Gwynedd Pension Fund

STATEMENT OF ACCOUNTS 2018/19

Introduction

Gwynedd Pension Fund's accounts and notes for the year 2018/19 are presented here on pages 5 to 38.

The accounts consist of the Gwynedd Pension Fund Account and Balance Sheet.

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

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

The Statement of Accounts and further information is available on Gwynedd Pension Fund's website www.gwyneddpensionfund.org.uk.

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

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

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

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

Further information relating to the accounts is available from:

Caroline Roberts
Investment Manager
01286 679128

Finance Department
Gwynedd Council
Council Offices
Caernarfon
Gwynedd
LL55 1SH

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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE PENSION FUND'S RESPONSIBILITIES

Gwynedd Council as administrating authority (effectively the trustee) for Gwynedd Pension Fund is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Gwynedd Council, that "Section 151 Officer" is the Head of Finance. It is also the administrating authority's responsibility to manage its affairs to secure economic, efficient and effective use of its resources, to safeguard its assets, and to approve the Statement of Accounts.

29 July 2019

Audit and Governance Committee Chair

THE HEAD OF FINANCE'S RESPONSIBILITIES

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

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

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

RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2019 and the Pension Fund's income and expenditure for the year then ended.

29 July 2019

Dafydd L. Edwards B.A., C.P.F.A., I.R.R.V.
Head of Finance, Gwynedd Council

GWYNEDD PENSION FUND ACCOUNTS 2018/19

THE FUND ACCOUNT

31 March 2018 £'000		Notes	31 March 2019 £'000
	Dealings with members, employers and others directly involved in the Fund		
82,302	Contributions	7	67,930
3	Other Income	8	6
4,360	Transfers in from other pension funds	9	3,007
86,665	**Total contributions received**		**70,943**
(53,911)	Benefits paid or payable	10	(59,213)
(2,306)	Payments to and on account of leavers	11	(3,128)
(56,217)	**Total benefits paid**		**(62,341)**
(13,367)	Management Expenses	12	**(14,659)**
	Returns on Investments		
15,155	Investment income	15	13,964
(252)	Taxes on income		(195)
41,758	Profit and (loss) on disposal of investments and changes in the market value of investments	16	135,660
56,661	**Returns on investments net of tax**		**149,429**
73,742	**Increase in the net assets available for benefits during the year**		**143,372**
	Net assets of the Fund		
1,864,233	At 1 April		1,937,975
73,742	Increase in net assets		143,372
1,937,975			**2,081,347**

The notes on pages 5 to 38 form part of these Financial Statements

NET ASSETS STATEMENT

31 March 2018 £'000		Notes	31 March 2019 £'000
1,859,635	Investment assets	16	2,054,595
44,352	Cash deposits	16	538
1,903,987	**Total Investment assets**		**2,055,133**
(4,690)	Investment liabilities	16	(123)
42,626	Current assets	21	29,226
(3,948)	Current liabilities	22	(2,889)
1,937,975			**2,081,347**

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2016) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 20.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) 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 2018/19 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

b) Membership

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

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

NOTE 1 – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
GWE	NMWTRA
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	Conwy Town Council
Trefriw Community Council	Llanfairfechan Town Council
Admission Bodies	
Adult Learning Wales (formerly Coleg Harlech WEA)	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice	Careers Wales North West
Ynys Môn Citizens Advice (up to 31/03/18)	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transferee Admission Bodies	
ABM Catering	Caterlink
Superclean 1	Dawnus (Went into administration on 15/03/19)

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers also make contributions which are set based on triennial actuarial funding valuations. New employer contribution rates were applied for the three years from 1 April 2017 to 31 March 2020 following the actuarial valuation carried out as at 31 March 2016.

NOTE 1 – DESCRIPTION OF FUND (continued)

d) Benefits

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

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

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

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

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

Transfer 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 9 and 11).

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

Transfers into the Fund 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 9).

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition the Fund had negotiated with Fidelity International that an element of their fee would be performance-related. This arrangement was terminated on the 30 September 2016, and since then the fee has been based on the market value of the investments under their management.

The cost of obtaining investment advice from external consultants is included in investment management charges.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net assets statement

g) Financial assets

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

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

i) Equities

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) Pooled investment vehicles

Pooled investment 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.

iii) Private Equity and Infrastructure

Investments in private equity funds and infrastructure funds which are unquoted listed partnerships are valued based on the fund's share of the net assets in the funds or limited partnerships 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 and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors.

h) Foreign currency transactions

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

i) Cash and cash equivalents

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments
The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2019 was £145.6 million (£104.3 million at 31 March 2018).

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

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

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

The items in the net assets statement at 31 March 2019 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
Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity and infrastructure investments in the financial statements are £145.6 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE REPORTING DATE

On 10 April 2019 EU leaders agreed to an extension of article 50 which may delay the date the UK will exit the EU until 31 October 2019. While there is little agreement on the terms of a final exit deal, it is likely that there will be long-term and short-term ramifications of any decision. The Pension Fund’s officers and Committee continue to monitor developments carefully, including the expected impact on the Fund’s liabilities and its investment portfolio.

NOTE 7 – CONTRIBUTIONS

By category

2017/18 £'000		2018/19 £'000
15,930	Employees/Members contributions	17,003
	Employers' contributions:	
47,186	• Normal contributions	50,821
19,186	• Deficit recovery contributions	106
66,372	**Total employers' contributions**	**50,927**
82,302	**Total contributions receivable**	**67,930**

By type of employer

2017/18 £'000		2018/19 £'000
29,868	Gwynedd Council	22,410
48,301	Other scheduled bodies	40,980
1,674	Admission bodies	2,000
1,957	Community admission bodies	1,953
206	Transferee admission bodies	247
242	Resolution bodies	268
54	Closed fund*	72
82,302		**67,930**

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

NOTE 8 – OTHER INCOME

2017/18 £'000		2018/19 £'000
1	Interest on deferred contributions	1
1	Income from divorce calculations	5
1	Income from transfer value calculations	0
3		**6**

NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

2017/18 £'000		2018/19 £'000
4,360	Individual transfers	3,007
4,360		**3,007**

NOTE 10 - BENEFITS PAID

By category

2017/18 £'000		2018/19 £'000
42,708	Pensions	45,278
9,670	Commutation and lump sum retirement benefits	11,949
1,533	Lump sum death benefits	1,986
53,911		**59,213**

By type of employer

2017/18 £'000		2018/19 £'000
15,454	Gwynedd Council	16,494
26,173	Other scheduled bodies	30,510
1,615	Admission bodies	1,467
812	Community admission body	963
42	Transferee admission body	61
70	Resolution body	225
9,745	Closed fund	9,493
53,911		**59,213**

NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £'000		2018/19 £'000
143	Refunds to members leaving service net of tax repayments	139
5	Payments for members joining state scheme	2
0	Group Transfers	984
2,158	Individual transfers	2,003
2,306		**3,128**

The group transfer in 2018/19 was to the North and Mid Wales Trunk Road Agency.

NOTE 12 – MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
1,261	Administrative costs	1,311
12,046	Investment management expenses (Note 14)	13,283
60	Oversight and governance costs	65
13,367		**14,659**

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

NOTE 13 – ADMINISTRATIVE, OVERSIGHT AND GOVERNANCE COSTS

2017/18 £'000		2018/19 £'000
	Administrative costs	
514	Direct employee costs	504
264	Other direct costs	320
357	Support services, including IT	357
34	External audit fees	35
92	Actuarial fees	95
1,261		**1,311**
	Oversight and governance costs	
60	Pensions Committee and Local Pension Board	65
1,321		**1,376**

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

NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

2017/18 £'000		2018/19 £'000
11,933	Management fees	13,166
50	Custody fees	56
8	Performance monitoring service	13
55	Investment consultancy fees	48
12,046		**13,283**

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

The investment management expenses in 2017/18 included £22,562 in respect of performance-related fees paid to one of the Fund's investment managers. There are no performance- related fees in 2018/19. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments (see Note 16a).

NOTE 15 – INVESTMENT INCOME

2017/18 £'000		2018/19 £'000
7,662	Dividends from equities	6,309
544	Private equity income	1,090
1,201	Infrastructure income	126
5,256	Pooled property investments	6,241
492	Interest on cash deposits	198
15,155	**Total before taxes**	**13,964**

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 Pension Fund also has a Euro account to deal with receipts and payments in Euros and to minimise the number and costs of exchange transactions.

NOTE 16 – INVESTMENTS

2017/18 £'000		2018/19 £'000
	Investment assets	
337,188	Equities	0
1,412,705	Pooled investment vehicles (PIV)	1,908,982
76,137	Private equity (PIV)	107,218
28,173	Infrastructure (PIV)	38,395
1,854,203		**2,054,595**
44,352	Cash deposits	538
5,432	Amount receivable from sales of investments	0
1,903,987	**Total investment assets**	**2,055,133**
	Investment liabilities	
(4,690)	Amounts payable for purchases	(123)
(4,690)	**Total investment liabilities**	**(123)**
1,899,297	**Net investment assets**	**2,055,010**

During the year 2018/19 Gwynedd Pension Fund transferred most of the active equities into the two global funds in the Wales Pension Partnership (WPP). Further transfers will be made in the coming years until most of the investments are in the WPP.

Note 16a – Reconciliation of movements in investments and derivatives

2018/19	Market value at 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2019
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Equities	337,188	115,778	(489,524)	36,558	0
Pooled investment vehicles (PIV)	1,412,705	631,601	(216,255)	80,931	1,908,982
Private equity / infrastructure (PIV)	104,310	43,758	(11,401)	8,946	145,613
	1,854,203	791,137	(717,180)	126,435	2,054,595
Cash deposits	44,352			31	538
Amount receivable from sales of investments	5,432				0
Amounts payable for purchases of investments	(4,690)				(123)
Fees within pooled vehicles				9,194	
Net investment assets	**1,899,297**			**135,660**	**2,055,010**

2017/18	Market value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2018
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Equities	345,284	79,717	(89,912)	2,099	337,188
Pooled investment vehicles (PIV)	1,342,335	153,278	(108,389)	25,481	1,412,705
Private equity / infrastructure (PIV)	110,076	15,913	(27,847)	6,168	104,310
	1,797,695	248,908	(226,148)	33,748	1,854,203
Cash deposits	49,248			188	44,352
Amount receivable from sales of investments	630				5,432
Amounts payable for purchases of investments	(235)				(4,690)
Fees within pooled vehicles				7,822	
Net investment assets	**1,847,338**			**41,758**	**1,899,297**

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £165,628 (2017/18 £103,937). In addition to these costs indirect costs are incurred through the bid-offer spread on investment purchases and sales.

Note 16b – Analysis of investments

31 March 2018 £'000		31 March 2019 £'000
337,188	Equities	0
961,611	Pooled Equities (PIV)	1,444,431
292,050	Pooled Fixed Interest (PIV)	285,250
159,044	Pooled property investments (PIV)	179,301
76,137	Private equity (PIV)	107,218
28,173	Infrastructure (PIV)	38,395
1,854,203		**2,054,595**

Investments analysed by fund manager

Market Value at 31 March 2018 £'000	%		Market Value at 31 March 2019 £'000	%
618,768	32.6	BlackRock	656,138	31.9
384,762	20.3	Fidelity	192,395	9.4
292,053	15.4	Insight	285,254	13.9
50,372	2.6	Lothbury	61,073	3.0
104,310	5.5	Partners Group	145,614	7.1
18,149	1.0	Threadneedle	20,862	1.0
48,604	2.5	UBS	50,182	2.4
382,279	20.1	Veritas	411	0.0
0	0.0	Wales Pensions Partnership	643,081	31.3
1,899,297	**100.0**		**2,055,010**	**100.0**

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

Market Value at 31 March 2018 £'000	%		Market Value at 31 March 2019 £'000	%
324,729	15.6	Aquila Life UK Equity Index Fund	324,729	15.6
0	0	LF Wales PP Global Opportunities Equity Fund	322,200	15.5
0	0	LF Wales PP Global Opportunities Equity Fund	285,253	15.4
292,053	15.4	LDI Solutions Plus Bonds	285,251	13.7
337,295	15.7	Fidelity Institutional Select Global Equity	142,648	7.1
129,689	15.0	Aquila Life Global Dev Fundamental Fund	139,699	6.7

Note 16c – Stock lending

The Investment Strategy Statement permits stock lending subject to specific approval. Currently the Fund does not undertake any stock lending.

NOTE 17 – FINANCIAL INSTRUMENTS

Note 17a – Classification of financial instruments

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

As at 31 March 2018				As at 31 March 2019		
Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at cost**		**Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial assets			
337,188			Equities	0		
1,412,705			Pooled investment vehicles (PIV)	1,908,982		
76,137			Private equity (PIV)	107,218		
28,173			Infrastructure (PIV)	38,395		
	79,923		Cash		23,151	
	1,468		Foreign Currency		0	
	11,019		Debtors		6,613	
1,854,203	**92,410**	**0**		**2,054,595**	**29,764**	**0**
			Financial liabilities			
		(8,638)	Creditors			(3,012)
		(8,638)		**0**	**0**	**(3,012)**
1,854,203	**92,410**	**(8,638)**		**2,054,595**	**29,764**	**(3,012)**

Note 17b – Net gains and losses on financial instruments

31 March 2018		31 March 2019
Fair value		**Fair value**
£'000		£'000
	Financial assets	
33,748	Fair value through profit and loss	126,435
188	Loans and receivables	31
33,936	**Total financial assets**	**126,466**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Financial liabilities at cost	0
0	**Total financial liabilities**	**0**
33,936	**Net financial assets**	**126,466**

Note 17c – Fair value of financial instruments and liabilities

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

31 March 2018 Carrying value £'000	31 March 2018 Fair value £'000		31 March 2019 Carrying value £'000	31 March 2019 Fair value £'000
		Financial assets		
1,210,252	1,854,203	Fair value through profit and loss	1,532,175	2,054,595
92,372	92,410	Loans and receivables	29,764	29,764
1,302,624	**1,946,613**	**Total financial assets**	**1,561,939**	**2,084,359**
		Financial liabilities		
(4,675)	(4,690)	Fair value through profit and loss	(123)	(123)
(3,948)	(3,948)	Financial liabilities at cost	(2,889)	(2,889)
(8,623)	**(8,638)**	**Total financial liabilities**	**(3,012)**	**(3,012)**
1,294,001	**1,937,975**	**Net financial assets**	**1,558,927**	**2,081,347**

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

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

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

Values at 31 March 2019	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	0	1,797,728	256,867	2,054,595
Loans and receivables	29,764	0	0	29,764
Total financial assets	**29,764**	**1,797,728**	**256,867**	**2,084,359**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(123)	0	(123)
Financial liabilities at cost	(2,889)	0	0	(2,889)
Total financial liabilities	**(2,889)**	**(123)**	**0**	**(3,012)**
Net financial assets	**26,875**	**1,797,605**	**256,867**	**2,081,347**

Values at 31 March 2018	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	332,498	1,318,419	203,286	1,854,203
Loans and receivables	92,410	0	0	92,410
Total financial assets	**424,908**	**1,318,419**	**203,286**	**1,946,613**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,690)	0	(4,690)
Financial liabilities at cost	(3,948)	0	0	(3,948)
Total financial liabilities	**(3,948)**	**(4,690)**	**0**	**(8,638)**
Net financial assets	**420,960**	**1,313,729**	**203,286**	**1,937,975**

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

Risk and risk management

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

Other price risk

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

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

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

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

Other price risk – sensitivity analysis
Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Following analysis of the observed historical volatility of asset class returns in consultation with the Fund's investment 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 2018	31 March 2019
	%	%
UK Equities	16.8	16.6
Global Equities	17.9	16.9
Private Equity	28.3	28.3
Pooled Fixed Income	2.8	3.0
Alternatives (Infrastructure)	20.1	20.1
Property	14.3	14.3
Cash	0.0	0.0
Whole Fund	12.6	12.3

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.

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

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

Asset type	Value as at 31 March 2019 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Pooled Equities	1,444,431	16.8	1,687,566	1,201,297
Pooled Private Equity	107,218	28.3	137,561	76,875
Pooled Fixed Income	285,250	3.0	293,808	276,693
Pooled Alternatives (Infrastructure)	38,395	20.1	46,112	30,678
Pooled Property	179,301	14.3	204,941	153,661
Cash	26,752	0.0	26,752	26,752
Total assets available to pay benefits	**2,081,347**	**12.6***	**2,343,597**	**1,819,098**

* The whole fund values in the table above are based on 12.6% rather than the total of the individual asset types.

Asset type	Value as at 31 March 2018 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Pooled Equities	1,298,799	17.6	1,527,528	1,070,060
Pooled Private Equity	76,137	28.3	97,684	54,590
Pooled Fixed Income	292,050	2.8	300,227	283,873
Pooled Alternatives (Infrastructure)	28,173	20.1	33,837	22,511
Pooled Property	159,044	14.3	181,787	136,300
Cash	44,352	0.0	44,352	44,352
Total assets available to pay benefits	**1,898,555**	**12.6***	**2,137,773**	**1,659,337**

* The whole fund values in the table above are based on 12.6% rather than the total of the individual asset types.

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 2018 and 31 March 2019 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 2018 £'000	As at 31 March 2019 £'000
Cash and cash equivalents	37,038	22,614
Cash balances	44,352	538
Pooled Fixed Income	292,050	285,251
Total	**373,440**	**308,403**

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

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 2019	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	22,614	226	(226)
Cash balances	538	5	(5)
Pooled Fixed Income *	285,251	34,230	(34,230)
Total change in assets available	**308,403**	**34,461**	**(34,461)**

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

Asset type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	37,038	370	(370)
Cash balances	44,352	444	(444)
Pooled Fixed Income *	292,050	2,658	(2,658)
Total change in assets available	**373,440**	**3,472**	**(3,472)**

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.79% amounting to interest of £166,303 for the year.

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

Currency risk

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

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

The Fund has made commitments to private equity and infrastructure in foreign currency, (€256 million and $88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 25. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at the previous year end:

Currency exposure - asset type	As at 31 March 2018 £'000	As at 31 March 2019 £'000
Overseas and Global Equities	958,275	1,119,701
Global Pooled Fixed Income	292,050	285,250
Overseas Alternatives (Pooled Private Equity and Pooled Infrastructure)	104,310	145,613
Pooled Overseas Property	1,808	1,000
Overseas Currency	1,468	0
Total overseas assets	**1,357,911**	**1,551,564**

Currency risk – sensitivity analysis

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

A 10% fluctuation in the currency is considered reasonable based on the Fund investment advisors' analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2019. The equivalent rate for the year ended 31 March 2018 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.

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

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2019 and at the end of the previous financial year:

Currency exposure - by asset type	**Carrying amount as at 31 March 2019**	**Change in year in the net assets available to pay benefits**	
		Value on increase	**Value on decrease**
	£'000	**£'000**	**£'000**
Overseas and Global Equities	1,119,701	1,231,671	1,007,731
Global Pooled Fixed Income	285,250	313,776	256,726
Overseas Alternatives (Pooled Private Equity and infrastructure)	145,613	160,174	131,052
Overseas Property	1,000	1,100	900
Total change in assets available	**1,551,564**	**1,706,721**	**1,396,409**

Currency exposure - by asset type	**Carrying amount as at 31 March 2018**	**Change in year in the net assets available to pay benefits**	
		Value on increase	**Value on decrease**
	£'000	**£'000**	**£'000**
Overseas and Global Equities	958,275	1,054,103	862,448
Global Pooled Fixed Income	292,050	321,255	262,845
Overseas Alternatives (Pooled Private Equity and infrastructure)	104,310	114,741	93,879
Pooled Overseas Property	1,808	1,989	1,628
Overseas Currency	1,468	0	0
Total change in assets available	**1,357,911**	**1,492,088**	**1,220,800**

b) Credit risk

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

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

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

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

From 17 January 2019

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	10.0%
Wales Pension Partnership	28.0%
Insight	15.0%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10.0%
Partners Group	7.5%

To 16 January 2019

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

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

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

In order to maximise the returns from Short-Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short-Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short-Term Investments and Cash Deposits at 31 March 2019 was £22.6m (£37.0m at 31 March 2018).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the Council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The Council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 27.

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

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

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

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

c) Liquidity risk

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

The Administering Authority has a cash flow system that seeks to ensure that cash is available if needed. In addition, current contributions received from contributing employers and members far exceed the benefits being paid. Surplus cash is invested and cannot be paid back to employers. The Fund's 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 would be of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the value of illiquid assets was £256m, which represented 12.3% of the total Fund assets (31 March 2018: £202m, which represented 10.5% 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 2019 are due within one year as was the case at 31 March 2018.

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

NOTE 19 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016.

Description of Funding Policy
The funding policy is set out in the Administering Authority's Funding Strategy Statement (Funding Strategy Statement) reviewed as part of the 2016 valuation.

The key elements of the funding policy are:

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

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

NOTE 19 – FUNDING ARRANGEMENTS (continued)

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 66% chance that the Fund will return to full funding over the 20 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £1,525 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £145 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measured as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2017.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	3.9%
Salary increase	2.1%
Benefit increase	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

NOTE 19 – FUNDING ARRANGEMENTS (continued)

Mortality assumption	Male Years	Female Years
Current pensioners	22.0	24.2
Future pensioners (aged 45 at the 2016 valuation)	24.0	26.4

Copies of the 2016 valuation report and the Funding Strategy Statement are available on the Pension Fund's website www.gwyneddpensionfund.org.uk

Experience over the period since 31 March 2016
Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19) and has also used them to provide the IAS19, and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2018 and 2019 are shown below:

Assumptions	31 March 2018 £m	31 March 2019 £m
Active members	1,378	1,674
Salary increase rate	385	434
Discount Rate	718	722
Total	**2,481**	**2,830**

As noted above the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2016 triennial funding valuation (see Note 19) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

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

Assumptions used

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

Assumption	31 March 2018 %	31 March 2019 %
Inflation/pension increase rate	2.4	2.5
Salary increase rate	2.4	2.5
Discount rate	2.7	2.4

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

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

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

Sensitivity to the assumptions for the year ended 31 March 2019	Approximate % increase to liabilities %	Approximate monetary amount £m
0.5% p.a. increase in the pension increase rate	9	245
0.5% p.a. increase in the salary increase rate	2	59
0.5% p.a. decrease in the discount rate	11	325

The principal demographic assumption is the longevity assumption. For sensitivity purpose the actuary estimates that a one year increase in life expectancy would increase the liabilities by approximately 3–5%.

NOTE 21 – CURRENT ASSETS

31 March 2018 £'000		31 March 2019 £'000
842	Contributions due - employees	1,227
2,508	Contributions due – employers	3,682
2,238	Sundry debtors	1,704
5,588	**Total debtors**	**6,613**
37,038	Cash	22,613
42,626	**Total**	**29,226**

NOTE 22 – CURRENT LIABILITIES

31 March 2018 £'000		31 March 2019 £'000
2,370	Sundry creditors	1,922
1,578	Benefits payable	967
3,948	**Total**	**2,889**

NOTE 23 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds are stated below:

	Market value at 31 March 2018 £'000	Market value at 31 March 2019 £'000
Clerical Medical	3,506	3,851
Equitable Life	226	203
Standard Life	70	61
Total	**3,802**	**4,115**

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

	2017/2018 £'000	2018/2019 £'000
Clerical Medical	591	613
Standard Life	13	14
Total	**604**	**627**

NOTE 24 - RELATED PARTY TRANSACTIONS

Gwynedd Council

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

The Council incurred costs of £1,152,315 (£1,056,813 in 2017/18) 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 £22.41m to the Fund in 2018/19 (£29.87m in 2017/18). At the end of the year the Council owed £1.921m to the Fund which was primarily in respect of contributions for March 2019 and the Fund owed £1.02m to the council which was primarily in respect of recharges from the Council.

NOTE 24 - RELATED PARTY TRANSACTIONS (continued)

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 2018/19, the Fund received interest of £166,303 (£127,666 in 2017/18) from Gwynedd Council.

Governance

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2018/19 (committee members J.B. Hughes and P. Jenkins). In addition, committee members S.W. Churchman, D. Cowans, S. Glyn, J.B. Hughes, A.W. Jones, P. Read and R.W. Williams are active members of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2018/19 (Board member H.E. Jones and S. Warnes). In addition, Board members A.W. Deakin, A.L Lloyd Evans, O. Richards and H. Trainor are active members of the Pension Fund.

Key Management Personnel

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

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

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitments	**Commitment at 31 March 2018**	**Commitment at 31 March 2019**
	€'000	**€'000**	**€'000**
P.G. Direct 2006	20,000	776	776
P.G. Global Value 2006	50,000	3,477	3,477
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	2,712	2,096
P.G. Global Infrastructure 2012	40,000	12,133	8,147
P.G. Direct 2012	12,000	1,181	1,181
P.G. Global Value 2014	12,000	4,109	2,302
P.G Direct Equity 2016	50,000	29,374	10,348
P.G. Global Value 2017	42,000	0	33,677
Total Euros	**256,000**	**55,722**	**63,964**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	7,000	1,225	1,082
P.G Secondary 2015	38,000	29,150	24,692
P.G Direct Infrastructure 2015	43,600	30,896	23,798
Total Dollars	**88,600**	**61,271**	**49,572**

NOTE 25 - COMMITMENTS UNDER INVESTMENT CONTRACTS (continued)

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

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

NOTE 26 – 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 27 – CONTINGENT LIABILITIES

There are no contingent liabilities identified in accordance with the following explanations:

The McCloud Case

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections that protected older judges and firefighters from the public sector pension schemes changes in 2015 were unlawful on the grounds of age discrimination. The UK Government requested leave to appeal to the Supreme Court but the appeal was denied on the 27 June 2019. The implications of the Supreme Court's decision are expected to apply to the LGPS (and other public service schemes) as well.

As a result benefits accrued from 2014 may need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections. In this situation, there would likely be a retrospective increase to members' benefits, which in turn would give rise to a past service cost for the Fund employers when the outcome is known.

Quantifying this impact is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression.

The Government Actuary's Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The salary increase assumption used by GAD for its estimate was CPI + 1.5% pa. A full description of the data, methodology and assumptions underlying these estimates is given in GAD's paper, dated 10 June 2019.

At the 2016 valuation, the long-term salary increase assumption adopted by the Gwynedd Pension Fund was set equal to CPI. This means that both final salary and CARE benefits are assumed to revalue in line with CPI. This in turn, due to the more generous accrual rate applied to CARE benefits, means that the underpin would not 'bite' for any members, as final salary benefits increasing in line with CPI would not exceed the value of CARE benefits accruing over the same period. As such, for the purposes of the 2018/19 pension accounting report, there is no additional liability to be recognised and the McCloud case would have no impact on the stated liabilities.

Guaranteed Minimum Pension Equalisation

Guaranteed minimum pension (GMP) accrued in the LGPS from 6 April 1978 to 5 April 1997. In broad terms, the GMP represents the minimum pension an occupational pension scheme must provide a scheme member as an alternative to the State Earnings Related Pension Scheme (SERPS).

GMP's are inherently unequal due to a number of factors, including the differing retirement ages for men (age 65) and women (age 60) and female GMP's accruing at a higher rate. While this can result in differences in GMP Values, what was deemed to matter more is what the members receive in total from the LGPS and the state and whether that leads to inequality. In the past responsibility for paying annual pension increases was divided between the LGPS fund and the state. However, the introduction of the new Single State Pension in April 2016 bought uncertainty over the ongoing indexation of the GMP amount. This led to the Government announcing an interim solution for members reaching State Pension Age between 6 April 2016 and 5 December 2018, which was later extended to at least 5 April 2021, which involves the LGPS fund paying for everything i.e. both initial pension and all increases.

Hymans Robertson, the Fund's Actuary, have said that given the interim solution has been extended to 5 April 2021 they intend to allow for the Government's preferred long term (i.e. post 2021) solution of converting GMP to scheme pension in the 31 March 2019 valuations. This will lead to an increase in liabilities as a result of the scheme paying full GMP increases for all members with a SPA after 2016. They estimate that the impact of converting GMP to scheme pension is likely to be immaterial to the accounts.

NOTE 28 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts

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

b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,938,407, equating to 98% from the administrators up to 31 March 2019.

NOTE 29 - PENSION FUND PUBLICATIONS

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

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

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

Independent auditor's report of the Auditor General for Wales to the members of Gwynedd Council as administering authority for Gwynedd Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Gwynedd Pension Fund for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004. Gwynedd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Report on other requirements

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Gwynedd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

ABarrett

Anthony J Barrett
For and on behalf of the Auditor General for Wales

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14/8/19