ANNUAL MEETING OF THE GWYNEDD PENSION FUND, BETWEEN MEMBERS OF THE GWYNEDD COUNCIL PENSION COMMITTEE AND REPRESENTATIVES OF THE EMPLOYERS AND THE UNIONS, 21.07.09

Present: Councillor John G. Jones (Chairman)

Councillors Trevor Edwards, Keith Greenly-Jones, Gwilym Euros Roberts

Also present - Dilwyn Williams (Corporate Director), Dafydd Edwards (Head of Finance), Gareth Jones (Pensions Operations Manager), Daphne R. Humphreys (Pensions and Payroll Manager), Nick Hopkins (Senior Pensions Manager), Richard Owen and Gwennan Williams (Pensions Officers), Marina Parry Owen (Pensions and Investments Officer) and Gwyn Parry Williams (Committee Officer) (Gwynedd Council); Ross Morgan (Isle of Anglesey County Council); Jo Worrall (Snowdonia National Park Authority); Lynn Patterson (Cynnal), Ceren Williams (Mantell Gwynedd), Tim Pritchard (Coleg Menai), Huw Trainer (North Wales Police Authority), Kath Coughlan (Coleg Llandrillo), Nikki Williams (Careers Company), Douglas Anderson and Martyn Hole (Capital International); Andrew Graver (Barclays Global Investors); Anthony Dhuna (Legal & General), George Henshilwood (Hymans Robertson); Cliff Hawkins and David Moylett (UBS Global)

Apologies – Councillors J.R. Jones, Linda W. Jones, W. Tudor Owen (Gwynedd Council); Councillor Margaret Lyon (Conwy County Borough Council), Councillor Goronwy Parry and David Ellis-Williams (Isle of Anglesey County Council) and Arnold Milburn (Llangefni Town Council)

1. CHAIRMAN

RESOLVED to elect John G. Jones as Chairman of the meeting.

2. VICE-CHAIRMAN

RESOLVED to elect Councillor Keith Greenly-Jones as Vice-chairman of the meeting.

3. WELCOME

The Chairman extended a welcome on behalf of the Council to visitors at the meeting representing the companies who were investors and to answer any questions that arose regarding those investments.

4. THE PENSION FUND

The Corporate Director submitted the annual report of the Pension Scheme for 2008/09 which included:

- review of the year
- recent trends

- management report summarising the main features regarding the administration of the scheme
- the actuarial position of the fund
- administrative and custodial arrangements
- an outline of investment powers and investment management methods
- a summary of the investment performance
- a statement of the investment principles and funding strategy
- details of the management structure
- membership statistics
- details of the employers that were members of the fund
- statement of accounts for 2008/09 and notes to the accounts
- appendices, including statements of the communications and governance policies, the governance compliance policy, statement of the investment principles and the funding strategy statement.

Attention was given to the main issues of the report, namely:

- Welcoming seven employers, including Gwynedd to the meeting, the Strategic Director referred to the fact that the report again this year was lengthy because now all the policy statements had to be incorporated into the annual report.
- The administration of the fund, where the contributions and the employers were dealt with on a daily basis. He noted that the new Local Government Pension Scheme came into force on 1 April 2008 and he congratulated the pensions administration unit for their excellent work. He referred to the fact that some employers were finding great difficulty in accommodating the new scheme particularly with regard to including share returns at the end of the year. Therefore, he asked those concerned to give due priority to that particular work. He noted that next year would be very important as it would be the valuation year and he emphasised how important it was for the system to work properly.
- The fund's communications team had held 90 surgeries across the area of the fund during last year compared to 69 the previous year. This emphasised the commitment to improving communication between the employers and the workforce. In due course, a series of informal meetings would be held with employers with a view to improve communication and understanding amongst employers. He urged everybody to take advantage of those meetings.
- Two new employers were welcomed to the fund during the year as 'Admitted Bodies', namely, Cartrefi Conwy and Eden Food Services. Cartrefi Conwy was a company established and owned by Conwy County Borough Council to run its housing service. Eden Food Services was a private subsidiary company established to supply the catering service for schools of Isle of Anglesey County Council. Unfortunately, one of the employers, Theatr Gwynedd, had been lost because it had gone into administration.
- The value of the fund over the past two years had fallen. In 2007, the value of the fund was £812m. In the 2007 valuation, it was forecasted that the assets would increase 5.9% during the year and if the fund had grown in accordance with presumptions in the valuation, by now it would have been worth £960m but in 2009 it was not near to that figure but rather it was £658m, which suggested possible problems in future for employers in respect of contribution rates. Details were provided of the current assets with over 75% being in shares. This was in accordance with the fund's current assets allocation policy, namely to have 75% in equities, 15% in bonds and 10% in property.
- There were five companies acting as Investment Managers with four companies holding assets without private equities and one company holding private equities assets. It was noted that BGI was looking after 35% of the fund's assets and

they were managed on a passive basis. The same was true of Legal & General and their brief was to copy the market. Fidelity was appointed as an investment manager in February 2009 with the brief of investing in global equity but their aim was to reach beyond the benchmark.

- United Kingdom equities had fallen by 29.3% during the 2008/09 year and Foreign Equities had fallen 19.6%. As 75% of the fund's assets were in equities, quite a substantial fall was expected. Over the year the value of the fund fell by 20.6% and this was in accordance with the benchmark and over three years the fund had fallen by 7.2% per annum compared with the benchmark of 6.5%. This was not as good as expected because of the performance of the active managers. Steps had been taken in an attempt to change the situation by changing one manager and a close eye would be kept on the other. The annual performance of the fund was noted in the League Table of Local Authorities over the past eight years – this year the fund was 57th in the league.
- The Strategic Director informed the meeting that a letter had been sent to every employer recently explaining the situation regarding the fund's performance and possible effect on future contributions. The situation was rather bleak because when the last valuation was made, the value of the fund's assets compared to its commitments was 84% and the employer's contribution required to meet future service was 15.9% and in order to make up for past deficits another 4.3% had to be added and, therefore, for the whole fund the employer's contribution in the last valuation was 20.1%. Reference was made to the fact that future commitments were valued on the basis of bonds and as bond returns had fallen, this meant that the commitments had increased and on that basis, should a valuation have been made in March 2009, the employer's contribution in future would have been 16.8% rather than 15.8% but because of the reduction in the value of the assets, the deficit had increased and consequently the employer's contribution to make up for the past would increase from 4.3% to 13.4%. Therefore, should the valuation have occurred in March 2009, under the same conditions as the previous valuation, the employer's contribution would have increased from 20% to 30% which would create an impossible situation. Currently, discussions were underway with Hymans Robetson to discuss a system that would be acceptable from the perspective of consistency in employers' contribution rates.
- Membership of the fund had stabilised during the last three years. It was noted that there were 14,375 contributors with a total of 27,439 members.

The Chairman thanked the Director and his staff for a clear and comprehensive report.

Questions were invited from the floor.

A question from Mr Tim Pritchard, Coleg Menai
The returns in general were low. What did the Council foresee would be the situation regarding contribution of members of the scheme in future? Would they share some of the burden or would it fall on the employer?

In response to the question, the Corporate Director explained that there was a scheme which was currently being discussed to share the burden between the employee and the employer and discussions would be held to explore which changes in the fund should the workforce contribute to and which changes the employer should contribute towards. He noted that the reality was that it would be unlikely that the workforce would contribute towards a deficit in the markets.

Another question from Mr Tim Pritchard, Coleg Menai
Would it be possible to receive an overview from representatives of the companies present regarding the future of investments from the aspect of the pension scheme?

The representative of Capital International informed the meeting that what had impacted on the pension scheme in the past 18 months had been the percentage held in equities and the fact that those markets had fallen so much. As regard to planning for the future, they as a company were rather optimistic regarding the returns that equities could generate over the next ten years. Usually, when a scheme such as this went through a period of poor returns, it would be followed by a period of better returns for the subsequent ten years.

The representative of UBS Global informed the meeting that the property market had gone through a difficult period recently with a reduction in the value of property of approximately 45% since 2007. He foresaw that the situation would improve in due course.

The representative of Hymans Robinson informed the meeting that what had impacted on the pension fund in the past ten years had not only been poor returns from equities but also exceptional returns from bonds which meant that commitments were so much more. There was a danger to concentrate too much on the value of assets rather than bond returns rates which decide the value of the commitments.

RESOLVED to accept and note the report.

The meeting commenced at 2.00pm and came to a close at 2.40pm.