Contents

1. Preface

Once again we have had a busy year of trying to keep up with changes which affect the Pension Fund.

The new scheme is now in operation and employees accrue benefits at a rate of 1/60th of pay for each year of service, and are paying contributions on the basis of a tiered contribution rate. (See page 9 for details)

Discussions are also underway to consider how the principle of cost sharing between the employer and employee can be extended with a view to implementing any changes in April 2011 or 2012.

In relation to the changes which affect the administration of the Fund, some of you will have noticed how the annual report seems to have put on weight this year. This is because we have to comply with regulations which dictate that the annual report must contain a number of statements whereas previously only references to the documents was made with a summary given in the report.

We also had to respond to new regulations dealing with fund governance and state in our Governance Policy Statement to what extent our governance arrangements correspond with best practice principles. The current statement appears in Part 9, pages 38-44.

As a result of this review the Committee consulted stakeholders on the principle of establishing a secondary forum where stakeholders could receive information on matters relating to the Fund and express opinions on administration and investment issues. Whilst very few responded, those that did were in favour of such a forum and we are now about to consult further on the best way to structure this proposal which will then be incorporated into the Governance Statement.

With regard to day to day administrative performance, it is disappointing to note that a number of performance indicators have deteriorated in 2007/08 (see page 5), but to an extent, the preparations which had to be made to implement the new scheme and the provision of valuation data affected the unit's ability to retain the usual performance levels. It is expected that these will recover during the current year.

I have mentioned the importance of communication at previous meetings and it is good to see the small unit established to concentrate specifically on communication starting in earnest on its task and taking key messages out to the workforce.

The numbers attending these sessions are disappointing however and perhaps there is a need for us all as employers to encourage our workforce to attend the sessions when they are arranged in our areas. This is essential if we are to ensure that our workforce is to understand that which the Fund offers them and the choices available to them.

If we do not see an improvement in the numbers attending in the year to come we will have to consider whether there are better ways of raising awareness. This may be an initial subject for the new stakeholder forum noted above to consider.

In relation to the Fund's financial position, the latest triennial valuation showed that the situation had improved somewhat since the last valuation with assets representing 84% of liabilities compared with 74% reported in 2004. To a large extent, this was due to better returns on the Fund's investments than that assumed at the last valuation.

However a number of employers had to face an increase in their employer's contribution rate largely due to the increase in life expectancy which had to be taken into account in the valuation and which means that pensions must be paid for a longer period.

Nevertheless, the increase seen at this valuation was not as great as that seen at the last two valuations, and I now hope that we shall see the employer's rate stabilising in order to provide more certainty for budgets. Time will tell.

In spite of the encouraging results from the valuation the new three year period has not started very auspiciously.

We experienced a disappointing year in terms of return on investments in 2007/08 with equity markets in particular suffering during the year which in itself would have resulted in a 3.7% reduction in the value of the Fund.

The position was made worse however by the fact that our two active managers both failed to achieve their benchmark which meant that the Fund actually lost 5.7% of its value during the year.

As a result, and due to our more recent experiences, the Pensions Committee decided to act and following the valuation, the Fund's investment structure was reviewed along with the managers who would manage those investments.

Full details are given on page 12 to 13 but in essence whilst we will be retaining the equity, bond and property distribution our experience of active management, particularly in relation to UK equities has not been stellar in the recent past and we intend therefore to move our investments in UK equities to a more passive basis and give the two active managers portfolios based on a global mandate representing 20% only of the Fund each.

The UBS mandate has been terminated (although they will continue to look after the Fund's property portfolio) and we will be appointing a new active manager along with a new passive manager to look after the portfolio which BGI cannot manage due to the investment regulations.

Following the local government elections, we have lost a number of the Pensions Committee's members who have given many years of service and I would like to thank them for their valued contribution over the years.

Dilwyn O. Williams
Strategic Director of Resources

2. Review of the Year

2.1 Pensions Administration

General
Looking back at previous annual reports I noted a common theme of 'another busy year' resulting from legislative changes. However, 2007/08 has proved to be exceptionally busy, especially with the Fund valuation and the lead up to the new pension scheme regulations.

It should also be noted that the introduction of the new tax regime in 2006/07 brought radical changes to work practices in pension administration routines, in particular the increasing level of choice. This has been further complicated by the provisions of the new regulations, which have further extended retirement options for both members and employers. Employers now require much more details about the retirement options available, including various levels of flexible retirement, tiered ill health retirement, early and normal retirement and the effects of the still uncertain protections under the 85 year rule.

For staff members, the benefit options that are now available and the complexity of the information which has to be provided has resulted in greater demand for guidance from the Pension Unit.

The recent financial climate for employers has seen a steady increase in demand for early retirement estimates to an extent that 873 cases were dealt with in 2007/08 compared to 508 in 2005/06, an increase of nearly 72%.

2007/08 became a year for crystal ball gazing. Local Government Pension Scheme practitioners were left to anticipate the finer details of the new provisions due to come into force from April 2008. It's a well worn cliché, but a well known fact that the 'Devil is always in the detail'. Even though the Contribution, Benefit and Membership Regulations were put in place in early April 2007, they contained many drafting flaws. The remaining two sets of regulations, the Transitional Regulations and the Administration Regulations promised by April 2007 were not actually issued until February 2008.

Although the basis of the scheme was clear in that banded contribution rates would be introduced, and that membership accrual from April 2008 would be at 60ths instead of the previous 80ths with even greater flexibility to choose the level of lump sum, there remained, important issues, particularly with regard to ill health retirement and the on-going discussions on protections for the 85 year rule, still to be resolved.

Councillor pensions remained largely unaffected by the new regulations.

Communication

The Gwynedd Pension Fund's new communication team continued their excellent work. As part of the Unit's business plan for 2007/08 a target of six road shows on 'Increasing your Pension Benefits' were to be arranged and held before 31 December 2007, with a further twelve road shows on 'The New Scheme' to be arranged and held between 1 January and 31 March 2008.

In fact by 31 December 2007 a total of eleven 'Increasing your Pension Benefits' road shows had been held, a 'new scheme' newsletter had been issued to all active members, and over 50 road shows on 'The New Scheme' had been planned for the period January – March 2008.

By 31 March 2008 a total of 69 road shows on 'The New Scheme' had actually taken place at sites ranging from as far north as Holyhead to Dolgellau in the south, Pwllheli in the west to Wrexham in the east in response to employers' demand for 'local' events.

Even though overall staff attendance at the 'New Scheme' presentations was disappointing considering the importance of the subject and the resources the Pensions Unit committed to the exercise, the feedback from those who did attend both sets of road shows was 'excellent'.

The Fund also purchased a batch of Local Government Pensions Committee (LGPC) produced DVD's explaining the main changes in the new scheme. These were used and distributed during the presentations and made available to members and employers on request. Gwynedd Council was instrumental in assisting the LGPC in translating and overseeing a Welsh language version of the DVD.

Communication Policy
The Communication Policy statement needs to set out the policy on communicating with members, members' representatives, prospective members and employers participating in the Fund. The Gwynedd Fund's Communication Policy Statement has been published and circulated to scheme employers.

The policy will be reviewed during 2008/09.

A copy of the Communication Policy can be seen in Part 9, pages 31-37.

Annual Benefit Statements
Legally, annual benefit statements (ABS) should include the projected values of benefits to the scheme's normal retirement age as well as current values. However, with a number of matters still awaiting statutory guidance, especially the ongoing issues with the 85 year rule protections, it became increasingly difficult for software providers to update systems in time and to comply with this requirement. Although it was a known that accrual rates would be changing from 80ths to 60ths, local authorities had to produce their ABS's with projections based on 80th accrual. A clear 'health warning' was issued to members to inform them that these values would not reflect the incoming regulations.

ABS's for deferred scheme members were issued before the target date of 31 December 2007, together with some active members' statements. The remaining active members received their ABS's early in the new year.

Pension Fund Valuation 2007
Data for the valuation went off within the timescale set in the original timetable and provisional results were received within the overall deadline to allow for employers' budgetary considerations.

A valuation forum was held at Theatr Seilo in Caernarfon on 19th November 2007, where spreadsheets containing individual provisional results were distributed to employers. Mr. John Wright, an actuary with Hymans Robertson, gave a presentation on the methodology and basis behind the valuation calculations, as well as answering questions from the floor.

The valuation report and the Fund's Statement of Investment Principles were distributed to employers in late March 2008.
Gwynedd Pension Fund would like to thank all employers for their co-operations during this exercise.

All Wales Partnership Working
Co-operation on the All Wales Partnership working continues. In the past year the Gwynedd Pension Fund communication team has played its part in contributing towards

producing fact sheets and booklets for the new scheme. Up to 31 March 2008, an explanatory fact sheet and option form covering the introduction of partners' pension had been produced and a further four fact sheets on various aspects of the new scheme were on the drawing board.

Looking forward, work is progressing to amend the template for the 2008 annual benefit statements to comply with the new regulations. Revised scheme booklets for staff members and councillor members will also be produced.

Performance Monitoring

The Pensions Unit records and monitors performance and prior to 2007/08 measured seven regular core pension administration functions. This was increased to nine for 2007/08, and the performance results are presented below together with prior year performance for comparison purposes.

			2006/2007		2007/2008	
REF	CORE ACTIVITIES	TARGET	NO OF CASES	AVERAGE DAYS TAKEN	NO OF CASES	AVERAGE DAYS TAKEN
DA3.49	Average number of work days taken to send a quotation letter offering a transfer in	30 days	278	73.0	184	81.8
DA3.50	Average number of work days taken to send a quotation letter detailing a transfer out	30 days	68	59.9	86	90.1
DA3.51	Average number of work days taken to send a letter informing value of benefits – estimate	12 days	810	7.4	873	9.7
DA3.52	Average number of work days taken to send a letter informing value of benefits – actual	12 days	396	8.6	304	4.5
DA3.53	Average no of days taken to acknowledge death of active / preserved / pensioner member	13 days	9	4.9	30	6.6
DA3.54	Average number of work days taken to notify dependents benefits	13 days	150	8.6	149	10
DA3.55	Monthly pension payments processed and paid on time	100%	Approx 6500 mthly	N/A	Appr. 6650 mthly	N/A
DA3.56	Number of cases where amended payments were necessary as a result an error in the section	Not to exceed 2 cases per quarter	N/A	Not Relevant in 2006/7	N/A	0
DA3.57	No of presentations to be held (two separate topics)	Total of 12	N/A	Not relevant in 2006/7	69	N/A

Gareth Jones
Pensions Operations Manager

2.2 Investment Regulations

New Regulations

A revised Statement of Recommended Practice (SORP) for UK Pension Schemes was approved by the Accounting Standards Board in 2007. The change will require pension schemes to value investments at their fair value and where there is an active market; the bid price is usually the appropriate quoted marked price.

The change will be adopted in the financial year 2008/09.

2.3 Financial Reporting Standard 17 (FRS17)

Definition of FRS17

FRS17 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.

Accounting for FRS17

Full adoption of 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. They also have to reconcile entries back to contributions payable for council tax purposes.

Changes to FRS17

The way in which we report FRS17 will be changing from 2008/09 following an amendment to FRS17. The existing disclosures will be changed to reflect the disclosures of the International Accounting Standard 19 (IAS19).

The additional disclosures required will be:-

- information on the nature of the defined benefit scheme and financial effects of changes in the scheme
- the principal actuarial assumptions at the balance sheet date. (financial and other)
- separate analyses of changes in scheme assets and liabilities over the year
- analysis of scheme liabilities into amounts arising from wholly unfunded schemes and amounts from other schemes

The FRS17 disclosures no longer required are:-

- the date of the most recent valuation and whether the actuary is a company officer or employee
- the effect of changes in actuarial assumptions over the year
- the financial assumptions at the start of the year
- an analysis of reserves in the notes to the accounts, distinguishing the amount related to the defined benefit asset or liability net of deferred tax
- the expected rate of return on individual asset classes

FRS17 Reports

In February 2008, work was undertaken to collect all the necessary data required by the Actuary to calculate the individual FRS17 information for each of the Fund's employers. The reports were sent to the employers on the 17th April 2008.

2.4 New Benchmark

During 2007/08, the Pensions Committee, with Hymans Robertson our advisors, reviewed the Fund Managers performance and decided to terminate UBS's contract (excluding property) and to reduce Capital's asset allocation. These changes will lead to a change in the current benchmark. The changes to the benchmark will occur in two phases, with the first phase being completed by April 2008 and the second will be completed during 2008/09.

Details about the new benchmark are given in Section 4.3 pages 12 – 13.

2.5 New Manager

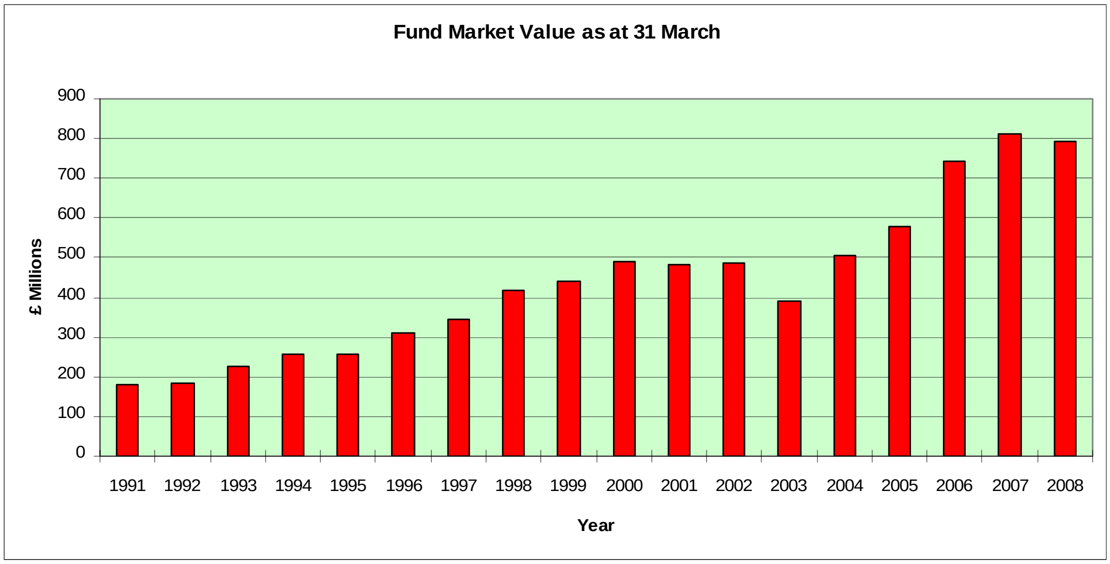
Following the review of the Fund Manager performance, a new Manager has been temporarily appointed. Legal & General Investment Management (L&G) was appointed in March 2008. L&G have received a proportion of Capital's assets on 19th March 2008, and they received a proportion of assets from UBS during April 2008.

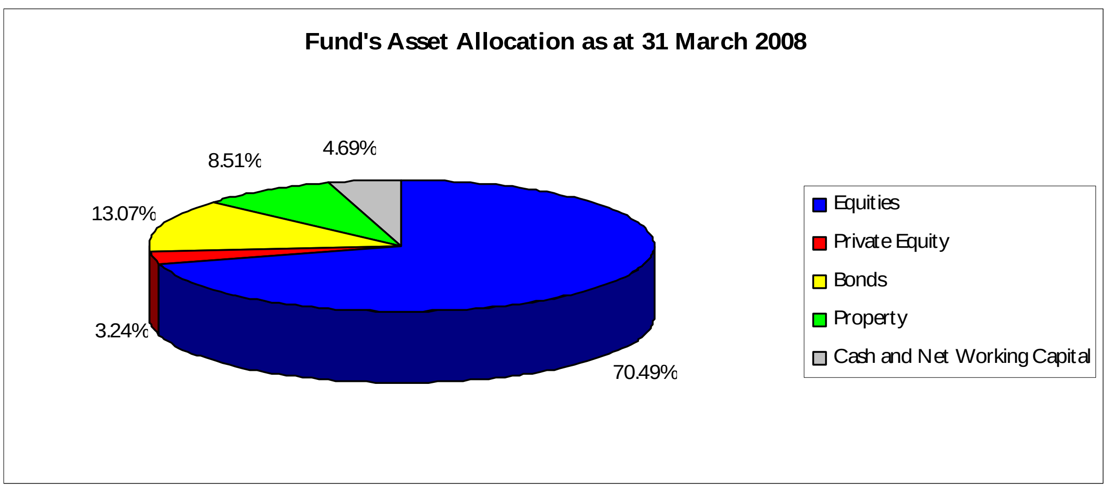
After a second active manager will be appointed during 2008/09, L&G's asset allocation will be reduced.

Private Equity
Following the appointment of Partners Group as a Private Equity Manager for the Pension Fund, the fund has committed €50m to their Global Fund, €20m to their Direct Fund and €15m to their Secondary Fund. The first investment was made during June 2007. Private Equity is an illiquid investment; the Fund will gradually gain exposure, moving towards its target levels over a period of years.

Dafydd L. Edwards
Head of Finance

3. Recent Trends





4. Management Report

4.1 Scheme Administration

General

Prior to 1st April 2008 the basis for the Local Government Pension Scheme (LGPS) is contained in the Local Government Pension Scheme Regulations 1997 (as amended).

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 23 other scheduled bodies (including 2 Local Authorities) and 15 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.

From April 2008 employees' contribution rate will be determined in accordance with their full time equivalent pay in line with the following table:

Band	Salary Range	Contribution rate
1	£0 - £12,000	5.5%
2	£12,001 - £14,000	5.8%
3	£14,001 - £18,000	5.9%
4	£18,001 - £30,000	6.5%
5	£30,001 - £40,000	6.8%
6	£40,001 - £75,000	7.2%
7	More than £75,000	7.5%

Manual workers previously protected at a contribution rate of 5% are to be assimilated in steps so that by April 2011, at the latest, they will pay the rates shown in the table .

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.

- **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.

Ill-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.

Substantial changes were introduced to ill health retirement regulations as a consequence of the April 2008 amendments. Explanations about these changes will be included in the 2008/09 Annual Report.

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 (some members have protected status to retire from age 50).

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.

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 can either:

- Take a refund of their contributions less any deductions for tax and the cost of buying back into the State Second Pension Scheme.
- Transfer the equivalent value of benefits to another pension scheme.
- Defer making a decision until they join a new pension scheme or want to take a refund of contributions.

Death in Service
Up to 31 March 2008 a lump sum death grant of 2 times Final Pay is payable, regardless of the length of membership. (From April 2008 this increased to 3 times Final Pay.) 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 dependant children's' pensions are payable as above but based on the former employee's pension. If death occurs before that pension has been paid for five years, 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 2007 (previously 31st March 2004), and it requires full solvency of the fund.

Method and Assumptions Used

The actuarial method used in the valuation was the "Projected Unit Method" and the main financial assumptions were as follows:

	% per annum
Investment Returns Equities Bonds 75% Equities / 25% Bonds	 6.25% 4.75% 5.9%
Pay Increases (excl. increments)	4.7%
Price Inflation / Pension Increases	3.2%

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 31/03/07, published on the 12/03/08 by Hymans Robertson, it was said that,
"The Funding level was 84% (compared to 74% at 31 March 2004) and there was a funding shortfall of £161m. The market value of assets at the valuation date was £814m".
Liabilities were assesed to be £974m.

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

	£m
Net Liabilities :-	
Active Members	549.1
Deferred Pensioners	106.6
Pensioners	318.7
Total Net Liabilities	**974.4**
Total Value of Assets	**813.8**
Surplus (Deficit)	**(160.6)**
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 31st March 2007, the future service contribution rate was set at 15.8% with a further 4.3% 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.

31st March 2007 Actuarial Valuation

The results of the Valuation were sent out to the employers on 31st March 2008.

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.

Govrnance Policies

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

A copy of the GPS and the GCS can be seen in Part 9, pages 38-44.

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 4 Investment Managers, 3 who held assets excluding Private Equity and one which held the Private Equity assets. The 3 were, Barclays Global Investors Limited (BGI) who held around 30% of the Fund, Capital International (Capital) who held around 31% of the Fund, while UBS Global Asset Management (UBS) held around 39% of the portfolio. Partners Group held 100% of the Private Equity assets.

At the end of the financial year, however, it was decided that a change in the investment managers would be implemented with the intention of moving to the following allocation:

Excluding Private Equity	%
BGI	35%
L&G	15%
New Active Manager	20%
Capital	20%
UBS (Property only)	10%
Private Equity	
Partners	100%

We will gradually move towards this position during 2008/09 by appointing a new active manager, and at present this is the fund's position:-

Excluding Private Equity	%
BGI	35%
L&G	35%
Capital	20%
UBS (Property Only)	10%
Private Equity	
Partners	100%

Custodians

BGI has an associated custodian who holds the assets of that part of the portfolio. Their custodian is JP Morgan Chase Bank.

L&G also has an associated custodioan who holds the assets of that part of the portfolio. Their custodian for UK assets is HSBC Global Investor Services and Citigroup for the overseas assets.

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

As the other two 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.

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 out of the seven named officers who are on the Pension Fund's authorised signature list.

Asset Allocation

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

As noted above, at the end of 2007/08, because of the manager's performance, the percentage of assets each manager held was changed, and as a result the asset allocation for each manager changed.

The following table shows the allocation as it is now (excluding Private Equity):

	BGI %	UBS %	Capital %	L&G %	Total %
Percentage of Fund	**35.0**	**10.0**	**20.0**	**35.0**	**100.0**
UK Equities	**40.0**	**0.0**	**9.6**	**40.0**	**30.0**
Overseas Equities	**18.0**	**0.0**	**90.4**	**60.0**	**45.0**
North America	0.0	0.0	45.5	26.0	18.0
Europe ex-UK	7.0	0.0	19.0	11.0	10.0
Japan	5.5	0.0	8.6	7.0	6.0
Pacific Basin	5.5	0.0	7.7	4.0	5.0
Emerging Markets	0.0	0.0	9.6	12.0	6.0
Total Equities	**58.0**	**0.0**	**100.0**	**100.0**	**75.0**
Bonds	28.0	0.0	0.0	0.0	10.0
Index-Linked	14.0	0.0	0.0	0.0	5.0
Total Bonds	**42.0**	**0.0**	**0.0**	**0.0**	**15.0**
Property	**0.0**	**100.0**	**0.0**	**0.0**	**10.0**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Below is the benchmark for the Private Equity:

	Partners %	Total %
Global Private Equity	100.0	100.0
Total	**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 1998 as amended. These permit a wide range of investment for Fund monies which are not immediately required to pay pensions and other benefits.

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

Investment Restrictions

	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.	2%	5%
3. All contributions to partnerships.	5%	15%
4. All deposits with any local authority, or any body with power to issue a precept 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, and all loans.	10%	No Increase
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	No Increase
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	No Increase
8. All sub-underwriting contracts	15%	No Increase
9. All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
9a. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by any one body	25%	35%
9b. 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%
10. Any single insurance contract.	35%	35%
11. 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 65% with a corresponding increase in future employers contribution rate of 9.1% of pay.

Investment Manager Briefs

As a result of a deliberate policy to diversify assets and investment styles, the Fund has 5 Investment Managers with varying briefs:

Investment Manager	Brief
Barclays Global Investors Limited (BGI)	Passive
Legal & General Investment Management (L&G)	Passive
Capital International Limited (Capital)	Active
UBS Global Asset Management (UBS)	Active
Partners Group (Partners)	Active

BGI and L&G, are briefed to be "passive" managers. Each 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.

Capital has been given an "active" equity brief. They are given the discretion to invest in their best investment ideas. Whilst Capital has a great deal of flexibility, in terms of which stocks, regions and sectors it can invest in, there are a number of restrictions in place which prevents the manager deviating too far from the benchmark and taking excessive risk. Appointing an active manager increases the possibility of out performance, relative to the benchmark; however it also increases the risk of underperformance, relative to benchmark.

UBS has an active property brief. They are given the discretion to invest in their best investment ideas; however, like Capital, the mandate has a number of restrictions; which prevent the manager from taking excessive risk. (UBS' brief included bonds and equity up to April 2008.)

Partners Group has been given an "active" private equity brief. It has been given the discretion to invest in the manager's best investment ideas. Whilst the manager has a great deal of flexibility, in terms of where it can invest, there are a number of restrictions in place which prevents the manager taking excessive risk.

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 the Investment Managers, the Committee, officers and the adviser to monitor their performance during the quarter.

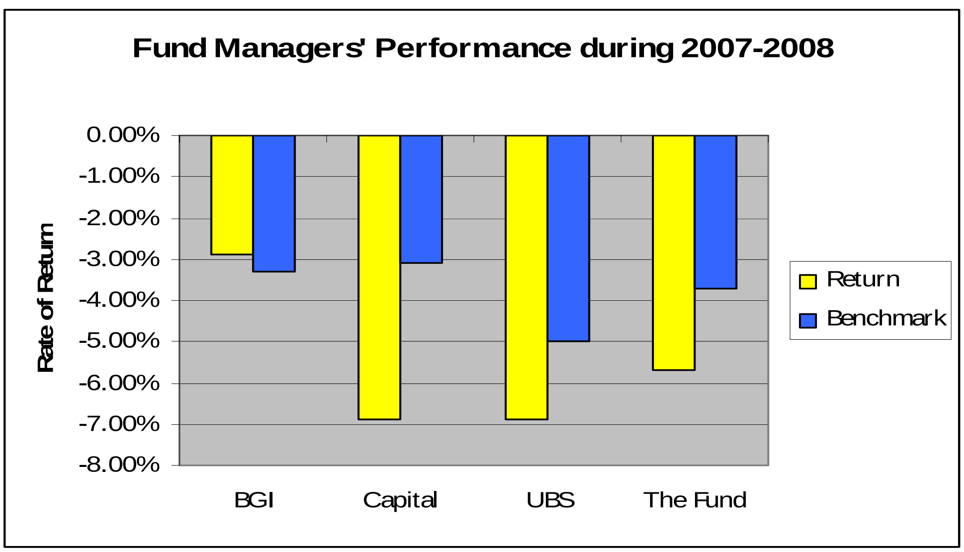
Performance Monitoring
Gwynedd subscribes to a service provided by the WM Company which calculates the rate of return for Gwynedd and for other pension funds and provides comparisons.

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

Investment Manager	Target 2007/08	Target 2008/09
BGI	Benchmark Return	Benchmark Return
L&G	Benchmark Return	Benchmark Return
UBS	Benchmark + 1.0% p.a.	Benchmark + 0.5% p.a.
Capital	Benchmark + 1.5% p.a. (gross of fees)	Benchmark + 2.0% p.a. (gross of fees)
Partners	MSCI World + 5.0% p.a.*	MSCI World + 5.0% p.a.*

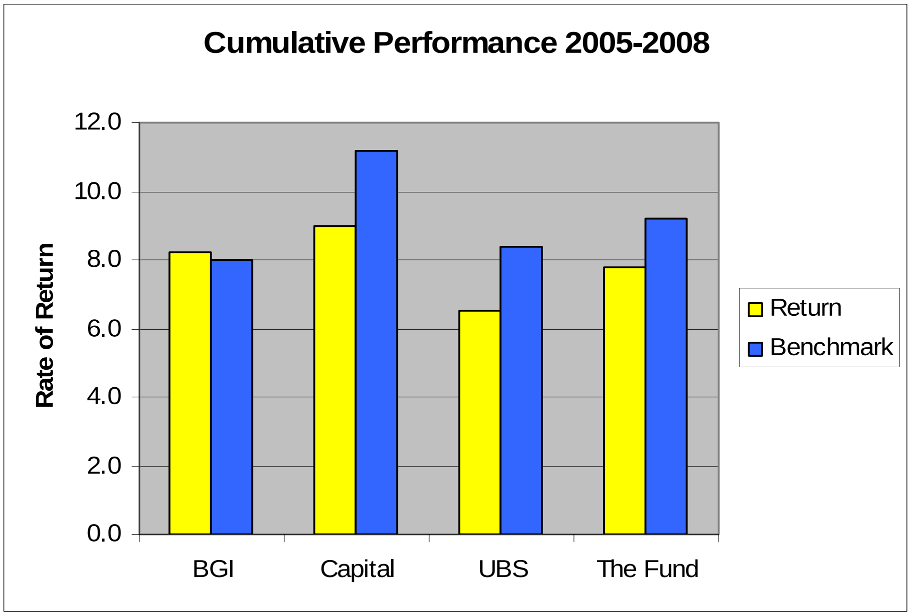
** Partners Group doesn't have an official performance target. The target stated above is purely for indicative purposes.(MSCI=Morgan Stanley Capital International)*

Fund Performance
Against the benchmark, the Fund underperformed by 2.0% during the financial year. The Fund achieved a return of -5.7% compared to the benchmark return of -3.7%. The graph below shows the performance of the Managers against their individual benchmark during the financial year 2007/2008.



Legal & General have not been included as they only started on 19th March 2008. So far WM have not been monitoring Partners performance because looking at short term performance can be misleading.

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. The following graph shows the cumulative performance of the Fund over 3 financial years.



Over the 3 years to 31st March 2008, the Total Fund Return achieved was 7.8% which was 1.4% less than the Total Fund Benchmark.

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 88 pension funds who subscribe to the service, Gwynedd was 78 out of the 88 and ranked in the 85th percentile with a return of -5.7% compared to the median of -3.1%.

The following table shows the performance of the Fund in the Local Authority League Tables each year over the past 7 years.

The Year to	Fund Benchmark	Fund Target	Fund Return	Median Return	Percentile
31 March 2008	-3.70%	-2.80%	-5.70%	-3.1%	85th
31 March 2007	7.70%	8.56%	6.7%	7.0%	56th
31 March 2006	25.70%	26.89%	24.4%	25.0%	54th
31 March 2005	12.30%	13.15%	11.5%	11.3%	43rd
31 March 2004	24.80%	25.60%	26.7%	23.9%	9th
31 March 2003	-20.60%	-19.75%	-21.2%	-20.1%	74th
31 March	-2.00%	-1.33%	-0.7%	-1.0%	40th

2002					

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 intend to review the SIP during 2008/09. 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 SIP have been sent out to all the Fund's employers, investment managers, the actuary, adviser and union representatives.

A copy of the SIP can be seen in Part 9, pages 45-65.

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 2007/08. The reviewing process involved consultation with all Funds' employers and the Funds' Actuary. In the Pensions Committee held 7th February 2008 the new FSS was adopted and copies of the FSS have been sent out to all the Funds' employers and the Funds' Actuary on 31st March 2008.

Copies of the FSS
A copy of the FSS can be seen in Part 9, pages 66-83.

5. Management Structure

Administering Authority
Gwynedd Council

Pensions Committee 2007/08
Councillor Glyn Owen (Chairman 07/08)
Councillor Alan Williams (Vice-Chairman 07/08)
Councillor John R. Jones
Councillor Peredur Jenkins
Councillor Arwel Jones
Councillor Robert John Hughes
Councillor Trevor Roberts
Councillor Dave Cowans (Co-opted Member)
Councillor David L. Roberts (Co-opted Member)

Pensions Committee 2008/09
Councillor W Tudor Owen
Councillor G Euros Roberts
Councillor John R. Jones
Councillor Trefor Edwards
Councillor John Gwilym Jones
Councillor Keith Greenly-Jones
Councillor Linda A Jones
Councillor Margaret Lyon (Co-opted Member)
Councillor Goronwy O Parry (Co-opted Member)

Strategic Director of Resources
Mr Dilwyn O. Williams

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

Advisor
Mr George Henshilwood (Hymans Robertson)

Investment Managers
Barclays Global Investors Limited
Capital International Limited
UBS Global Asset Management Limited
Partners Group
Legal & General Investment Management

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,
  Resources Directorate,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH

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

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

  Miss Nia Wyn Jones,
  Pensions & Investments Officer,
  Resources Directorate,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH

  ☎ 01286 679617
  🖹 01286 678962
  🖂 niawynjones@gwynedd.gov.uk

- the Fund's investments should be made to:

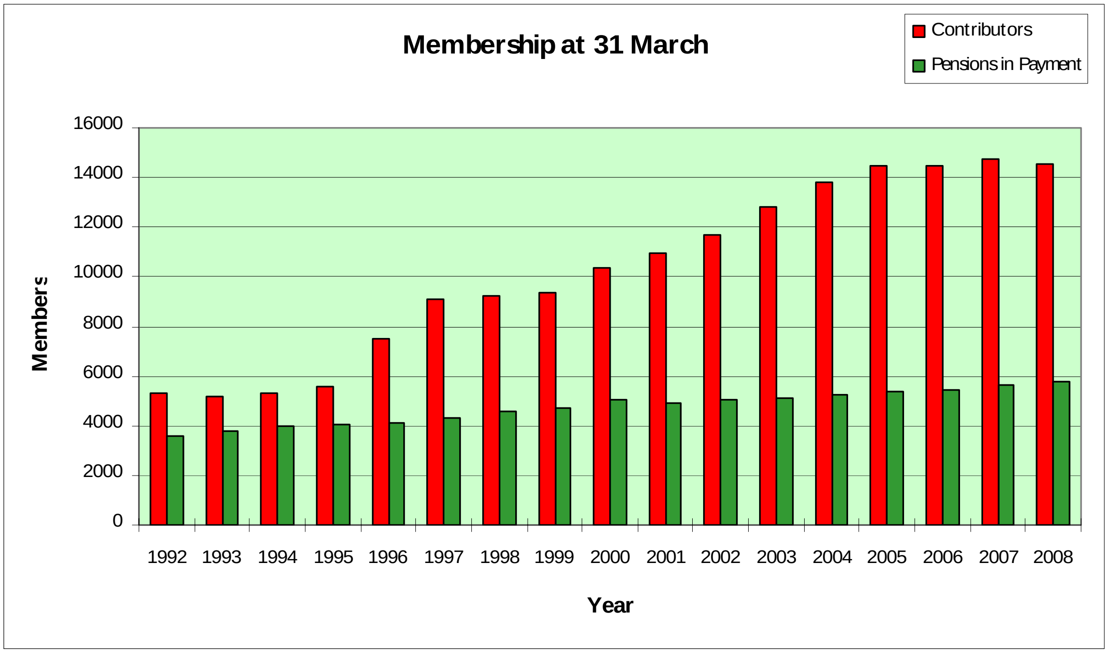
  Mr Dilwyn Owen Williams,
  Strategic Director of Resources,
  Resources Directorate,
  Gwynedd Council,
  Council Offices,
  Caernarfon,
  Gwynedd. LL55 1SH

  ☎ 01286 679514
  🖹 01286 678962

dilwynowenwilliams@gwynedd.gov.uk

6. Membership Summary

The graph below shows the changes in the Fund's membership over the last 17 years. It shows that while the number of pensioners has slowly increased from 3,576 in 1992 to 5,748 in 2008, the number of active contributors has nearly trebled, from 5,286 in 1992 to 14,563 in 2008.



The table below provides the membership summary:

31 March 2007	Description	31 March 2008
14,745	Contributors	14,563
4,615	Deferred Pensioners	5,311
5,615	Pensions in Payment	5,748
1,080	Unclaimed Benefits	1,132
26,055	**Total Membership**	**26,754**

7. Employers who are in the Fund

Scheduled Bodies
Gwynedd Council
Isle of Anglesey County Council
Conwy County Borough Council
North Wales Police Authority
Menai Bridge Town Council
Bangor City Council
Llangefni Town Council
Beaumaris Town Council
Caernarfon Town Council
Holyhead Town Council
Llandudno Town Council
Coleg Meirion Dwyfor
Coleg Menai
Snowdonia National Park
Coleg Llandrillo
Emrys ap Iwan School
Eirias High School
Bryn Eilian School
Pen y Bryn School
Tywyn Community Council
Llanllyfni Community Council
Tywyn and Kinmel Bay Town Council
Abergele Town Council
Colwyn Bay Town Council

Admitted Bodies
North Wales Society for the Blind
Holyhead Joint Burial Committee
Coleg Harlech WEA
Careers Wales North West
Cwmni Cynnal
Cwmni'r Fran Wen
Theatr Harlech
Theatr Gwynedd
Conwy Voluntary Services
Medrwn Môn
Mantell Gwynedd
Ynys Môn Citizens Advice Bureau
Menter Môn
Conwy Citizens Advice Bureau
CAIS

Employers with no Contributors
Normal College
St Mary's College
North Wales Magistrates Court Committee
Valuation Panel
Felinheli Community Council
Ex Health Authority
Ex Water Authority
Ex North Wales Probation Sevice Committee
Llandwrog Community Council
Coleg Gwynedd
Coleg Pencraig
Plas Tan y Bwlch Garden Trust

Closed Funds
Gwynedd County Council
Cwmni Gwastraff Môn/Arfon

8. Statement of Accounts 2007-2008

Gwynedd Pension Fund Accounts 2007-2008

2007 £'000	Pension Fund Accounts for the Year Ended 31 March	2008 £'000
	Contributions -	
11,489	Employees - Staff	11,943
30	- Members	32
36,090	Employers - Staff	41,668
91	- Members	106
265	- Lump Sum	0
0	- Deficit Funding	98
0	- Augmentation	132
40	Interest on Deferred Contributions	65
0	Interest on Late Payments of Contributions	4
4,428	Transfers from Other Schemes	3,161
178	Purchase of Additional Service, etc.	235
52,611	**Total Contributions Received**	**57,444**
	Benefits Payable -	
(21,023)	Pensions	(22,492)
(5,061)	Lump Sums	(5,642)
(6)	Sickness Grants	(0)
(223)	Death Benefits	(631)
(42)	Withdrawals	(15)
0	Other	(1)
(3,485)	Transfers to Other Schemes	(1,602)
(828)	Administrative Expenses (Note 12)	(884)
(30,668)	**Total Benefits Paid**	**(31,267)**
21,943	**Net Additions from Dealings with Members**	**26,177**

2007 £'000	Return on Investments as at 31 March	2008 £'000
13,139	Investment Income (Note 10)	13,927
37,445	Change in the Market Value of Investments	(56,005)
(1,948)	Investment Management Expenses (Note 13)	(3,509)
48,636	**Net Returns on Investment**	**(45,587)**
21,943	Net Additions from Dealings with Members	26,177
741,576	Net Assets at 1st April	812,155
812,155	**Net Assets of the Fund at 31st March**	**792,745**

2007 £'000	Net Assets Statement as at 31 March	2008 £'000

	Investments at Market Value (Note 8)	
	Fixed Interest:	
25,774	UK Public Sector Quoted	26,760
38,741	UK Other Quoted	37,315
	Index Linked:	
39,003	UK Index Linked	39,568
	Equities:	
179,167	UK Quoted	86,942
5	UK Unquoted	436
122,872	Overseas Quoted	113,749
180	Overseas Unquoted	481
0	Private Equity	25,688
	Pooled Investment Vehicles:	
118,795	UK Unit Trusts Quoted	176,028
3,068	UK Unit Trusts Unquoted	0
11	UK Ventures	3
87,445	Overseas Unit Trusts	102,064
85,846	Overseas Managed Funds	79,065
77,473	Property Unit Trusts	67,500
	Other:	
11,890	Tactical Asset Allocation Funds	0
16,365	Cash and Temporary Investments	17,476
648	Debtors - Sales of Investments Awaiting	16,524
7,134	Settlement	6,466
(1,287)	Sundry Debtors (Note 15)	(2,566)
	Creditors - Purchases of Investments Awaiting	
(975)	Settlement	(754)
	Sundry Creditors (Note 16)	
812,155		**792,745**

Notes to the Accounts

1. Status

These accounts are published "subject to audit".

2. General

The Gwynedd Pension Fund is administered by Gwynedd Council under the rules of the Local Government Pension Scheme as set out in the Local Government Pension Scheme Regulation 1997.

Membership of the fund is available for all local government employees including non-teaching staff of schools and further higher education corporations in Gwynedd, together with employees of admitted bodies. Section 7, on page 21, lists all the participating employers.

3. Accounting Policies

The accounts have been prepared to meet the requirements of the Local Government Pension Scheme Regulations 1997, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) and to meet the requirements of the Statements of Recommended Practice Number 1 of the Accounting Standards Committee of Professional accounting bodies of the United Kingdom. The pensions fund financial statements have been prepared in accordance with provision of Chapter 2, Recommended Accounting Practice of the Pension SORP.

Inclusion of Income and Expenditure

- Contribution Income, Investment Income, and Benefits Payable have been included in the accounts on an accruals basis where these amounts have been determined on the closure of the accounts.
- Transfers to and from other schemes are on a receipts and payments basis.

Valuation of Investments:

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

- Securities: Securities quoted on the Stock Exchange Trading Service ("SETS") have been valued at the last SETS traded price on 31st March 2008. All other securities have been valued at the closing mid-market price on 31st March 2008.
- Foreign Investments and Foreign Currency held at 31st March 2008 have been valued at the prevailing exchange rate, at close of business that day.
- Unitised Securities and all other investments have been valued at the mid-closing price on the 31 st March 2008.

Acquisitions Costs of Investments: Transaction costs (e.g. Broker Commission, Stamp Duty) are added to the purchase cost.

4. Liabilities After Year End

The Financial Statements do not take into account the fund's liabilities to pay pensions and other benefits in the future to all the present contributors to the fund. These liabilities are taken into account in the periodic actuarial valuations of the fund and are reflected in the levels of employers' contributions determined at these valuations, so that the fund is again able to meet 100% of future liabilities.

5. Actuarial Position

The Fund's actuaries carried out their triennial Actuarial Valuation at 31st March 2007. The results indicated a deficit of £161 million. For more details see Section 4.2, on page 11.

6. Contributions Receivable

An analysis of the total contributions receivable from the different bodies are given below:

2006/07 £'000		2007/08 £'000
16,891	Gwynedd Council	19,474
29,218	Scheduled	32,427

	Bodies	
2,033	Admitted Bodies	2,313
48,142	**Total**	**54,214**

7. Benefits Payable

An analysis of the total benefits payable to the different bodies are given below:

2006/07 £'000		2007/08 £'000
4,577	Gwynedd Council	5,995
9,581	Scheduled Bodies	10,391
507	Admitted Bodies	498
483	Employers with no Contributors	481
11,165	Closed Fund	11,400
26,313	**Total**	**28,765**

8. Investments at Market Value

The market value of the assets at the balance sheet date are given below:

	Total £'000	BGI %	UBS %	Capital %	Partners %	L&G %	Gwynedd %	Total %
Fixed Interest:								
UK Public Sector	26,760	39.80	60.20	-	-	-	-	100.00
UK Other	37,315	26.85	73.15	-	-	-	-	100.00
Index Linked:								
UK Index Linked	39,568	100.00	-	-	-	-	-	100.00
Equities:								
UK Quoted	86,942	-	85.58	14.42	-	-	-	100.00
UK Unquoted	436	-	-	100.00	-	-	-	100.00
Overseas Quoted	113,749	-	-	100.00	-	-	-	100.00
Overseas Unquoted	481	-	-	100.00	-	-	-	100.00
Private Equity	25,688	-	-	-	100.00	-	-	100.00
Pooled Investment Vehicles:								
UK Unit Trusts Quoted	176,028	61.83	1.77	-	-	36.40	-	100.00
UK Ventures	3	-	100.00	-	-	-	-	100.00
Overseas Unit Trusts	102,064	62.34	-	11.68	-	25.98	-	100.00
Overseas Managed Funds	79,065	-	100.00	-	-	-	-	100.00
Property Unit Trusts	67,500	-	100.00	-	-	-	-	100.00
Cash & Net Working Capital	37,146	0.00	57.34	10.73	-	-	31.93	100.00
Total	**792,745**	**29.35**	**36.43**	**18.05**	**3.24**	**11.43**	**1.50**	**100.00**

9. Major Holdings

The major holdings in the fund as at 31 March are listed below:

% of Market Value 2007	Market Value 2007 £'000	Holding	% of Market Value 2008	Market Value 2008 £'000
13.96	113,341	Aquila Life UK Equity Index	13.73	108,841

		Fund		
9.18	74,559	UBS Global Optimal Thirds A	8.72	69,164
-	-	L&G Pooled Fund UK Equity N	8.08	64,075
6.50	52,809	UBS Triton Property Unit Trusts	5.74	45,520

10. Investment Income

Analysis of Investments Income as set out in the Net Assets Statement is given below:

2006/07 £'000		2007/08 £'000
8,509	UK Equities	8,046
2,236	Overseas Equities	3,247
-	Private Equity	122
611	British Government Securities	572
198	Other Fixed Interest Securities	-
1,751	Property Unit Trusts	2,117
783	Interest on Cash Deposits	814
(949)	Less Tax on Income	(991)
13,139	**Total**	**13,927**

11. Taxation

Following the 1997 Budget, the fund is now unable to reclaim Advance Corporation Tax, although any UK tax on dividends paid by foreign companies can still be reclaimed. Thus investment income in the accounts are shown net of UK tax.

The fund is exempt from United States withholding tax on dividends from investments in the US and recovers withholding tax deducted in some European Countries.

12. Administrative Expenses

Administrative expenses are as follows:

2006/07 £'000		2007/08 £'000
773	Administration and Processing*	788
41	Actuarial Fees	81
14	Audit Fees	15
828	**Total**	**884**

*An apportionment of the salaries and other expenses of Council staff engaged in administering the pension scheme and pension investments has been made to the fund.

Charges for services provided by Gwynedd Council are derived from a combination of pre-determined fixed charges, actual recorded staff time, transaction logging and pre-determined formulae. Office accommodation costs are allocated on a floor space basis.

The administration expenses paid over to Gwynedd Council in 2007/2008 was £738,881 (2006/2007: £734,730).

13. Investment Management Expenses

The investment management expenses are as follows:

2006/07 £'000		2007/08 £'000
183	Barclays Global Investors	206
785	UBS Global Asset Management	831
844	Capital International	882
0	Legal & General	9
0	Partners Group	1,433
70	The Northern Trust Company	80
9	JP Morgan	10

11	The WM Company	11
46	Hymans Robertson	47
1,948	**Total**	**3,509**

A large proportion of the Partners fees are set up costs and in subsequent years the fees will be less.

14. Investments

Investments shown in the Statement of Net Assets are shown at market values. Net assets at 31st March 2008 valued at cost were £716.0m (31 st March 2007: £662.2m) and investment transactions during the year yielded a net profit of £23.5m (2006/2007: a profit of £22.8m).

15. Sundry Debtors

The following provision has been made in the accounts for debtors.

2006/07 £'000		2007/08 £'000
4,329	Contributions Receivable	3,653
116	Internal Debtors	264
128	Debtor Invoices	141
2,023	Net Dividend Income	2,217
534	UK Tax	138
4	VAT	53
7,134	**Total**	**6,466**

16. Sundry Creditors

The following provision has been made in the accounts for creditors:

2006/07 £'000		2007/08 £'000
109	Internal Creditors	86
886	External Creditors	668
975	**Total**	**754**

17. Purchases and Sales of Investments

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

	Book Value of Purchases 2007/08 £'000	Sales 2007/08 £'000
UK Equities	89,430	80,904
Overseas Equities	96,476	88,222
Private Equity	25,619	1,541
British Government Securities	3,104	3,155
Other UK Fixed Interest Securities	2,795	1,555
Index Linked Securities	2,633	7,259
Property Unit Trusts	604	1,000
Gilt Exposure Fund	2,330	6,385
Tactical Asset Allocation Funds	695	10,578
Cash and Short Term Investments	721	721
Total	**224,407**	**201,320**

18. Additional Voluntary Contributions (AVC's)

There are 3 Additional Voluntary Contribution Funds. They are held with Clerical Medical, The Equitable Life Assurance Society and Standard Life. The assets of these investments are held separately from the main Fund, and are not included in the Pension Fund Accounts. 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 31st March confirming the amounts held in their account and the movements in the year.

The value of the funds at 31st March 2008 is shown as follows:

	Clerical Medical	Equitable Life	Standard Life	Total AVC's
Value of the Fund at 31 March 2007	1,826	592	208	2,626
Contributions Received	267	0	15	282
Interest/Change in Market Value	(109)	15	18	(76)
Demutualisation Entitlement	0	0	0	0
Transfer Values	0	0	0	0
Life Assurance Premiums	(1)	0	0	(1)
Retirement Benefits	(61)	(15)	(12)	(88)
Leavers	(13)	0	(7)	(20)
Refunds	(1)	0	0	(1)
Value of the Fund at 31 March 2008	**1,908**	**592**	**222**	**2,722**

19. Related Parties

During the year the Gwynedd Pension Fund paid administration expenses of £738,881 to Gwynedd Council (see Note 12 Administrative Expenses).

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. In 2007/2008, the Fund received interest of £177,684 from Gwynedd Council.

All members of the Pensions Committee have declared an interest in bodies which have dealings with the Fund. Two Chief Officers have also declared an interest in bodies which have dealings with the Fund. In all cases these bodies were employers which are part of the Fund.

Analysis of Holdings as at 31 March 2008

	Market Value £'000	%
UK Bonds		
Fixed Interest: UK Public Sector	26,760	3.38
UK Other	37,315	4.70
UK Index Linked	39,568	4.99
Total UK Bonds	**103,643**	**13.07**
UK Equities		
Mining	8,350	1.05
Oil	15,374	1.95

Aerospace & Defence	244	0.03
Construction & Building Materials	2,387	0.30
Chemicals	200	0.03
General Industrials	542	0.07
Engineering & Machinery	94	0.01
Beverages	3,260	0.41
Food Producers & Processors	3,712	0.47
Pharmaceuticals	6,019	0.76
Tobacco	1,013	0.13
Leisure, Entertainment & Hotels	2,094	0.26
Media	2,480	0.31
Food & Drug Retailers	2,890	0.36
General Retailers	1,870	0.24
Support Services	2,883	0.37
Software & Computer Services	625	0.08
Information Technology Hardware	256	0.03
Electricity	2,496	0.31
Gas Distribution	1,953	0.25
Telecommunications	6,419	0.81
Banks	13,862	1.75
Insurance	408	0.05
Life Assurance	3,397	0.43
Speciality & Other Finance	1,845	0.23
Futures	1,682	0.21
Real Estate	1,023	0.13
Total UK Equities	87,378	11.03
UK Ventures	3	0.00
UK Unit Trusts	176,028	22.20
Total UK	**263,409**	**33.23**
Overseas Equities		
Europe	37,896	4.79
Far East (excl.Japan)	7,171	0.90
Japan	19,528	2.46
North America	49,635	6.26
Total Overseas Equities	114,230	14.41
Overseas Unit Trusts	181,129	22.85
Total Overseas	**295,359**	**37.26**

Analysis of Holdings as at 31 March 2008 (continued)

	Market Value £'000	%
Private Equity	**25,688**	**3.24**
Property Unit Trusts	**67,500**	**8.51**
Cash & Net Working Capital	**37,146**	**4.69**
Total at Market Value	**792,745**	**100.00**

9. APPENDENCIES

GWYNEDD PENSION FUND

COMMUNICATION IMPROVEMENT PLAN

Version 1 (03/06)

1. Introduction

The Gwynedd Pension Fund aims to provide a high quality and consistent service to our customers in the most efficient and cost effective manner.

Targets have been set as to improve and enhance our existing methods of communication in compliance with the Local Government Pension Scheme regulatory requirements.

There are five distinct groups with whom the Fund needs to communicate, these are:

- Scheme members

- Prospective Scheme Members
- Scheme Employers
- Fund Staff
- Other Bodies

To help carry out the current plan and help develop future communication strategy the Fund intends to appoint a Scheme Communication Officer.

This document explains our existing methods of communication and describes our future targets.

The Gwynedd Pension Fund aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

The fund's communication is totally bi-lingual in accordance with Gwynedd Council Policy.

We also aim to explore further alternatives such as Braille, and large prints as well as audiotape and to be able to offer other languages on request.

2. Scheme Members

Fund Website

The first phase for the development of a Gwynedd Pension fund Website has been completed within the target date of 31 March 2006. Other funds in Wales have been consulted on this issue to ensure that there is a consistent approach throughout.

The Pensions Systems Officer will continue to develop the website introducing links to other useful Local Government Pension Scheme web sites and ultimately a facility which that will enable members to see their own personal service record and to allow calculation of prospective retirement benefits.

The possible addition of a communications officer will accelerate and improve the quality of this development

Publicity about the existence of the website including web address will be included in future versions of scheme literature. An article will also be included in Newsletters.

Reports and Accounts

An abridged version of the accounts together with annual reviews produced by the Strategic Director, Head of Finance and the Pensions Operations Manager forms the Fund's annual report. This is circulated to all scheme employers in time for the Funds Annual General Meeting.

All employers, members' representatives in the form of trades unions, and other interested parties are invited to the AGM to discuss the report and to question the Administering Authority and their advisors on scheme policy and fund performance.

Employee Newsletter

To date newsletters have only been sent out on an ad-hoc basis as and when it is was considered that scheme development and rule changes demanded it. With the possible appointment of a Communication Officer it is indented to produce and distribute twice annual newsletter to active members and an annual pensioner newsletter.

The last newsletter, produced in September 2004 covered wide-ranging issues including information on new regulations introduced from April 2004, the proposed new regulations from April 2005 and information on further proposals on a new LGPS from April 2008.

Annual Benefit Statements

The deadline for 31 March 2005 and 2005 for issuing annual benefit statements has been met. The lessons learnt from the fist full issue for 2004 has helped the Unit develop a clearer and user-friendlier version for 2005. It remains to be seen as to how the new version will be revived, but early indications seem very favourable.

The issuing of annual benefit statements and the feedback process is consuming a large part of the Unit's resources. It is hoped that the appointment of the Communication Officer will be of significant help in continuing the development without affecting other set targets.

Employee Surgeries / 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 organised 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.

Targets for furthering scheme presentations and for providing employer surgeries will be set following the appointment of a Fund communication officer.

Scheme booklets

The administration Unit of the Fund currently provides a bi-lingual scheme booklet to all scheme and prospective scheme members. This booklet is a version issued by the Local Government Pensions Committee (LGPC) but is translated by the Gwynedd Council Translation Unit. The booklet is updated as and when required by changes in legislation.

The Unit intends to expand the number of booklets to include specific information in the following areas:

- AVC's including Added Years
- Dependant Benefits
- Retirement options

Targets for 2006/07

Pre Retirement Courses
To continue the existing presentations in partnership with The Clwyd Pension Fund and Chadwick McLean and offer the Gwynedd Pension Fund employers alternative options such as induction, 'additional benefits' and 'mid-life' presentations.
Review of course content – continually ongoing.

New Starter Pack
The current starter procedures and documents are to be reviewed in light of the revised pension scheme regulations. A new starter pack containing various scheme booklets forms will be made available.
Target for review 31/12/2006.

Pensioner Pack
To introduce a pack for those members who are about to or newly retired.
Target for pack 31/12/2006.

Telephone Service
Various help desk options will be looked into to ensure that we are providing the most efficient and cost effective telephone service as possible.
Target for investigation 31/3/2007.

3. Prospective Scheme Members

Scheme booklet

Scheme employers are instructed to provide each new employee with a scheme booklet so they can decide whether or not to join the LGPS. The booklet explains the benefits of the scheme and the alternative pension options available such as personal and stakeholder pensions. It also explains about the default state scheme that applies to those who do not make personal arrangements.

Fund Website

The Fund's website will contain specific information for non-joiners. It will highlight the process for joining and leaving the scheme, and provide the information necessary to make that choice. In time it will also provide a facility to individuals to examine their own personal record and carry out various prospective calculations.

Target for collating website content 31/03/2007

Poster Campaign

The Pensions Unit intends to launch a poster campaign. The posters will highlight the advantages of being an LGPS member and will be distributed to all of the Fund's employers.

Target for poster campaign 30/12/2006.

Target Opt-Outs

A fact sheet will be produced for distribution to members who opt out of the scheme. It will highlight the benefits of the LGPS and provide non-members the opportunity to rejoin.

Target for producing fact sheet 31/12/2006.

4. Scheme Employers

Contact Database

An employer contact database has been set up and is used to address regular circular letters. Each employer was given the opportunity to nominate an appropriate contact person to whom LGPS correspondence should be sent.

The unit will be reviewing this procedure to include an option for electronic media correspondence and more use of the Fund's website.

Target for database review 31/12/2007.

Employer Meetings

The Unit's staff is always available to meet with the Fund employers, both on site and at Gwynedd Council offices. The recruitment of a Communication Officer will allow a program of regular visits to be timetabled with all larger employers being visited at least once per year.

Target for future meetings – Program to be established on appointment of Communication Officer.

Employer Partnership Agreements

The Unit intends to enter into partnership agreements with each employer to set out expected practices, standards and timescales from both the Fund and Employer. Other Funds in Wales will be consulted to unsure that consistent approach is followed.

Target for Partnership Agreement - Program to be established on appointment of Communication Officer.

Employer Handbook

An employer handbook will be produced to supplement the partnership agreements. The handbook will explain each administrative procedure and will be designed to assist the employers with all pension administration issues.

Fund Website

The fund website will be developed to supplement the employer handbook by having standard scheme documentation for downloading.

Target for producing handbook and development of website - On appointment of Communication Officer.

Pensions Unit Staff

The Pensions Operations Manager maintains and open-door policy and attempts to make himself available to staff both within and outside the Pensions Unit.

Team Meetings

Office and team meetings are held every two months to discuss operational issues.
Any item arising from such meeting can be escalated through Senior Managers to the department and directorate Management Teams.

Continual Training Program

Fund staff are continually learning about new pension matters. The Unit subscribes to LGPC and Heywood training sessions, as well as offering support to undertake both the Foundation in Pensions Administration and the Diploma in Pensions Management offered by the Institute of Pensions and Payroll Managers (IPPM).

5. Other Bodies

Shrewsbury Pensions Officer Group

The Pensions Operations Manger and other Pensions Officers from administering authorities in the region meet regularly in order to share information and to ensure uniform interpretation of the Local Government Pensions Scheme, and other prevailing regulations.

Partnership meetings with the 8 Pension Funds in Wales

The Pensions Operations Manager regularly meets representatives from the other seven Pension funds in Wales to discuss best practice and to ensure that all the Welsh funds have a consistent approach to their administrative procedures.

GWYNEDD PENSION FUND

GOVERNANCE POLICY STATEMENT

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(with voting rights), 1 member from Anglesey County Council(no voting right) and 1 member from Conwy County Borough Council(no voting right). 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.

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.

Strategic Director of Resources

Article 12 of the Council's constitution stipulates that the Strategic Director of Resources 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 Administration and Public Protection (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

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.
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.
d)	**That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.**
	No secondary committee or panel exists.

Principle B – Representation

a)	**That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-** **i) employing authorities (including non-scheme employers, eg, admitted bodies);** **ii) scheme members (including deferred and pensioner scheme members),** **iii) independent professional observers, and** **iv) expert advisors (on an ad-hoc basis).**
	Partly compliant. We do have LGPS employing authority representation on the main committee, and we also have an expert independent advisor (on an ad-hoc basis). However, no scheme members or independent professional observers are given membership.
b)	**That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.**
	No lay members sit on the Committee (see Part A (b) above).

Principle C – Selection and Role of Lay Members

a)	**That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or**

	secondary committee.
	Fully compliant. All members are made clear of their responsibility as laid out in the Governance Policy Statement.

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, 7 of whom are elected members of Gwynedd Council (with voting rights), and 1 representative from each of the other two participating LGPS employers (with no voting rights). The Council has decided that under sections (13)(1)(a) and (2)(a) of the Local Government and Housing Act 1989, a person who is a member of a committee appointed by the authority under the Superannuation Act 1972 but who is not a member of that authority, shall be treated as a non-voting member of that committee, in order to ensure that the voting rights reside with the members of the Council which carries ultimate responsibility for the Committee's actions.

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.
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.

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 synchronised with the dates when the main committee sits.**
	No secondary committee or panel exists.
c)	**That administering authorities who do 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 authorities 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 councils 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 consider 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 Council
Pension Fund

Statement of Investment Principles

1.0 Introduction

1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare and review from time to time a written statement recording the investment policy of the pension fund. 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.

1.6 The principles outlined in this document were approved by the Council on 29 June 2000.

2.0 Investment Responsibilities

2.1 The committee have responsibility for:

- preparing the statement of investment principles,
- 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 an annual statement of the scheme's assets and details of all transactions during each quarter,
- 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 strategic director resources, the head of finance and the committee in the selection and appointment of investment managers and custodians,
- assisting the strategic director resources, the head of finance and the committee in their regular monitoring of the investment managers performance, and
- assisting the strategic director resources, the head of finance and the committee in the preparation and review of this document.

2.5 The Actuary is responsible for:

- assisting the strategic director resources, 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 strategic director resources 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.

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 five investment managers with varying briefs. They are as follows:

Investment Manager	Brief	Benchmark	Target
Barclays Global Investors Limited ("BGI")	Passive	see 4.4 below	Benchmark Return
Legal & General Investment Management	Passive	see 4.4 below	Benchmark Return
UBS Global Asset Management (UK) Limited ("UBS")	Active	see 4.4 below	Benchmark +0.5%
Capital International Limited ("Capital")	Active	see 4.4 below	Benchmark +2.0% p.a (gross of fees)
Partners Group	Active	see 4.4 below	MSCI World + 5.0% p.a. *

** Partners Group doesn't have an official performance target. The target stated above is purely for indicative purposes*

4.4 The Fund now has it's own bespoke benchmark against which its performance is measured. Each investment managers has their own individual benchmark against which they are measured and their own targets.

	BGI %	UBS %	Capital %	L&G %	Total %
UK Equities	**40.0**	**0.0**	**9.6**	**40.0**	**30.0**
Overseas Equities	**18.0**	**0.0**	**90.4**	**60.0**	**45.0**
North America	0.0	0.0	45.5	26.0	18.0
Europe ex-UK	7.0	0.0	19.0	11.0	10.0
Japan	5.5	0.0	8.6	7.0	6.0
Pacific Basin	5.5	0.0	7.7	4.0	5.0
Emerging Markets	0.0	0.0	9.6	12.0	6.0
Total Equities	**58.0**	**0.0**	**100.0**	**100.0**	**75.0**
UK Gilts	14.0	0.0	0.0	0.0	5.0
Corporate Bonds	14.0	0.0	0.0	0.0	5.0
Index-Linked	14.0	0.0	0.0	0.0	5.0
Total Bonds	**42.0**	**0.0**	**0.0**	**0.0**	**15.0**
Property	**0.0**	**100.0**	**0.0**	**0.0**	**10.0**
Total	**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.

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 BGI provide their own custody service for us with Chase Manhattan Bank. L&G also has an associated custodian who holds the assets of that part of the portfolio. Their custodian for UK assets is HSBC Global Investor Services and Citigroup for the overseas assets. Partners Group is not included in the Fund's custody arrangements. As UBS and Capital do not have an associated custodian we've had to appoint external custodians. JP Morgan Chase Bank has been appointed as custodian for UBS's part of the Fund and The Northern Trust Company has been appointed for Capital's part of the Fund.

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 1998 (as amended) 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
  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 strategic director resources.

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 1998 as amended.

The committee having taken proper advice from the Fund's advisor, have decided to increase the limit on investments in "any single insurance contract". The new limit has now been set at 35%. The decision to increase this limit was taken because it allows the fund to invest more in pooled funds which are much more diversified than any individual segregated portfolio. The above limit will apply until such time that the decision is revoked by the committee; and that the decision be reviewed before 31 January 2012. 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 adoption of an asset allocation benchmark (as described above) and the explicit monitoring of performance relative to a performance target, constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage the fund in such a way as to enhance returns.

5.5.2 The appointment of more than one investment manager introduces a meaningful level of diversification of manager risk.

5.5.3 Each manager is expected to maintain a diversified portfolio of investments.

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 Compliance

8.1 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.

8.2 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.

8.3 The committee is responsible for monitoring the scheme's performance both at global level and manger by manager.

8.4 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.

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

8.6 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.

9.0 Compliance with Investment Principles

9.1 Following the Myners Review, the Government has published new regulations which require Administering Authorities to amend their Statements of Investment Principles so as to note the extent to which they comply with the ten investment principles contained in the CIPFA document entitled "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom."

9.2 Appendix C notes the extent to which the Gwynedd Fund complies with these ten principles and if they do not comply, the reasons why.

Appendix A

Delegation Scheme for Committees and Sub-Committees

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

The following functions have been delegated to the Pensions Committee:

(i) Decide on the strategy regarding the investing of surplus money in the pension 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.

<u>Appendix B</u>

Main Actuarial Assumptions as at 31 March 2007

	% per annum	Relative to RPI % per annum
RPI Inflation	3.2	-
Pay Increases	4.7	1.5
Investment Returns • equities • bonds	 6.25 4.75	 - -

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 2007. 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	549.1
Deferred pensioners	106.6
Pensioners	318.7
Total liabilities	**974.4**
Value of Fund Assets	**813.8**
Deficit	**160.6**
Funding Level (at actuarial value)	**84%**

Based on the actuarial valuation as at 31 March 2007

Asset Mix

Figures as at 31 March 2007	**Actual Fund %**
UK Equities	39%
UK Fixed Interest Gilts	3%
UK Corporate Bonds	5%
UK Index-linked Gilts	5%
Overseas Equities	36%
Overseas Bonds	0%
Property	10%
Cash & Net Current Assets	2%
Total	100%

Assets Held by Managers (as at 31 March 2007)

Manager	**Assets**	**Active/Passive**
BGI	£240m	Passive
Capital	£252m	Active

UBS	£310m	Active

Added Voluntary Contribution Arrangements

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

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

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

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

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

Appendix C

A statement of the extent to which the Gwynedd Pension Fund complies with the ten principles of investment practice set out in the Cipfa document "CIPFA Pensions Panel Principles for Investment Decision

Making in the Local Government Pension Scheme in the United Kingdom" published in April 2002.

Principle 1 Effective Decision Making

Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

The Gwynedd Fund complies to a large degree with the principle. However, responsibility for the Pensions Committee structure and composition lies with Gwynedd Council and it is not reviewed on an annual basis as CIPFA suggest but on a periodic basis as structural issues arise.

Whilst some training for members of the Pensions Committee is undertaken, the sufficiency of such training and the availability of courses designed for members of local government Pension Committees could be brought into question. The Committee has already decided that the current members of the Pensions Committee should receive the "LGPS Fundamentals" training certificate within the next 6 months, and that as a general policy every new member should receive the certificate within a 12 month period of becoming a member.

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. This will be rectified for the coming financial year (2003/2004).

Principle 2 Clear Objectives

Trustees should set out an overall investment objective for the fund that:-

- represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employers(s) and employees; and
- takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds or to a market index.

There is substantial compliance within the Gwynedd Fund to this principle although a formal review of the current levels of acceptable tactical risk needs to be undertaken in order to ensure full compliance.

Principle 3 Focus on Asset Allocation

Strategic asset allocation decisions should receive a level of attention (and where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objective.

Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity.

Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.

There is substantial compliance with this principle within the Gwynedd Fund, although little consideration has been given to Private Equity as a major asset class. The Committee will give formal consideration to the issue in the next 18 months with a view to ensuring full compliance.

Principle 4 Expert Advice

Contracts for actuarial services and investment advice should be opened to separate competition.

The Fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

Contracts for actuarial and investment services have not been subject to separate competition. At the time the services were originally tendered, this was not an issue and hitherto, there are no compelling reasons to place either service out to competition. The Fund would be fully compliant with the need to pay sufficient fees to receive the broad range of services required.

Principle 5 Explicit Mandates

Trustees should agree with external investment managers an explicit written mandate covering agreement between trustees and managers on:-

- An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the Fund's aggregate objective and risk tolerances;
- The manager's approach in attempting to achieve this objective;

- Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs which incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.

Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

The Gwynedd Fund partially complies with this principle.

Explicit written mandates exist for each of the Fund Managers but none of them include a statement that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone. It is considered that this would preclude termination in the event of catastrophic performance.

Some Financial Instruments are excluded from Investment Manager activities although no formal record exists of the reasons for excluding such investments. The Pensions Committee will review these exclusions during the coming months and if they are to continue, will formally state the reasons.

Whilst the Pension Committee does apply an element of scrutiny to purchases and sales, the Committee has focused on investment performance and has not given specific attention to transaction costs. A code of practice is being prepared by the Investment Manager Association in conjunction with the NAPF, and consideration will be given in the coming months to its adoption and monitoring.

Principle 6 Activism

The mandate and trust deed should incorporate the principle of the US Department of Labor Interpretative Bulletin on activism.

Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

The Gwynedd Fund partly complies with this principle.

Part 7 of the Statement of Investment Principles outlines the Committee's policy and it has ensured that Investment Managers have an explicit strategy in dealing with corporate governance and receive regular reports on the implementation of the strategy. However, Investment Manager mandates do not specifically refer to the US Department of Labor Interpretative Bulletin on activism.

Due to other strategic priorities, to date the Fund has not sought alliances with other pension funds to take advantage of collective size to influence companies and the Fund does not engage the services of external voting agencies nor has consideration been given to expanding internal activity in relation to activism. However the Committee intends to undertake further consideration of this issue in the near future.

<u>Principle 7</u> <u>Appropriate Benchmarks</u>

Trustees should: -

- explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;

- if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection:

- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and

- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.

There is substantial compliance with this principle within the Gwynedd Fund.

<u>Principle 8</u> <u>Performance Measurement</u>

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees.

They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

The Gwynedd Fund partly complies with this principle.

There are processes in place to measure the performance of the Fund and Investment Managers. However the performance of the Investment Adviser is a largely informal process. 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.

Consideration will be given to these two issues in the coming months.

Principle 9 Transparency

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected;
- the fund's investment objective;
- the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;
- the mandates given to all advisers and managers; and
- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

The Gwynedd Fund largely complies with this principle although further development is required in relation to some disclosures in order to describe the process by which the day to day investment decisions are delegated and authorised; stating the investment objective in the context of Scheme Regulation 77 and inclusion of the fee structure for managers with a view to full compliance.

Principle 10 Regular Reporting

Trustees should publish their Statement of Investment Principles (SoIP) and the results of their monitoring of advisers and managers.

They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

The Gwynedd Fund largely complies with this principle.

The Statement of Investment Principles has been distributed to all employers and local libraries but distribution of information to all members has not been undertaken in the past due to cost benefit considerations. However, initiatives are being undertaken in the light of the Best Value review of Pensions Administration to improve communication with members it is proposed that the communication of these key issues would be included as part of that exercise.

Consideration is being given to the way in which the results of the monitoring of advisers and managers can be published.

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 2008.

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 2011. 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 Marina Parry Owen, in the first instance at marinaparryowen@gwynedd.gov.uk or on 01286 679617.

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

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

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

For some employers it may be agreed to pool contributions, see Section 3.7.4. Annex A, contains a breakdown of each employer's contributions following the 2007 valuation for the financial years 2008/09, 2009/10 and 2010/11. 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.

3.2 Solvency and Target Funding Levels

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

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 based on past experience of LGPS funds advised by the actuary. It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. Allowance has been made for improvements in line with PMA92/PFA92 series projections up to calendar year 2033 for prospective pensioners and 2017 for current pensioners, with age ratings applied to fit past LGPS experience. 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 2007 and setting contribution rates effective from 1 April 2008, 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.	*a period not exceeding 20 years.*
Community Admission Bodies with funding guarantees.	*a period not exceeding 20 years.*
Further Education Colleges which are scheduled bodies and not admitted bodies.	*a period not exceeding 15 years.*
Best Value Admission Bodies.	*the period from the start of the revised contributions to the end of the employer's contract.*
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires.	*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.*
All other types of employer.	*a period equivalent to the expected future working lifetime of the remaining scheme members*

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

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 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 less than 1% at the 2007 valuation to move to the new rate immediately. Other employers in the Fund may be allowed to phase in contribution rate increases over a period not exceeding 3 years, subject to the approval of the Administering Authority on a case by case basis. In deciding whether to permit phasing in of contribution rate increases, the Administering Authority will have regard to the security of the Fund.

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 2007 valuation have been asked to give their written consent to participate in the pool.

As at the 2007 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 2007, the asset allocation of the fund was as follows:

Asset Allocation	**%**
Equities	73.6
Property	9.5
Fixed Interest Bonds	7.9
Index Linked Bonds	4.8
Cash	2.7
Tactical Asset Allocation Funds	1.5
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 index-linked 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 2007 and setting contribution rates effective from 1 April 2008, 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 2007, this would be equivalent to anticipating excess returns relative to index-linked gilts of 1.75% per annum from equities and 1% 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.	*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.*
F2	Inappropriate long-term investment strategy.	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.*
F3	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	*Some investment in bonds helps to mitigate this risk.*
F4	Active investment manager under-performance relative to benchmark.	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their benchmark.* *This is now supplemented with an analysis of absolute returns against those under-pinning the valuation. This gives an early warning of contribution rises ahead. In the short term, volatility damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more.*
Number	**Risk**	**Summary of Control Mechanisms**
F5	Pay and price inflation significantly more than anticipated.	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.*

		Some investment in bonds also helps to mitigate this risk. *Employers pay for their own salary awards.*
F6	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	*Mitigate impact through deficit spreading and phasing in of contribution rises.*

5.3 Demographic Risks

Number	**Risk**	**Summary of Control Mechanisms**
D1	Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.*
D2	Deteriorating patterns of early retirements.	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.*

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.	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the CLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.*
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.	

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.	*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.*
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.	*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.*
G3	An employer ceasing to exist with insufficient funding or adequacy of a bond.	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:* • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission* • *Setting a minimum limit of 20 employees for prospective employers.* • *The Administering Authority will consider where permitted under the regulations, requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2007 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2007 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'.

				Contribution Rates		
CODE	**Employer Name or Pool**	**Recovery Period (In years)**	**Spreading Period (In years)**	**31.03.09**	**31.03.10**	**31.03.11**
100	Gwynedd	20	1	20.9%	20.9%	20.9%
200	Ynys Mon	20	1	21.0%	21.0%	21.0%
Pool	Conwy Pool					
300	- Conwy County Borough Council	20	1	20.1%	20.1%	20.1%
55	- *Ysgol Emrys ap Iwan*	20	1	20.1%	20.1%	20.1%
56	- *Eirias High School*	20	1	20.1%	20.1%	20.1%
57	- *Ysgol Bryn Elian*	20	1	20.1%	20.1%	20.1%
58	- *Ysgol Pen y Bryn*	20	1	20.1%	20.1%	20.1%
7	N.W.Police Authority	20	1	17.9%	17.9%	17.9%
32	Coleg Meirion Dwyfor	15	1	19.8%	19.8%	19.8%
35	Coleg Menai	15	1	19.1%	19.1%	19.1%
36	Cwmni Gwastraff Mon-Arfon Cyf	RWL	1	22.3%	22.3%	22.3%
37	Careers Wales North West	RWL	3	16.2%	16.7%	17.3%
38	Cwmni Cynnal	RWL	1	29.1%	29.1%	29.1%
43	Parc Cenedlaethol Eryri	20	1	20.2%	20.2%	20.2%
44	Coleg Llandrillo	15	1	17.2%	17.2%	17.2%
Pool	Other Scheduled Bodies					
13	- Caernarfon T.C.	20	1	20.7%	20.7%	20.7%
14	- Menai Bridge T.C.	20	1	20.7%	20.7%	20.7%
16	- Bangor C.C.	20	1	20.7%	20.7%	20.7%
17	- Llangefni T.C.	20	1	20.7%	20.7%	20.7%
22	- Beaumaris T.C.	20	1	20.7%	20.7%	20.7%
27	- Holyhead T.C.	20	1	20.7%	20.7%	20.7%
28	- Llandudno T.C.	20	1	20.7%	20.7%	20.7%
66	- Tywyn T.C.	20	1	20.7%	20.7%	20.7%
68	- Llanllyfni C.C.	20	1	20.7%	20.7%	20.7%
70	- Towyn a Kinmel Bay T.C.	20	1	20.7%	20.7%	20.7%
72	- Abergele T.C.	20	1	20.7%	20.7%	20.7%
73	- Colwyn Bay T.C.	20	1	20.7%	20.7%	20.7%

CODE	Employer Name or Pool	Recovery Period (In years)	Spreading Period (In years)	Contribution Rates		
				31.03.09	31.03.10	31.03.11
Pool	Other Admission Bodies					
8	Coleg Harlech	RWL	1	19.4%	19.4%	19.4%
11	N.W.S.B	RWL	1	19.4%	19.4%	19.4%
25	Cyd-Bwyllgor Claddu Caergybi	RWL	1	19.4%	19.4%	19.4%
41	Cwmni'r Fran Wen	RWL	1	19.4%	19.4%	19.4%
53	Theatr Ardudwy	RWL	1	19.4%	19.4%	19.4%
60	Theatr Gwynedd	RWL	1	19.4%	19.4%	19.4%
61	Conwy Voluntary Services	RWL	1	19.4%	19.4%	19.4%
62	Medrwn Môn	RWL	1	19.4%	19.4%	19.4%
63	Mantell Gwynedd	RWL	1	19.4%	19.4%	19.4%
64	Ynys Môn Citizen's Advice Bureau	RWL	1	19.4%	19.4%	19.4%
67	Menter Môn	RWL	1	19.4%	19.4%	19.4%
69	Conwy Citizens Advice Bureau	RWL	1	19.4%	19.4%	19.4%
71	CAIS	RWL	1	19.4%	19.4%	19.4%

***RWL = Remaining Working Lifetime**

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 and FSS and a SoIP, both after consultation with interested parties where appropriate; and
- monitor all aspects of the fund's performance and funding and amend FSS/SoIP

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.