12 months.

Individual appointments

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

Pensions Helpline

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

Birthday Congratulations

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

Internal Dispute Resolution Procedure (IDRP) leaflet

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

Communication with prospective members

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

Scheme guide

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

Website

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

Consultation sessions (individual appointments)

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

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

Gwynedd Pension Fund Road shows

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

Poster Campaign

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

Communication with Employers

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

Annual General Meetings

The Annual General Meeting is held specifically for Employers and Union Representatives to discuss the Annual Report and Accounts. Representatives from various professional advisory bodies, such as the Fund Actuary and Fund Managers also attend in order to answer questions on Funding, investment performance and Valuations.

Biannual meetings

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

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

Individual Employer Training meetings

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

Employer Seminars

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

Contact Database

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

Communication with Employers continued....

Employer Partnership Agreements and Service Level Agreements

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

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

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

Employers Guide

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

Website

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

Employers are currently issued with hard copies of: -

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

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

Communication with other bodies

Members Representatives

These can include any individual or group, such as Solicitors or Trade Unions, requesting information on behalf of a Scheme member. This is only provided with the member's authority, in compliance with the Data Protection Act 1998. All Scheme literature is available on request.

External Bodies

The Gwynedd Pension Fund participates in the: -

Shrewsbury Pensions Officers group

Senior pensions Officers from the Gwynedd Pension Fund meet representatives from other Local Authority Funds in the West Pennines area on a quarterly basis to share information, discuss questions on legislation and prevailing regulations as well as any technical or procedural issues.

All Wales Group

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

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

The Gwynedd Pension Fund also communicates with: -

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

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

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

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

Fund Managers – in relation to investments and Fund performance.

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

Communication within the Pension Unit

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

Updates to Staff

E-mail— E-mail is the preferred method of communication for general messages within the unit. Where necessary, this will be followed up with individual or team training

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

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

External courses

Professional qualifications can only improve the knowledge and confidence of the team in their communication with stakeholders. All new and existing members of staff are therefore encouraged to study for appropriate Local Government pensions qualifications within the Institute of Payroll Professional (IPP), and also participate in relevant training courses held by the LGPC and Heywood.

Section Meetings

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

The Operational Plan, including Key Performance Indicators is also discussed on a regular basis to ensure that the members of the team are aware of and are meeting their targets.

Continuous monitoring and appraisal

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

Gwynedd Pension Fund Publications

Sources of scheme information

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

Gwynedd Pension Fund Publications

Publications

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

GWYNEDD PENSION FUND

GOVERNANCE POLICY STATEMENT

Version 30/10/08

Governance Policy Statement

This statement sets out the delegation of matters in relation to the Gwynedd Pension Fund, along with the terms of reference, structure and operational procedures of these delegations.

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

Pensions Committee

The Committee is comprised of 9 members, 7 of whom are elected members of Gwynedd Council, 1 member from Anglesey County Council and 1 member from Conwy County Borough Council, all of whom have voting rights. There is no member (staff) representation on the Committee.

The Pensions Committee's responsibilities are to:

1. Decide on the strategy for investing the Pension Fund's assets;
2. Appoint and terminate the appointment of managers and consultants of the Pension Fund, and review their performance with regard to investment;
3. Ensure that safe and efficient arrangements are in hand for purchasing, selling and monitoring the council's investments;
4. Making some decisions in the context of pension administration.

As a duly constituted Committee of Gwynedd Council, the operation of the matters delegated to the Committee are governed by Gwynedd Council's constitution, and in particular, Parts 4 and 5 which govern the rules of procedure and Codes and Protocols which are to be followed by members of the Pensions Committee and officers.

The Pensions Committee is also charged with ensuring that an annual report on Pensions matters is prepared and presented to an annual meeting of employers and employee representatives, at which any of the said parties can question the Committee, their officers, investment adviser or Fund managers on issues relating to Fund performance, and administration and/or pensions matters in general.

In order to ensure an adequate review of investment performance, the Committee's investment adviser and each Fund manager provides the Committee with a quarterly monitoring report. Informal meetings are also held with the investment adviser and Fund managers in order to challenge performance and resolve any issues which arise.

All employers who are not members of the Pension Committee are afforded the opportunity to influence the Pension Committee's determinations through the series of informal meetings held periodically with various categories of employer.

Any issue requiring formal consideration is considered at a properly convened meeting of the Committee, in order to allow citizens to exercise their rights to attend any meeting of a Council Committee.

Corporate Director

Article 12 of the Council's constitution stipulates that the Corporate Director shall have responsibility for financial strategy, and as such he is responsible to the Pensions Committee for advising on the appropriate financial strategy for the Pension Fund, and for ensuring that appropriate specialist advice is provided.

Chief Finance Officer

Article 12 also stipulates that the Head of Finance (as the Council's Chief Finance Officer) will report to the Council and the Council's external auditor if he considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is likely to cause a loss or deficiency, or if the Council is about to enter an item of account unlawfully.

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

Monitoring Officer

Article 12 also stipulates that the Head of Democracy and Legal (as the Council's Monitoring Officer) will report to the Council if she considers that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

GWYNEDD PENSION FUND
GOVERNANCE COMPLIANCE STATEMENT
Version 30/10/08

Principle A – Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	
	Gwynedd Council is fully compliant with this principle.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	
	Gwynedd Council is partly compliant with this principle. Representatives from two participating LGPS employers are members of the main committee. Currently there is no representation from admitted bodies or scheme members in order to retain a relatively small committee which can review manager performance in an effective manner. As the pension promise is defined by legislation for scheme members, the actions of the Committee have not hitherto been considered to impinge upon their interests and thus no representation has been afforded. All employers are afforded the opportunity to influence decisions through a series of informal employer meetings.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
	No secondary committee or panel exists, although the informal employer meetings ensure effective communication.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	
	No secondary committee or panel exists.

Principle B – Representation

a)	<p>That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include :-</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).
	<p>Partly compliant. We do have LGPS employing authority representation on the main committee, and we also have an expert independent advisor (on an ad-hoc basis). However, no scheme members/committed bodies or independent professional observers are given membership.</p>
b)	<p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>
	<p>No lay members sit on the Committee (see Part A (b) above).</p>

Principle C – Selection and Role of Lay Members

a)	<p>That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>
	<p>Fully compliant. All members are made clear of their responsibility as laid out in the Governance Policy Statement.</p>
b)	<p>That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>
	<p>Gwynedd Council is fully compliant with this principle.</p>

Principle D – Voting

a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.
	The Pensions Committee is comprised of 9 members, all of whom have voting rights, 7 of whom are elected members of Gwynedd Council, and 1 representative from each of the other two participating LGPS employers.

Principle E – Training/Facility Time/Expenses

a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
	Fully compliant – all members are granted equal access to training support and appropriate expenses paid.
b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
	The policy applies to all members of the Committee.
c)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.
	Gwynedd council is partly compliant with this principle in that a log of all training undertaken is kept and consideration given periodically to members' training needs but no annual formal training plans are established.

Principle F – Meetings (Frequency/quorum)

a)	That an administering authority’s main committee or committees meet at least quarterly.
	Fully compliant.
b)	That an administering authority’s secondary committee or panel meet at least twice a year and is synchronized with the dates when the main committee sits.
	No secondary committee or panel exists, although the informal employer meetings are synchronized with the dates of the main committee.
c)	That an administering authority that does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.
	Every July, an Annual Meeting of the Pension Fund takes place. Employers and employee representatives are invited to the meeting, and they can question the Committee, the administering authority’s officers, the investment advisers or the Fund managers on issues relating to the Fund’s performance, administration and/or pensions matters in general.

Principle G - Access

a)	That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.
	Gwynedd Council is fully compliant with this principle.

Principle H – Scope

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

Principle I - Publicity

a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.
	The Governance Policy Statement is available in the Pension Fund annual report.

Gwynedd Pension Fund

Statement of Investment Principles (SIP)

1.0 Introduction

- 1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare and review from time to time a written statement of the principles governing its decisions about the investment policy of the Pension Fund. These regulations also require the administering authority to state within the statement the extent to which it complies with a series of principles of good governance known as the Myners Principles. The purpose of this document is to satisfy the requirements of these regulations.
- 1.2 The Local Government Pension Scheme (“the scheme”) was established in accordance with statute to provide death and retirement benefits for all eligible employees.
- 1.3 The Council have delegated the investment management of the scheme to the Pensions Committee (“the Committee”) who decide on the investment policy most suitable to meet the liabilities of the scheme and the ultimate responsibility for the investment strategy lies with them. Investments and performance are monitored on a regular basis by the Committee and advice is received from professional advisers.
- 1.4 This document outlines the broad investment principles governing the investment policy of the Pension Fund. The Committee have delegated the management of the Pension Fund’s investments to professional investment managers whose activities are constrained by detailed investment management agreements.
- 1.5 In preparing this document the committee have taken professional advice from the Fund’s actuaries and advisers, Hymans Robertson and have obtained and considered written observations from the scheme’s investment managers. Due account has been taken of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit.

2.0 Investment Responsibilities

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

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

- 2.2 The Investment Managers are responsible for:
- the investment of the Pension Fund assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed investment management agreements,
 - tactical asset allocation around the strategic benchmark set out in Section 4 below,
 - security selection within asset classes,
 - preparation of a quarterly report including a review of investment performance,
 - attending meetings of the Committee as requested,
 - preparation of an annual confirmation that their activities comply with this statement in accordance with the provisions of section 8.1.
 - voting shares in accordance with their published policy.
- 2.3 The Custodians are responsible for:
- their own compliance with prevailing legislation,
 - providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the month,
 - providing details in a timely manner to the WM Company,
 - collection of income and tax reclaims.
- 2.4 The Investment Adviser is responsible for:
- advising the Committee on investment strategy and policy,
 - assisting the Corporate Director, the Head of Finance and the Committee in the selection and appointment of investment managers and custodians,
 - assisting the Corporate Director, the Head of Finance and the Committee in their regular monitoring of the investment managers performance, and
 - assisting the Corporate Director, the Head of Finance and the Committee in the preparation and review of this document.
- 2.5 The Actuary is responsible for:
- assisting the Corporate Director, the Head of Finance and the Committee in the preparation of this document, and
 - providing advice as to the maturity of the scheme and its funding level in order to aid the committee in balancing the short term and long term objectives of the Pension Fund.
- 2.6 The Corporate Director and the Head of Finance are responsible for:
- ensuring compliance with this document and bringing breaches thereof to the attention of the Committee,
 - ensuring that this document is regularly reviewed and updated in accordance with the regulations, and
 - preparing an annual report which will include amongst other issues references to investment results.
- 2.7 The Clerk of the Pensions Committee is responsible for:
- sending reports and papers to members of the committee sufficiently in advance of the meeting to allow them to be read and understood, and
 - asking members to declare if they have a personal interest at the beginning of each meeting.

3.0 Description of the Scheme's Liabilities

- 3.1 The Pension Fund is a defined benefit scheme which provides benefits related to final salary for members on their retirement, or benefits for their dependants on death before or after retirement. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the scheme's assets. Full details of scheme benefits are set out in the LGPS regulations.
- 3.2 All active members of the scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the LGPS regulations.
- 3.3 The funding objective is to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets, (as calculated in the triennial valuation).
- 3.4 Employers contribution rates are determined triennially based on the advice of the scheme's actuary, and are subject to inter-valuation monitoring. The assumptions used for this test, corresponding with the assumptions used in the latest actuarial valuation, are shown in **Appendix B**. This position will be reviewed at least at each triennial valuation. The committee will be advised by the actuary of any significant changes to the Fund during the inter-valuation period.

4.0 Investment Policy

- 4.1 The investment policy of the Pension Fund is, in a manner which is consistent with adopting a reasonable level of risk, intended to ensure that all statutory payments made from the Fund are at minimal cost to local taxpayers.
- 4.2 The investment policy is to appoint expert investment managers with clear performance benchmarks and to place the maximum accountability for performance against that benchmark on the investment manager. The performance of Fund managers will be assessed on a rolling three year basis.
- 4.3 As a result of a deliberate policy to diversify assets and investment styles, as well as to spread risk, the Fund has seven investment managers with varying briefs. They are as follows:

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

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

- 4.4 The Fund has its own bespoke benchmark against which its performance is measured. Each investment manager has their own individual benchmark against which they are measured and their own targets. The Fund's benchmark is as follows:

	Black Rock %	Capital %	Fidelity %	Insight %	UBS/ Lothbury %	Partners %	Total %
UK Equities	77.0	8.4	8.4	-	-	-	28.0
Overseas Equities	23.0	91.6	91.6	-	-	-	42.0
North America	-	47.1	47.1	-	-	-	17.6
Europe ex-UK	8.0	17.6	17.6	-	-	-	9.7
Japan	7.0	8.9	8.9	-	-	-	4.2
Pacific Basin	3.0	5.0	5.0	-	-	-	4.2
Emerging Markets	5.0	13.0	13.0	-	-	-	6.3
Private Equity	-	-	-	-	-	100.0	5.0
Total Equities	100.0	100.0	100.0	-	-	100.0	75.0
UK Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	-	-	-	100.0	-	-	15.0
Property	-	-	-	-	100.0	-	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- 4.5 The investment strategy will be reviewed annually, with a major review taking place following the triennial actuarial review. Following the publication of the 2010 Actuarial Valuation in March 2011, there will be a major review of the investment strategy during 2011/12.
- 4.6 The individual manager's current activity and transactions are reported quarterly to the Committee.
- 4.7 The investment managers performance is monitored quarterly and reviewed annually.
- 4.8 BlackRock and Fidelity provide their own custody service for us with JP Morgan Chase Bank while Insight and KBC provide their own custody service for us with Northern Trust. As UBS and Capital do not have an associated custodian we have had to appoint external custodians. JP Morgan Chase Bank has been appointed as custodian for UBS's part of the Fund and Northern Trust has been appointed for Capital's part of the Fund. Partners Group is not included in the Fund's custody arrangements.

5.0 Objectives

- 5.1 The investment objectives are to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives set out above on an ongoing basis.
- 5.2 To achieve these objectives the following have been agreed.
- 5.3 **Types of Investments to be held**
- 5.3.1 The Committee will ensure that one or more investment managers are appointed who are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to manage the assets of the Fund.

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

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

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

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

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

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

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

5.4 **Balance between different types of Investments**

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

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

5.5 **Risk**

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

5.5.2 **Funding risks:**

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities; or that unexpected inflation increases the pension benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics - The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting Fund liabilities.

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

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

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

5.5.3 **Asset risks:**

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the Fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees’ expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access

to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager. However, it is not possible to eliminate the threat of underperformance without restricting the potential for outperformance.

5.5.4 Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

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

5.6 Expected Return on Investments

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

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

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

5.7 Realisation of Investments

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

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

6.0 Social, Environmental and Ethical considerations

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

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

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

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

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

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

7.0 Exercise of the rights including voting rights attaching to investments

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

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

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

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

8.0 Stock Lending

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

9.0 Compliance

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

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

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

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

- 9.5 The Committee will consider the scheme's compliance with this statement of investment principles on a regular basis.
- 9.6 The statement will be reviewed as required but at least in full every three years (in conjunction with the other parties to the statement) and a revised statement prepared and published.

10.0 Compliance with Investment Principles

- 10.1 In response to the Treasury Report "Updating the Myners Principles: A Response to Consultation (October 2008), LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles contained in the CIPFA document titled "Investment Decision Making and Disclosure in the Local Government Pension Scheme".
- 10.2 These principles have been adopted by the Department of Communities and Local Government (CLG) and replace the ten Myners principles previously published.
- 10.3 **Appendix C** notes the extent to which the Gwynedd Fund complies with these six principles and if they do not comply, the reasons why.

Delegation Scheme for Committees and Sub-Committees

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

The following functions have been delegated to the Pensions Committee:

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

APPENDIX B

Main Actuarial Assumptions as at 31 March 2010

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

The actuarial valuation has taken the assets of the Fund into account at their market value as indicated in the Fund Accounts for the period ended 31 March 2010. This is consistent with the approach of valuing the liabilities by reference to spot market conditions on the valuation date.

Results Summary

Value of Accrued Liabilities	Total Liabilities £'m
Employee members	608
Deferred pensioners	123
Pensioners	383
Total liabilities	1,114
Value of Fund Assets	931
Deficit	183
Funding Level (at actuarial value)	84%

Based on the actuarial valuation as at 31 March 2010

Asset Mix

Figures as at 31 March 2010	Actual Fund %
UK Equities	27.1
UK Bonds	13.9
Overseas Equities	44.8
Private Equity	3.8
Property	7.7
Derivatives	0.0
Cash & Net Current Assets	2.7
Total	100.0%

Assets Held by Managers (as at 31 March 2010)

Manager	Assets	Active/Passive
BlackRock	£174m*	Passive
Capital International Limited ("Capital")	£183m	Active
Fidelity International (Fidelity)	£177m	Active
Insight	£129m**	Active
Lothbury (formerly known as KBC)	£12m	Active
Legal and General Investment Management	£144m	Passive
Partners Group	£35m	Active
UBS Global Asset Management (UK) Ltd "UBS")	£62m	Active

*Assets of £304m less the Pending Transfer of £130m to Insight on 6 April 2010.

**Assets include the Pending Transfer from BlackRock of £130m less purchase costs.

Added Voluntary Contribution Arrangements

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

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

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

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

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

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

Principle 1: Effective Decision Making

Administering authorities should ensure that:

- **decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

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

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

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

No formal annual business plan is prepared.

Principle 2: Clear Objectives

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

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

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

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

Principle 3: Risk and Liabilities

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

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

Principle 4: Performance Assessment

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

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

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

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

Principle 5: Responsible Ownership

Administering authorities should:

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

The Gwynedd Fund partially complies with this principle.

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

Principle 6: Transparency and Reporting

Administering authorities should:

- **act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;**
- **provide regular communication to scheme members in the form they consider most appropriate.**

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

GWYNEDD PENSION FUND FUNDING STRATEGY STATEMENT

1.0 Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2011.

1.1 Regulatory Framework

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

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

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

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) (now the Department of Communities and Local Government (CLG)) has stated that the purpose of the FSS is:

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

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

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers’ contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

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

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

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

2.3 Aims of the Funding Policy

The objectives of the Fund’s funding policy include the following:

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

- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “*future service rate*”; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund’s actuary is required by the regulations to report the Common Contribution Rate¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years – the maximum deficit recovery period applicable to the largest employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

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

For some employers it may be agreed to pool contributions, see Section 3.7.4. Annex A, contains a breakdown of each employer’s contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer’s rate with the Common Contribution Rate. It also identifies which employers’ contributions have been pooled with others.

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

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

If an employer is in a surplus position (where their assets are greater than their liabilities), then the minimum contribution they will pay is the future service rate.

¹ See Regulation 77(4)

² See Regulation 77(6)

3.2 Solvency and Target Funding Levels

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

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

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

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

3.3 Ongoing Funding Basis

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

Contributions may increase in future if life expectancy exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different membership profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds.

The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply. It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the purpose of the triennial funding valuation at 31 March 2010 and setting contribution rates effective from 1 April 2011, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.4% per annum greater than the return available from investing in index-linked government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, an asset outperformance assumption (AOA) of 1.4% per annum is within a range that would be considered acceptable for the purposes of the funding valuation. The same financial

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

3.4 Future Service Contribution Rates

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

3.4.1 *Employers that admit new entrants*

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

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

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

3.4.2 *Employers that do not admit new entrants*

Currently no Admission Bodies have closed the scheme to new entrants. However, if an Admission Body were to close the scheme to new entrants it is expected that it would lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate would be expected to increase as the membership ages.

In such cases the Attained Age funding method would be adopted. This would limit the degree of future contribution rises by paying higher rates at the outset.

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

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

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

over the period between each triennial valuation.

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

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

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

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

3.6 Asset Share Calculations for Individual Employers

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

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

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

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

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

Type of Employer	Maximum Length of Deficit Recovery Period
Statutory bodies with tax raising powers.	<i>a period not exceeding 20 years.</i>
Community Admission Bodies with funding guarantees.	<i>a period not exceeding 20 years.</i>
Further Education Colleges which are scheduled bodies and not admitted bodies.	<i>a period not exceeding 15 years.</i>
Best Value Admission Bodies.	<i>the period from the start of the revised contributions to the end of the employer’s contract.</i>
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires.	<i>a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers, subject to not less than 9 years.</i>
All other types of employer.	<i>a period equivalent to the expected future working lifetime of the remaining scheme members</i>

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

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 *Phasing in of Contribution Rises*

Best Value Admission Bodies are not eligible for phasing in of contribution rises. The Administering Authority expects employers with a contribution increase of 0.5% or less at the 2010 valuation to move to the new rate immediately. Because the increases are over 3% in some cases there is an option to phase the increase in over a period of 6 years with an increase of at least 0.5% per annum until the full increase is achieved, subject to the Administering Authority's overall satisfaction relating to the security of the Fund.

Bodies with tax raising powers will be subject to a maximum increase of 0.5% per annum. Should the contribution rate decrease in future these bodies would also be subject to a maximum decrease of 0.5% per annum.

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

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

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

3.7.4 *Pooled Contributions*

3.7.4.1 *Smaller Employers*

The Administering Authority allows smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Best Value Admission Bodies are also ineligible for pooling.

Employers who are eligible for pooling at the 2010 valuation have been asked to give their written consent to participate in the pool.

As at the 2010 valuation separate pools were operated for Town Councils and for smaller Admission Bodies.

3.7.4.2 *Other Contribution Pools*

Schools are also pooled with their funding Council. Those employers that have been pooled are identified in Annex A.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- (a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- (b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.
- (c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 *Non Ill Health retirements*

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

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

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

4. Links to Investment Strategy

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

4.1 Investment Strategy

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

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the asset allocation of the Fund was as follows:

Asset Allocation	%
Equities	75.70
Property	7.65
Absolute Return Bonds	13.92
Cash	2.73
TOTAL	100.0

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

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

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

4.2 Consistency with Funding Basis

The current funding policy for the purpose of placing a value on liabilities at the triennial funding valuation at 31 March 2010 and setting contribution rates effective from 1 April 2011, is to assume that future investment returns earned by the Fund over the long term will be 1.4% per annum greater than the redemption yield on index-linked government bonds at the time of the valuation. The long term in this context would be 20 to 30 years or more. Based on the asset allocation of the Fund at 31 March 2010, this would be equivalent to anticipating excess returns relative to index-linked gilts of 1.8% per annum from equities and 0.9% per annum from property and little or no outperformance from other non-equity assets.

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

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

4.3 Balance between risk and reward

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

4.4 Intervaluation Monitoring of Funding Position

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

5. Key Risks & Controls

5.1 Types of Risk

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

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

5.2 Financial Risks

Number	Risk	Summary of Control Mechanisms
F1	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers.</i>
F2	Inappropriate long-term investment strategy.	<i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</i>
F3	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<i>Some investment in bonds helps to mitigate this risk.</i>
F4	Active investment manager under-performance relative to benchmark.	<i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their benchmark. This is now supplemented with an analysis of absolute returns against those under-pinning the valuation. This gives an early warning of contribution rises ahead. In the short term, volatility damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more.</i>

Number	Risk	Summary of Control Mechanisms
F5	Pay and price inflation significantly more than anticipated.	<i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards.</i>
F6	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	<i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i>

5.3 Demographic Risks

Number	Risk	Summary of Control Mechanisms
D1	Pensioners living longer.	<i>Set mortality assumptions with some allowance for future increases in life expectancy. At the most recent valuation at 31 March 2010, analysis of current longevity specific to the Gwynedd Pension Fund was provided by Club Vita. In addition the actuary has made a separate allowance for future improvements. The allowance made at the March 2010 valuation was greater than allowed for at the last valuation in 2007. The actuary will continue to monitor emerging evidence of improvements from Club Vita and other sources and will advise at the next valuation (2013) what further allowance for future improvements is needed.</i>
D2	Deteriorating patterns of early retirements.	<i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i>

5.4 Regulatory

Number	Risk	Summary of Control Mechanisms
R1	Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	<i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i>

R2	Changes to national pension requirements and/or HMRC rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of Rule of 85 and the new 2008 scheme.	
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5.5 Governance

Number	Risk	Summary of Control Mechanisms
G1	1) Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). 2) Administering Authority not advised of an employer closing to new entrants.	<i>The Administering Authority monitors membership movements on an annual basis. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations Deficit contributions are expressed as monetary amounts see Annex A.</i>
G2	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	<i>In addition to the Administering Authority monitoring membership movements on an annual basis, it would require employers with Best Value contractors to inform it of forthcoming changes. It would also operate a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</i>
G3	An employer ceasing to exist with insufficient funding or adequacy of a bond.	<i>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:</i> <ul style="list-style-type: none"> • <i>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</i> • <i>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i> • <i>Vetting prospective employers before admission</i> • <i>Setting a minimum limit of 20 employees for prospective employers.</i> • <i>The Administering Authority will consider where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i>

Annex A – Employers’ Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer’s contributions from the ‘Common Contribution Rate’.

CODE	Employer Name or Pool	Proposed Maximum Deficit Recovery Period (In years)	Spreading Period (In years)	Contribution Rates for the year ending					
				31.03.12	31.03.13	31.03.14	31.03.15	31.03.16	31.03.17
100	Gwynedd	20	S	21.4%	21.9%	22.4%			
200	Isle of Anglesey	20	S	21.5%	22.0%	22.5%			
Pool	Conwy Pool								
300	- Conwy County Borough Council	20	S	20.6%	21.1%	21.6%			
55	- Ysgol Emrys ap Iwan	20	S	20.6%	21.1%	21.6%			
56	- Eirias High School	20	S	20.6%	21.1%	21.6%			
57	- Ysgol Bryn Elian	20	S	20.6%	21.1%	21.6%			
58	- Ysgol Pen y Bryn	20	S	20.6%	21.1%	21.6%			
7	North Wales Police Authority	20	S	18.4%	18.9%	19.3%			
35	Coleg Menai	RWL	5	19.6%	20.1%	20.6%	21.1%	21.4%	
37	Careers Wales North West	RWL	6	17.9%	18.4%	18.9%	19.4%	19.9%	20.4%
38	Cwmni Cynnal	RWL	0	29.1%	29.1%	29.1%			
43	Snowdonia National Park	20	S	20.7%	21.2%	21.7%			
44	Coleg Llandrillo	RWL	4	17.7%	18.2%	18.7%	19.0%		
63	Mantell Gwynedd	RWL	0	22.0%	22.0%	22.0%			
75	Eden Food Services	RWL	0	5.1%	5.1%	5.1%			
76	Cartrefi Conwy	RWL	6	16.0%	16.5%	17.0%	17.5%	18.0%	18.2%
Pool	Other Scheduled Bodies								
13	- Caernarfon T.C.	20	0	21.2%	21.2%	21.2%			
14	- Menai Bridge T.C.	20	0	21.2%	21.2%	21.2%			
16	- Bangor C.C.	20	0	21.2%	21.2%	21.2%			
17	- Llangefni T.C.	20	0	21.2%	21.2%	21.2%			
22	- Beaumaris T.C.	20	0	21.2%	21.2%	21.2%			
27	- Holyhead T.C.	20	0	21.2%	21.2%	21.2%			
28	- Llandudno T.C.	20	0	21.2%	21.2%	21.2%			
66	- Tywyn T.C.	20	0	21.2%	21.2%	21.2%			
68	- Llanllyfni C.C.	20	0	21.2%	21.2%	21.2%			
70	- Towyn a Kinmel Bay T.C.	20	0	21.2%	21.2%	21.2%			
72	- Abergele T.C.	20	0	21.2%	21.2%	21.2%			
73	- Colwyn Bay T.C.	20	0	21.2%	21.2%	21.2%			
74	- Blaenau Ffestiniog T.C.	20	0	21.2%	21.2%	21.2%			

		Proposed Maximum Deficit		Contribution Rates for the year ending					
CODE	Employer Name or Pool	Recovery Period (In years)	Spreading Period (In years)	31.03.12	31.03.13	31.03.14	31.03.15	31.03.16	31.03.17
Pool	Small Admission Bodies								
8	- Coleg Harlech	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
11	- North Wales Society for the Blind	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
25	- Cyd-Bwyllgor Claddu Caergybi	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
41	- Cwmni'r Fran Wen	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
61	- Conwy Voluntary Services	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
62	- Medrwn Môn	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
64	- Canolfan Cyngori Ynys Môn Citizen's Advice Bureau	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
67	- Menter Môn	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
69	- Conwy Citizens Advice Bureau	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%
71	- CAIS	RWL	6	20.1%	20.8%	21.5%	22.1%	22.7%	23.3%

***RWL = Remaining Working Lifetime**

*S = Statutory tax raising body – increase or decrease limited to 0.5% per annum

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain an FSS and a SIP, both after consultation with interested parties where appropriate; and
- monitor all aspects of the Fund's performance and funding and amend FSS/SIP

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.