

# **Gwynedd Pension Fund**

## **STATEMENT OF ACCOUNTS 2020/21**

# **NARRATIVE REPORT**

## **Introduction**

Gwynedd Pension Fund's accounts and notes for the year 2020/21 are presented here on pages 4 to 42.

The accounts consist of the Gwynedd Pension Fund Account and Net Assets Statement.

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

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

The Covid-19 pandemic has impacted global financial and property markets. As a result of the volatility in market conditions, year-end valuation reports provided to the Gwynedd Pension Fund on 31st March 2020 included a statement that there is a material valuation uncertainty related to the UK property funds managed on behalf of the Fund. No material uncertainties in property valuations are being reported as at 31 March 2021.

The Statement of Accounts and further information is available on Gwynedd Pension Fund's website [www.gwyneddpensionfund.wales](http://www.gwyneddpensionfund.wales).

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

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

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

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

Further information relating to the accounts is available from:

Delyth Jones-Thomas  
Investment Manager  
01286 679128

Finance Department  
Gwynedd Council  
Council Offices  
Caernarfon  
Gwynedd  
LL55 1SH

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

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **THE PENSION FUND'S RESPONSIBILITIES**

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

24<sup>th</sup> June 2021

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**Pensions Committee Chair**

### **THE HEAD OF FINANCE'S RESPONSIBILITIES**

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

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

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

### **RESPONSIBLE FINANCIAL OFFICER'S CERTIFICATE**

I certify that the Statement of Accounts has been prepared in accordance with the arrangements set out above, and presents a true and fair view of the financial position of Gwynedd Pension Fund at 31 March 2021 and the Pension Fund's income and expenditure for the year then ended.



16<sup>th</sup> June 2021

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

## GWYNEDD PENSION FUND ACCOUNTS 2020/21

### THE FUND ACCOUNT

| 31 March<br>2020<br>£'000 |   | Notes | 31 March<br>2021<br>£'000 |
|---------------------------|---|-------|---------------------------|
|                           | <b>Dealings with members, employers and others directly involved in the Fund</b>            |       |                           |
| 74,416                    | Contributions   | 7     | 78,252                    |
| 5                         | Other Income  | 8     | 4                         |
| 4,887                     | Transfers in from other pension funds   | 9     | 3,356                     |
| <b>79,308</b>             |   |       | <b>81,612</b>             |
| (62,328)                  | Benefits  | 10    | (62,378)                  |
| (4,669)                   | Payments to and on account of leavers   | 11    | (3,052)                   |
| <b>(66,997)</b>           |   |       | <b>(65,430)</b>           |
| <b>12,311</b>             | <b>Net additions/ (withdrawals) from dealings with members</b>                              |       | <b>16,182</b>             |
| (13,121)                  | Management Expenses   | 12    | (22,669)                  |
| <b>(810)</b>              | <b>Net additions/ (withdrawals) including fund management expenses</b>                      |       | <b>(6,487)</b>            |
|                           | <b>Returns on investments</b>   |       |                           |
| 9,318                     | Investment income   | 13    | 30,768                    |
| (151,518)                 | Profit and losses on disposal of investments and changes in the market value of investments | 14    | 565,511                   |
| <b>(142,200)</b>          | <b>Net returns on investments</b>   |       | <b>596,279</b>            |
| <b>(143,010)</b>          | <b>Net Increase/ (Decrease) in the net assets available for benefits during the year</b>    |       | <b>589,792</b>            |
| <b>2,081,347</b>          | <b>Opening net assets of the scheme</b>   |       | <b>1,938,337</b>          |
| <b>1,938,337</b>          | <b>Closing net assets of the scheme</b>   |       | <b>2,528,129</b>          |

The notes on pages 6 to 42 form part of these Financial Statements

## NET ASSETS STATEMENT

| 31 March<br>2020 |   | Notes | 31 March<br>2021 |
|------------------|---|-------|------------------|
| £'000            |   |       | £'000            |
| 1,928,515        | Investment assets   | 14    | 2,515,169        |
| 783              | Cash deposits   | 14    | 146              |
| 0                | Investment liabilities  | 14    | (126)            |
| <b>1,929,298</b> | <b>Total net investments</b>  |       | <b>2,515,189</b> |
| 11,929           | Current assets  | 20    | 16,153           |
| (2,890)          | Current liabilities   | 21    | (3,213)          |
| <b>1,938,337</b> | <b>Net assets of the fund available to fund<br/>benefits at the end of the reporting period</b> |       | <b>2,528,129</b> |

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the financial year-end, but rather summarises the transactions and net assets of the Fund. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (most recently as at 31 March 2019) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will be able to meet future liabilities. The actuarial present value of promised retirement benefits is shown in Note 19.

# **NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS**

## **NOTE I – DESCRIPTION OF FUND**

The Gwynedd Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS) and is administered by Gwynedd Council. The Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2020/21 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

### **a) General**

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

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended);
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

### **b) Membership**

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

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

## NOTE I – DESCRIPTION OF FUND (continued)

The following bodies are active employers within the Pension Fund:

| <b>Scheduled Bodies</b>                           |  |
|---|--|
| Gwynedd Council                                   | Snowdonia National Park Authority                |
| Conwy County Borough Council                      | Bryn Eilian School                               |
| Isle of Anglesey County Council                   | Emrys ap Iwan School                             |
| Police and Crime Commissioner for North Wales     | Pen y Bryn School                                |
| Llandrillo – Menai Group                          | Eirias High School                               |
| GwE   | North and Mid Wales Trunk Road Agency            |
| North Wales Economic Ambition Board               |  |
| <b>Resolution Bodies</b>                          |  |
| Llanllyfni Community Council                      | Ffestiniog Town Council                          |
| Bangor City Council                               | Llandudno Town Council                           |
| Abergele Town Council                             | Llangefni Town Council                           |
| Colwyn Bay Town Council                           | Menai Bridge Town Council                        |
| Beaumaris Town Council                            | Towyn and Kinmel Bay Town Council                |
| Holyhead Town Council                             | Tywyn Town Council                               |
| Caernarfon Town Council                           | Conwy Town Council                               |
| Llanfairfechan Town Council                       |  |
| <b>Admission Bodies</b>                           |  |
| Adult Learning Wales (formerly Coleg Harlech WEA) | North Wales Society for the Blind                |
| CAIS  | Community and Voluntary Support Conwy            |
| Conwy Citizens Advice Bureau (until 30/04/20)     | Careers Wales North West                         |
| Holyhead Joint Burial Committee                   | Mantell Gwynedd                                  |
| Cwmni Cynnal                                      | Medrwn Môn                                       |
| Cwmni'r Fran Wen                                  | Menter Môn                                       |
| <b>Community Admission Bodies</b>                 |  |
| Cartrefi Conwy                                    | Adra (formerly Cartrefi Cymunedol Gwynedd (CCG)) |
| Byw'n Iach  |  |
| <b>Transferee Admission Bodies</b>                |  |
| ABM Catering                                      | Caterlink  |
| Kingdom Services Group                            | A E & A T Lewis                                  |



## NOTE I – DESCRIPTION OF FUND (continued)

Membership details are set out below:

|  | 31<br>March<br>2020 | 31<br>March<br>2021 |
|--|---------------------|---------------------|
| Number of employers                              | 47                  | 47                  |
| <b>Number of employees in scheme</b>             |                     |                     |
| Gwynedd Council                                  | 14,656              | 14,518              |
| Other employers                                  | 3,926               | 3,777               |
| <b>Total</b>                                     | <b>18,582</b>       | <b>18,295</b>       |
| <b>Number of pensioners</b>                      |                     |                     |
| Gwynedd Council                                  | 8,562               | 8,902               |
| Other employers                                  | 1,767               | 1,878               |
| <b>Total</b>                                     | <b>10,329</b>       | <b>10,780</b>       |
| <b>Deferred pensioners</b>                       |                     |                     |
| Gwynedd Council                                  | 10,637              | 10,473              |
| Other employers                                  | 1,968               | 1,958               |
| <b>Total</b>                                     | <b>12,605</b>       | <b>12,431</b>       |
| <b>Unclaimed benefits</b>                        |                     |                     |
| Gwynedd Council                                  | 1,833               | 1,864               |
| Other employers                                  | 230                 | 230                 |
| <b>Total</b>                                     | <b>2,063</b>        | <b>2,094</b>        |
| <b>Undecided Leavers</b>                         |                     |                     |
| Gwynedd Council                                  | 3,847               | 5,280               |
| Other employers                                  | 531                 | 759                 |
| <b>Total</b>                                     | <b>4,378</b>        | <b>6,039</b>        |
| <b>Total number of members in pension scheme</b> | <b>47,957</b>       | <b>49,639</b>       |

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 2.75% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employer contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 7.7% to 33.3% of pensionable pay.

## NOTE 1 – DESCRIPTION OF FUND (continued)

### d) Benefits

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

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

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

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

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

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

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

## NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2020/21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2020/21.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Fund Account – revenue recognition**

#### **a) Contribution Income**

Normal contributions are accounted for on an accrual basis as follows:

- Employee contributions rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommend by the fund actuary for the period to which they relate.

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

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

#### **b) Transfers to and from other schemes**

Transfer in and out relate to members who have joined or left the fund.

Individual transfers in/ out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In ( Note 9).

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

#### **c) Investment income**

##### **i) Interest income**

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

##### **ii) Dividend income**

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

##### **iii) Distributions from pooled funds including property**

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

##### **iv) Movement in the net market value of investments**

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

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Fund account – expense items**

#### **d) Benefits payable**

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

#### **e) Management expenses**

The fund discloses its management expenses in line with CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accrual basis as follows:

##### **Administrative expenses**

All staff costs of the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the fund.

##### **Oversight and governance costs**

All costs associated with oversight and governance are separately identified, apportioned to this activity and charged as expenses to the fund.

##### **Investment management expenses**

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments.

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

Transaction costs are associated with the acquisition or disposal of fund assets and are disclosed in the notes to the accounts.

#### **f) Taxation**

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

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Net assets statement**

#### **g) Financial assets**

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirement of the Code and IFRS 13 (see note 14). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/ Investment Association, 2016).

#### **h) Foreign currency transactions**

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

#### **i) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### **j) Financial liabilities**

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains and losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net assets statement at the value of the outstanding principal at 31 March each year. Any interest due not yet paid is accounted for on an accruals basis and included in administration costs.

#### **k) Actuarial present value of promised retirement benefits**

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

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

## **NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **l) Additional voluntary contributions**

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

AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information only in Note 22.

### **m) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

## **NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Unquoted private equity and infrastructure investments**

The fair value of private equity investments and infrastructure are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2021 was £211.6 million (£157.2 million at 31 March 2020).

### **Pension fund liability**

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from assumptions and estimates made.

The items in the net assets statement for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item  | Uncertainties   | Effect if actual results differ from assumptions   |
|---|---|--|
| Actuarial present value of promised retirement benefits (Note 19) | Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and return on fund assets. Hymans Robertson is engaged to provide the fund with expert advice about the assumptions to be applied.   | The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.                                       |
| Private equity and infrastructure                                 | Private equity and infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines (December 2018) and the Special Guidance issued March 2020 concerning the impact of COVID 19 on valuations. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity and infrastructure investments in the financial statements are £211.6 million. There is a risk that this investment may be under or overstated in the accounts. |

## **NOTE 6 – EVENTS AFTER THE REPORTING DATE**

There are no significant events after the year end to report.

## NOTE 7 – CONTRIBUTIONS RECEIVABLE

### By category

| 2019/20       |                                       | 2020/21       |
|---------------|---------------------------------------|---------------|
| £'000         |                                       | £'000         |
| 17,914        | Employees' contributions              | 18,671        |
|               | Employers' contributions:             |               |
| 56,376        | • Normal contributions                | 59,581        |
| 126           | • Deficit recovery contributions      | 0             |
| <b>56,502</b> | <b>Total employers' contributions</b> | <b>59,581</b> |
| <b>74,416</b> | <b>Total contributions receivable</b> | <b>78,252</b> |

### By type of employer

| 2019/20       |                             | 2020/21       |
|---------------|-----------------------------|---------------|
| £'000         |                             | £'000         |
| 27,055        | Gwynedd Council             | 25,328        |
| 42,075        | Other scheduled bodies      | 47,917        |
| 2,076         | Admission bodies            | 1,749         |
| 2,623         | Community admission bodies  | 2,712         |
| 221           | Transferee admission bodies | 140           |
| 312           | Resolution bodies           | 352           |
| 54            | Closed fund*                | 54            |
| <b>74,416</b> |                             | <b>78,252</b> |

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

## NOTE 8 – OTHER INCOME

| 2019/20  |                                    | 2020/21  |
|----------|------------------------------------|----------|
| £'000    |                                    | £'000    |
| 2        | Interest on deferred contributions | 2        |
| 3        | Income from divorce calculations   | 2        |
| <b>5</b> |                                    | <b>4</b> |

## NOTE 9 – TRANSFERS IN FROM OTHER PENSION FUNDS

| 2019/20      |                      | 2020/21      |
|--------------|----------------------|--------------|
| £'000        |                      | £'000        |
| 4,887        | Individual transfers | 3,356        |
| <b>4,887</b> |                      | <b>3,356</b> |



## NOTE 10 - BENEFITS PAYABLE

### By category

| 2019/20       |  | 2020/21       |
|---------------|--|---------------|
| £'000         |  | £'000         |
| 48,356        | Pensions                                     | 50,411        |
| 12,343        | Commutation and lump sum retirement benefits | 10,807        |
| 1,629         | Lump sum death benefits                      | 1,160         |
| <b>62,328</b> |  | <b>62,378</b> |

### By type of employer

| 2019/20       |                           | 2020/21       |
|---------------|---------------------------|---------------|
| £'000         |                           | £'000         |
| 17,714        | Gwynedd Council           | 18,773        |
| 31,958        | Other scheduled bodies    | 31,703        |
| 1,520         | Admission bodies          | 1,502         |
| 1,472         | Community admission body  | 1,133         |
| 223           | Transferee admission body | 108           |
| 119           | Resolution body           | 174           |
| 9,322         | Closed fund               | 8,985         |
| <b>62,328</b> |                           | <b>62,378</b> |

## NOTE 11 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| 2019/20      |   | 2020/21      |
|--------------|---|--------------|
| £'000        |   | £'000        |
| 161          | Refunds to members leaving service        | 92           |
| 1            | Payments for members joining state scheme | 0            |
| 4,507        | Individual transfers                      | 2,960        |
| <b>4,669</b> |   | <b>3,052</b> |

## NOTE 12 – MANAGEMENT EXPENSES

| 2019/20       |                                | 2020/21       |
|---------------|--------------------------------|---------------|
| £'000         |                                | £'000         |
| 11,434        | Investment management expenses | 21,128        |
| 1,307         | Administrative costs           | 1,268         |
| 380           | Oversight and governance costs | 273           |
| <b>13,121</b> |                                | <b>22,669</b> |

Management expenses have been reanalysed for 2019/20 to be consistent with 2020/21

## NOTE 12a – Investment Management Expenses

| 2020/21                  | Management fees<br>£'000 | Transaction costs<br>£'000 | Total<br>£'000 |
|--------------------------|--------------------------|----------------------------|----------------|
| <b>Pooled Funds</b>      |                          |                            |                |
| Fixed Income             | 865                      | 0                          | 865            |
| Equities                 | 2,733                    | 442                        | 3,175          |
| <b>Other Investments</b> |                          |                            |                |
| Pooled Property          | 1,565                    | 0                          | 1,565          |
| Private Equity           | 12,274                   | 0                          | 12,274         |
| Infrastructure           | 3,044                    | 0                          | 3,044          |
|                          | 20,481                   | 442                        | 20,923         |
| <b>Custody Fees</b>      |                          |                            | 205            |
| <b>Total</b>             |                          |                            | 21,128         |

| 2019/20                  | Management Fees<br>£'000 | Transaction Costs<br>£'000 | Total<br>£'000 |
|--------------------------|--------------------------|----------------------------|----------------|
| <b>Pooled Funds</b>      |                          |                            |                |
| Fixed Income             | 1,297                    | 0                          | 1,297          |
| Equities                 | 3,462                    | 924                        | 4,386          |
| <b>Other Investments</b> |                          |                            |                |
| Pooled Property          | 1,551                    | 0                          | 1,551          |
| Private Equity           | 2,511                    | 0                          | 2,511          |
| Infrastructure           | 1,572                    | 0                          | 1,572          |
|                          | 10,393                   | 924                        | 11,317         |
| <b>Custody Fees</b>      |                          |                            | 117            |
| <b>Total</b>             |                          |                            | 11,434         |

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled investment vehicles. There are no performance-related fees paid to investment managers. In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. They are reflected in the cost of investment purchases and in the proceeds of sales of investments in Note 14a.

The WPP Global Opportunities, Multi Asset Credit and Absolute Return Bond funds are investments which are appointed via a manager of manager approach which have their own underlying fees. The return for this mandate are net of the underlying manager fees which is reflected in Note 14a within the Change in Market value- for transparency, the fees in 2020/21 were £1,846,000 (£820,000 in 2019/20).

Transition costs have been incurred as a result of moving investments from Insight and Fidelity into WPP. These costs were £71,000 and are included in the Net Asset Value (NAV).

## NOTE 12b- Administrative Costs

| 2019/20      |                                | 2020/21      |
|--------------|--------------------------------|--------------|
| £'000        |                                | £'000        |
| 563          | Direct employee costs          | 576          |
| 377          | Other direct costs             | 316          |
| 367          | Support services, including IT | 376          |
| <b>1,307</b> |                                | <b>1,268</b> |

Administrative costs include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation.

## Note 12c- Oversight and Governance Costs

| 2019/20    |  | 2020/21    |
|------------|--|------------|
| £'000      |  | £'000      |
| 150        | Actuarial fees                             | 88         |
| 47         | Investment consultancy fees                | 44         |
| 13         | Performance monitoring service             | 13         |
| 34         | External audit fees                        | 34         |
| 66         | Pensions Committee and Local Pension Board | 6          |
| 70         | Wales Pensions Partnership                 | 88         |
| <b>380</b> |  | <b>273</b> |

## Note 12d- Wales Pension Partnership

The Investment Management Expenses in Note 12a are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees (which also includes the operator fee and other associated costs), transaction costs and custody fees. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the NAV.

The oversight and governance costs in Note 12c are the annual running costs of the pool which includes the Host Authority costs and other External Advisor costs. These costs are funded equally by all eight of the local authority Pension Funds in Wales.

The following fees are included in Note 12 in relation to the Wales Pension Partnership and further details on the WPP can be found in the Annual Report.

|                                       | 2019/20      | 2020/21      |
|---------------------------------------|--------------|--------------|
|                                       | £'000        | £'000        |
| <b>Investment Management Expenses</b> |              |              |
| Fund Manager fees                     | 1,656        | 1,955        |
| Transaction costs                     | 924          | 442          |
| Custody fees                          | 102          | 179          |
|                                       | <b>2,682</b> | <b>2,576</b> |
| <b>Oversight and governance costs</b> |              |              |
| Running Costs                         | 70           | 88           |
| <b>Total</b>                          | <b>2,752</b> | <b>2,664</b> |

## NOTE 13 – INVESTMENT INCOME

| 2019/20      |                             | 2020/21       |
|--------------|-----------------------------|---------------|
| £'000        |                             | £'000         |
| 0            | Fixed Income                | 1,579         |
| 1,463        | Equities                    | 20,587        |
| 529          | Private Equity              | 1,108         |
| 101          | Infrastructure              | 888           |
| 6,929        | Pooled property investments | 6,507         |
| 296          | Interest on cash deposits   | 99            |
| <b>9,318</b> | <b>Total before taxes</b>   | <b>30,768</b> |

During 2020/21 Link Asset Services paid distributions in respect of the income earned since inception on all Wales Pension Partnership sub-funds in which the fund invests. This was automatically reinvested into the pooled funds to increase the market value of the holdings.

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year.

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

## NOTE 14 – INVESTMENTS

| 31 March         |                                     | 31 March         |
|------------------|-------------------------------------|------------------|
| 2020             |                                     | 2021             |
| £'000            |                                     | £'000            |
|                  | <b>Investment assets</b>            |                  |
|                  | <b>Pooled Funds</b>                 |                  |
| 280,279          | Fixed income                        | 484,315          |
| 1,299,750        | Equities                            | 1,624,630        |
|                  | <b>Other Investments</b>            |                  |
| 191,256          | Pooled property investments         | 194,581          |
| 112,661          | Private equity                      | 165,423          |
| 44,569           | Infrastructure                      | 46,220           |
| <b>1,928,515</b> |                                     | <b>2,515,169</b> |
| 783              | Cash deposits                       | 146              |
| <b>1,929,298</b> | <b>Total investment assets</b>      | <b>2,515,315</b> |
|                  | <b>Investment liabilities</b>       |                  |
| (0)              | Amounts payable for purchases       | (126)            |
| <b>(0)</b>       | <b>Total investment liabilities</b> | <b>(126)</b>     |
| <b>1,929,298</b> | <b>Net investment assets</b>        | <b>2,515,189</b> |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## Note 14a – Reconciliation of Movements in Investments and Derivatives

| <b>2020/21</b>                               | <b>Market value at 1 April 2020</b> | <b>Purchases during the year</b> | <b>Sales during the year</b> | <b>Change in market value during the year</b> | <b>Market value at 31 March 2021</b> |
|--|-------------------------------------|----------------------------------|------------------------------|---|--------------------------------------|
|  | <b>£'000</b>                        | <b>£'000</b>                     | <b>£'000</b>                 | <b>£'000</b>                                  | <b>£'000</b>                         |
| Pooled investments                           | 1,580,029                           | 759,879                          | (727,541)                    | 496,578                                       | 2,108,945                            |
| Pooled property investments                  | 191,256                             | 3,592                            | (281)                        | 14  | 194,581                              |
| Private equity / infrastructure              | 157,230                             | 29,249                           | (24,283)                     | 49,447  | 211,643                              |
|  | <u>1,928,515</u>                    | <u>792,720</u>                   | <u>(752,105)</u>             | <u>546,039</u>                                | <u>2,515,169</u>                     |
| Cash deposits                                | 783                                 |                                  |                              |   | 146                                  |
| Amount receivable from sales of investments  | 0                                   |                                  |                              |   | 0                                    |
| Amounts payable for purchases of investments | 0                                   |                                  |                              |   | (126)                                |
| Fees within pooled vehicles                  |                                     |                                  |                              | 19,472  |                                      |
| <b>Net investment assets</b>                 | <b>1,929,298</b>                    |                                  |                              | <b>565,511</b>                                | <b>2,515,189</b>                     |

| <b>2019/20</b>                               | <b>Market value at 1 April 2019</b> | <b>Purchases during the year</b> | <b>Sales during the year</b> | <b>Change in market value during the year</b> | <b>Market value at 31 March 2020</b> |
|--|-------------------------------------|----------------------------------|------------------------------|---|--------------------------------------|
|  | <b>£'000</b>                        | <b>£'000</b>                     | <b>£'000</b>                 | <b>£'000</b>                                  | <b>£'000</b>                         |
| Pooled investments                           | 1,729,681                           | 10,545                           | (9,540)                      | (150,657)                                     | 1,580,029                            |
| Pooled property investments                  | 179,301                             | 20,644                           | (777)                        | (7,912)                                       | 191,256                              |
| Private equity / infrastructure              | 145,613                             | 26,464                           | (13,054)                     | (1,793)                                       | 157,230                              |
|  | <u>2,054,595</u>                    | <u>57,653</u>                    | <u>(23,371)</u>              | <u>(160,362)</u>                              | <u>1,928,515</u>                     |
| Cash deposits                                | 538                                 |                                  |                              |   | 783                                  |
| Amount receivable from sales of investments  | 0                                   |                                  |                              |   | 0                                    |
| Amounts payable for purchases of investments | (123)                               |                                  |                              |   | 0                                    |
| Fees within pooled vehicles                  |                                     |                                  |                              | 8,844   |                                      |
| <b>Net investment assets</b>                 | <b>2,055,010</b>                    |                                  |                              | <b>(151,518)</b>                              | <b>1,929,298</b>                     |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## NOTE 14b – Analysis of Investments

### Investments analysed by fund manager

| Market Value at<br>31 March 2020 |              |                           | Market Value at<br>31 March 2021 |              |  |
|----------------------------------|--------------|---------------------------|----------------------------------|--------------|--|
| £'000                            | %            |                           | £'000                            | %            |  |
| 604,237                          | 31.3         | Wales Pension Partnership | 1,360,124                        | 54.1         |  |
| 565,379                          | 29.3         | BlackRock                 | 735,481                          | 29.2         |  |
| 157,230                          | 8.2          | Partners Group            | 211,643                          | 8.4          |  |
| 181,742                          | 9.4          | Fidelity                  | 67,178                           | 2.7          |  |
| 60,570                           | 3.2          | Lothbury                  | 61,338                           | 2.4          |  |
| 47,832                           | 2.5          | UBS                       | 47,627                           | 1.9          |  |
| 31,401                           | 1.6          | Threadneedle              | 31,904                           | 1.3          |  |
| 625                              | 0.0          | Veritas                   | 20                               | 0            |  |
| 280,282                          | 14.5         | Insight                   | 0                                | 0            |  |
| <b>1,929,298</b>                 | <b>100.0</b> |                           | <b>2,515,315</b>                 | <b>100.0</b> |  |

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

| Market Value at<br>31 March 2020 |      |  | Market Value at<br>31 March 2021 |      |  |
|----------------------------------|------|--|----------------------------------|------|--|
| £'000                            | %    |  | £'000                            | %    |  |
| 305,618                          | 15.8 | WPP Global Opportunities Fund                  | 442,964                          | 17.5 |  |
| 298,619                          | 15.4 | WPP Global Growth Fund                         | 432,845                          | 17.1 |  |
| -                                | -    | WPP Absolute Return Bond                       | 307,181                          | 12.2 |  |
| -                                | -    | Black Rock ACS World Low Carbon Fund           | 297,967                          | 11.8 |  |
| 280,279                          | 14.5 | LDI Solutions Plus Bonds                       | -                                | -    |  |
| 274,417                          | 14.2 | Black Rock Aquila Life UK Equity Index Fund    | 211,625                          | 8.4  |  |
| -                                | -    | WPP Multi Asset Credit Fund                    | 177,134                          | 7.0  |  |
| 137,117                          | 7.1  | Fidelity Institutional Select Global Equity    | -                                | -    |  |
| 119,881                          | 6.2  | Black Rock Aquila Life GI Dev Fundamental Fund | 172,052                          | 6.8  |  |

### Note 14c – Stock Lending

The Fund's investment strategy permits stock lending subject to specific approval. The income earned by the fund through stock lending was £93,813. Currently the Wales Pension Partnership has total quoted equities of £469m on loan. These equities continue to be recognised in the relevant fund's financial statements. No liabilities are associated with the loaned assets.

## **NOTE 15 – FAIR VALUE- BASIS OF VALUATION**

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market- based information. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1** - where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, comprising quoted equities, quoted bonds and unit trusts.

**Level 2** - where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data.

**Level 3** - where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

## NOTE 15 – FAIR VALUE- BASIS OF VALUATION (continued)

| Description of Asset             | Valuation hierarchy | Basis of valuation   | Observable and unobservable inputs   | Key sensitivities affecting the Valuations provided  |
|----------------------------------|---------------------|--|--|--|
| Cash and cash equivalents        | Level 1             | Carrying value is deemed to be fair value because of the short- term nature of these financial instruments   | Not required   | Not required   |
| Pooled investments- equity funds | Level 2             | The ‘NAV’ (net asset value) is calculated based on the market value of the underlying assets   | Evaluated price feeds  | Not required   |
| Pooled investments- fixed income | Level 2             | The ‘NAV’ is calculated based on the market value of the underlying fixed income Securities  | Evaluated price feeds  | Not required   |
| Pooled property funds            | Level 2             | Closing bid price where bid and offer prices are published; closing single price where single price is published   | ‘NAV’- based set on a forward pricing basis  | Not required   |
| Private equities                 | Level 3             | Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 and the IPEV Board’s Special Valuation Guidance (March 2020) | <ul style="list-style-type: none"> <li>• EBITDA multiple</li> <li>• Revenue multiple</li> <li>• Discount for lack of marketability</li> <li>• Control premium</li> </ul> | Valuations could be affected by changes to expected cashflows or by differences between audited and unaudited accounts |
| Infrastructure                   | Level 3             | Valued using discounted cashflow techniques to generate a net present value  | Discount rate and cashflow used in the models  | Rate of inflation, interest, tax and foreign exchange  |

### Sensitivity of assets valued at level 3

The values reported in the Level 3 valuations represent the most accurate estimation of the portfolio values as at 31 March 2021. Any subjectivity related to the investment value is incorporated into the valuation.

### Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2020/21.



## Note 15a – Fair Value Hierarchy

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

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

| <b>Values at 31 March 2021</b>                                     | <b>Quoted<br/>market<br/>price<br/>Level 1<br/>£'000</b> | <b>Using<br/>observable<br/>inputs<br/>Level 2<br/>£'000</b> | <b>With<br/>significant<br/>unobservable<br/>inputs<br/>Level 3<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|--|--|---|------------------------|
| <b>Financial assets at fair value through profit and loss</b>      |  |  |   |                        |
| Fixed income   | 0  | 484,315  | 0   | 484,315                |
| Equities   | 0  | 1,624,630  | 0   | 1,624,630              |
| Pooled property investments  | 0  | 194,581  | 0   | 194,581                |
| Private equity   | 0  | 0  | 165,423   | 165,423                |
| Infrastructure   | 0  | 0  | 46,220  | 46,220                 |
| Cash deposits  | 146  | 0  | 0   | 146                    |
|  | <b>146</b>   | <b>2,303,526</b>   | <b>211,643</b>  | <b>2,515,315</b>       |
| <b>Financial liabilities at fair value through profit and loss</b> |  |  |   |                        |
| Payables for investment purchases                                  | (126)  | 0  | 0   | (126)                  |
| <b>Total</b>   | <b>20</b>  | <b>2,303,526</b>   | <b>211,643</b>  | <b>2,515,189</b>       |

## Note 15a – Fair Value Hierarchy (continued)

|  | Quoted<br>market<br>price<br>Level 1<br>£'000 | Using<br>observable<br>inputs<br>Level 2<br>£'000 | With<br>significant<br>unobservable<br>inputs<br>Level 3<br>£'000 | Total<br>£'000   |
|--|---|---|---|------------------|
| <b>Values at 31 March 2020</b>                                     |   |   |   |                  |
| <b>Financial assets at fair value through profit and loss</b>      |   |   |   |                  |
| Fixed income   | 0   | 280,279   | 0   | 280,279          |
| Equities   | 0   | 1,299,750   | 0   | 1,299,750        |
| Pooled property investments  | 0   | 0   | 191,256   | 191,256          |
| Private equity   | 0   | 0   | 112,661   | 112,661          |
| Infrastructure   | 0   | 0   | 44,569  | 44,569           |
| Cash deposits  | 783   | 0   | 0   | 783              |
|  | <b>783</b>                                    | <b>1,580,029</b>                                  | <b>348,486</b>  | <b>1,929,298</b> |
| <b>Financial liabilities at fair value through profit and loss</b> |   |   |   |                  |
| Payables for investment purchases                                  | 0   | 0   | 0   | 0                |
| <b>Net financial assets</b>  | <b>783</b>                                    | <b>1,580,029</b>                                  | <b>348,486</b>  | <b>1,929,298</b> |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

## Note 15b – Reconciliation of Fair Value Measurements within Level 3

|                      | Market Value<br>1 April 2020<br>£'000 | Transfers<br>out of<br>Level 3<br>£'000 | Purchases<br>during<br>the year<br>£'000 | Sales<br>during<br>the year<br>£'000 | Unrealised<br>gains/<br>(losses)<br>£'000 | Realised<br>(gains)/<br>losses<br>£'000 | Market Value<br>31 March 2021<br>£'000 |
|----------------------|---------------------------------------|---|--|--------------------------------------|---|---|--|
| Property Unit Trusts | 191,256                               | (191,256)                               | 0  | 0                                    | 0   | 0                                       | 0                                      |
| Private Equity       | 112,661                               | 0                                       | 18,796                                   | (7,115)                              | 45,538                                    | (4,457)                                 | 165,423                                |
| Infrastructure       | 44,569                                | 0                                       | 10,453                                   | (7,952)                              | 3,909                                     | (4,759)                                 | 46,220                                 |
| <b>Total Level 3</b> | <b>348,486</b>                        | <b>(191,256)</b>                        | <b>29,249</b>                            | <b>(15,067)</b>                      | <b>49,447</b>                             | <b>(9,216)</b>                          | <b>211,643</b>                         |

|                      | Market Value<br>1 April 2019<br>£'000 | Transfers<br>into<br>Level 3<br>£'000 | Purchases<br>during<br>the year<br>£'000 | Sales<br>during<br>the year<br>£'000 | Unrealised<br>gains/<br>(losses)<br>£'000 | Realised<br>(gains)/<br>losses<br>£'000 | Market Value<br>31 March 2020<br>£'000 |
|----------------------|---------------------------------------|---------------------------------------|--|--------------------------------------|---|---|--|
| Property Unit Trusts | 111,254                               | 68,047                                | 20,644                                   | (777)                                | (7,817)                                   | (95)                                    | 191,256                                |
| Private Equity       | 107,218                               | 0                                     | 19,408                                   | (5,144)                              | (3,101)                                   | (5,720)                                 | 112,661                                |
| Infrastructure       | 38,395                                | 0                                     | 7,056                                    | (1,746)                              | 1,307                                     | (443)                                   | 44,569                                 |
| <b>Total Level 3</b> | <b>256,867</b>                        | <b>68,047</b>                         | <b>47,108</b>                            | <b>(7,667)</b>                       | <b>(9,611)</b>                            | <b>(6,258)</b>                          | <b>348,486</b>                         |



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

### **Risk and risk management**

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

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Pension's Fund operations, then reviewed regularly to reflect changes in activity and market conditions.

### **a) Market risk**

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

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

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

The Fund manages these risks in two ways:

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

### **Other price risk**

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

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

## NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period.

| Asset type                | Potential market movement (+/-) |               |
|---------------------------|---------------------------------|---------------|
|                           | 31 March 2020                   | 31 March 2021 |
|                           | %                               | %             |
| UK Equities               | 27.5                            | 16.7          |
| Global Equities           | 28.0                            | 17.4          |
| Emerging Markets Equities | 25.4                            | 22.1          |
| Private Equity            | 28.4                            | 28.5          |
| Absolute Return Bond      | 3.9                             | 2.1           |
| Infrastructure            | 20.1                            | 21.0          |
| Property                  | 14.2                            | 14.2          |
| Diversified Credit        | 8.7                             | 6.2           |
| Cash                      | 0.3                             | 0.3           |
| <b>Total Fund</b>         | <b>18.9</b>                     | <b>11.7</b>   |

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

## NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

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

| Asset type                                    | Value as at 31<br>March 2021<br>£'000 | Percentage<br>change<br>% | Value on<br>increase<br>£'000 | Value on<br>decrease<br>£'000 |
|---|---------------------------------------|---------------------------|-------------------------------|-------------------------------|
| UK Equities                                   | 211,625                               | 16.7                      | 246,966                       | 176,283                       |
| Global Equities                               | 1,345,827                             | 17.4                      | 1,580,001                     | 1,111,653                     |
| Emerging Markets Equities                     | 67,178                                | 22.1                      | 82,025                        | 52,332                        |
| Private Equity                                | 165,423                               | 28.5                      | 212,568                       | 118,277                       |
| Absolute Return Bonds                         | 307,181                               | 2.1                       | 313,632                       | 300,730                       |
| Infrastructure                                | 46,220                                | 21.0                      | 55,926                        | 36,514                        |
| Property                                      | 194,581                               | 14.2                      | 222,211                       | 166,950                       |
| Diversified Credit                            | 177,134                               | 6.2                       | 188,116                       | 166,152                       |
| Cash  | 12,282                                | 0.3                       | 12,318                        | 12,245                        |
| Debtors and Creditors                         | 678                                   | 0.0                       | 678                           | 678                           |
| <b>Total assets available to pay benefits</b> | <b>2,528,129</b>                      |                           | <b>2,914,441</b>              | <b>2,141,814</b>              |

| Asset type                                    | Value as at 31<br>March 2020<br>£'000 | Percentage<br>change<br>% | Value on<br>increase<br>£'000 | Value on<br>decrease<br>£'000 |
|---|---------------------------------------|---------------------------|-------------------------------|-------------------------------|
| UK Equities                                   | 274,417                               | 27.5                      | 349,881                       | 198,952                       |
| Global Equities                               | 980,710                               | 28.0                      | 1,255,309                     | 706,111                       |
| Emerging Markets Equities                     | 44,625                                | 25.4                      | 55,960                        | 33,290                        |
| Private Equity                                | 112,661                               | 28.4                      | 144,544                       | 80,778                        |
| Absolute Return Bonds                         | 280,279                               | 3.9                       | 291,210                       | 269,348                       |
| Infrastructure                                | 44,569                                | 20.1                      | 53,528                        | 35,611                        |
| Property                                      | 191,255                               | 14.2                      | 218,414                       | 164,097                       |
| Cash  | 8,883                                 | 0.3                       | 8,910                         | 8,856                         |
| Debtors and Creditors                         | 938                                   | 0.0                       | 938                           | 938                           |
| <b>Total assets available to pay benefits</b> | <b>1,938,337</b>                      |                           | <b>2,378,694</b>              | <b>1,497,981</b>              |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

### Interest rate risk

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

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

## NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| Asset type                | As at 31 March 2020 | As at 31 March 2021 |
|---------------------------|---------------------|---------------------|
|                           | £'000               | £'000               |
| Cash and cash equivalents | 8,100               | 12,136              |
| Cash balances             | 783                 | 146                 |
| Pooled Fixed Income       | 280,279             | 484,315             |
| <b>Total</b>              | <b>289,162</b>      | <b>496,597</b>      |

### Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates:

| Asset type                              | Carrying amount as at 31 March 2021 | Change in year in the net assets available to pay benefits |                |
|---|-------------------------------------|--|----------------|
|   |                                     | +1%  | -1%            |
|   |                                     | £'000  | £'000          |
| Cash and cash equivalents               | 12,136                              | 121  | (121)          |
| Cash balances                           | 146                                 | 1  | (1)            |
| Pooled Fixed Income *                   | 484,315                             | 4,843  | (4,843)        |
| <b>Total change in assets available</b> | <b>496,597</b>                      | <b>4,965</b>   | <b>(4,965)</b> |

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

| Asset type                              | Carrying amount as at 31 March 2020 | Change in year in the net assets available to pay benefits |                 |
|---|-------------------------------------|--|-----------------|
|   |                                     | +1%  | -1%             |
|   |                                     | £'000  | £'000           |
| Cash and cash equivalents               | 8,100                               | 81   | (81)            |
| Cash balances                           | 783                                 | 8  | (8)             |
| Pooled Fixed Income *                   | 280,279                             | 33,633   | (33,633)        |
| <b>Total change in assets available</b> | <b>289,162</b>                      | <b>33,722</b>  | <b>(33,722)</b> |

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

The impact that a 1% change in interest rates would have on interest received is minimal as the average interest rate received on cash during the year was 0.61% amounting to interest of £88,037 for the year.

## **NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

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

### **Currency risk**

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

The Fund has made commitments to private equity and infrastructure in foreign currency (€364 million and \$88.6 million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 24. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the Fund is fully funded. The Fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

### **Currency risk – sensitivity analysis**

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

The 1 year expected standard deviation for an individual currency as at 31 March 2021 is 9.8%. The equivalent rate for the year ended 31 March 2020 was 10%. This analysis assumes that all other variables, in particular interest rates, remain constant.



## NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)

The tables below show a breakdown of the Fund's exposure to individual currencies as at 31 March 2021 and at the end of the previous financial year:

| Currency exposure - by asset type       | Carrying amount as at 31 March 2021 | Change in year in the net assets available to pay benefits |                   |
|---|-------------------------------------|--|-------------------|
|   |                                     | Value on increase  | Value on decrease |
|   | £'000                               | £'000  | £'000             |
| Global Equities                         | 1,345,827                           | 1,477,718  | 1,213,936         |
| Emerging Markets Equities               | 67,178                              | 73,762   | 60,595            |
| Private Equity                          | 165,423                             | 181,634  | 149,211           |
| Absolute Return Bonds                   | 307,181                             | 337,285  | 277,077           |
| Infrastructure                          | 46,220                              | 50,750   | 41,690            |
| Diversified Credit                      | 177,134                             | 194,493  | 159,775           |
| Property                                | 0                                   | 0  | 0                 |
| <b>Total change in assets available</b> | <b>2,108,963</b>                    | <b>2,315,642</b>   | <b>1,902,284</b>  |

| Currency exposure - by asset type       | Carrying amount as at 31 March 2020 | Change in year in the net assets available to pay benefits |                   |
|---|-------------------------------------|--|-------------------|
|   |                                     | Value on increase  | Value on decrease |
|   | £'000                               | £'000  | £'000             |
| Global Equities                         | 980,710                             | 1,078,780  | 882,639           |
| Emerging Markets Equities               | 44,625                              | 49,088   | 40,163            |
| Private Equity                          | 112,661                             | 123,927  | 101,395           |
| Absolute Return Bonds                   | 280,279                             | 308,307  | 252,251           |
| Infrastructure                          | 44,569                              | 49,026   | 40,112            |
| Diversified Credit                      | 0                                   | 0  | 0                 |
| Property                                | 226                                 | 249  | 203               |
| <b>Total change in assets available</b> | <b>1,463,070</b>                    | <b>1,609,377</b>   | <b>1,316,763</b>  |

Asset type analysis has been expanded for 31 March 2020 to be consistent with 31 March 2021

### b) Credit risk

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

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

## **NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

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

| <b>Investment Manager</b>                         | <b>Percentage of Portfolio</b> |
|---|--------------------------------|
| BlackRock   | 29.5%                          |
| Fidelity  | 2.5%                           |
| Wales Pension Partnership Global Growth           | 14.0%                          |
| Wales Pension Partnership Global Opportunities    | 14.0%                          |
| Wales Pension Partnership Multi Asset Credit      | 7.5%                           |
| Wales Pension Partnership Absolute Return Bond    | 15.0%                          |
| Property (UBS, Threadneedle, Lothbury, BlackRock) | 10.0%                          |
| Partners Group                                    | 7.5%                           |

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

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

In order to maximise the returns from short-term investments and cash deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements, any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the short-term investments are made in the name of Gwynedd Council, they are shown in full on the Council's Balance Sheet. The Pension Fund element of the short-term investments and cash deposits at 31 March 2021 was £12.5m (£8.2m at 31 March 2020).

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

## **NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

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

New employers to the Fund will need to agree to the provision of a bond or obtain a guarantee to reduce the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. As shown in Note 25 two employers have provided bonds. Any future liabilities falling on the Fund as a result of cessation are borne by the whole Fund and spread across all employers. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

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

### **c) Liquidity risk**

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

The Council has a cash flow system that seeks to ensure that cash is available if needed. In addition, current contributions received from contributing employers and members far exceed the benefits being paid. Surplus cash is invested and cannot be paid back to employers. The Fund's Actuary establishes the contributions that should be paid in order that all future liabilities can be met.

There is no limit on the amount that the Pension Fund bank account can hold. The amounts held in this account should meet the normal liquidity needs of the Fund. Any temporary surplus is invested by the Council in accordance with the Treasury Management Strategy Statement to provide additional income to the Pension Fund. Surplus cash is invested in accordance with the Statement of Investment Principles.

The Fund also has access to an overdraft facility through the Council's group bank account arrangements. This facility would only be used to meet short-term timing differences on pension payments. As these borrowings would be of a limited short-term nature, the Fund's exposure to credit risk is considered negligible.

## **NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (continued)**

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2021 the value of illiquid assets was £406m, which represented 16.1% of the total Fund assets (31 March 2020: £348m, which represented 18.0% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.

All financial liabilities at 31 March 2021 are due within one year as was the case at 31 March 2020.

### **Refinancing risk**

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

## **NOTE 18 – FUNDING ARRANGEMENTS**

In line with the Local Government Pension Scheme (Administration) Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation is due to take place as at 31 March 2022.

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement and was reviewed as part of the 2019 valuation.

The key elements of the funding policy are:

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

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

## NOTE 18 – FUNDING ARRANGEMENTS (continued)

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 17 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the Funding Strategy Statement, there is still around a 70% chance that the Fund will return to full funding over the 17 years.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £2,081 million, were sufficient to meet 108% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £156 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the Funding Strategy Statement. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

### Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

#### Method

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

#### Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

| Financial assumptions  | 31 March 2019 |
|------------------------|---------------|
| Discount rate          | 3.9%          |
| Salary increase        | 2.6%          |
| Benefit increase (CPI) | 2.3%          |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, assuming the current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

## NOTE 18 – FUNDING ARRANGEMENTS (continued)

| Mortality assumption                              | Male<br>Years | Female<br>Years |
|---|---------------|-----------------|
| Current pensioners                                | 21.3          | 23.4            |
| Future pensioners (aged 45 at the 2019 valuation) | 22.2          | 25.1            |

Copies of the 2019 valuation report and the Funding Strategy Statement are available on the Pension Fund's website [www.gwynedd-pensionfund.wales](http://www.gwynedd-pensionfund.wales)

### Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

## NOTE 19 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18) and has also used them to provide the IAS19 and FRS102 reports for individual employers in the Fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2020 and 2021 are shown below:

|                  | 31 March 2020<br>£m | 31 March 2021<br>£m |
|------------------|---------------------|---------------------|
| Active members   | 1,279               | 1,939               |
| Deferred members | 445                 | 631                 |
| Pensioners       | 809                 | 882                 |
| <b>Total</b>     | <b>2,533</b>        | <b>3,452</b>        |

As noted above, the liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 18) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

## NOTE 19 - ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS (continued)

### Assumptions used

The financial assumptions used are those adopted for the Administering Authority's IAS19 report as shown below and are different as at 31 March 2020 and 2021. The actuary estimates that the impact of the change in financial assumptions to 31 March 2021 is to increase the actuarial present value by £756m. It is estimated that the impact of the change in demographic and longevity assumptions is to increase the actuarial present value by £42m.

|                       | 31 March 2020 | 31 March 2021 |
|-----------------------|---------------|---------------|
| <b>Assumption</b>     | <b>%</b>      | <b>%</b>      |
| Pension increase rate | 1.90          | 2.85          |
| Salary increase rate  | 2.20          | 3.15          |
| Discount rate         | 2.30          | 2.00          |

The life expectancy for the longevity assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2020 model, with a 0% weighting of 2020 data, standard smoothing (Sk7), initial adjustment of 0.5% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

|   | Male<br>Years | Female<br>Years |
|---|---------------|-----------------|
| Current pensioners                                | 21.5          | 23.9            |
| Future pensioners (aged 45 at the 2019 valuation) | 22.7          | 25.9            |

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

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

| <b>Sensitivity to the assumptions for the year ended 31 March 2021</b> | <b>Approximate % increase to liabilities</b> | <b>Approximate monetary amount £m</b> |
|--|--|---------------------------------------|
|  | <b>%</b>                                     |                                       |
| 0.5% p.a. increase in the pension increase rate                        | 10   | 333                                   |
| 0.5% p.a. increase in the salary increase rate                         | 1  | 46                                    |
| 0.5% p.a. decrease in the real discount rate                           | 11   | 388                                   |

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

## NOTE 20 – CURRENT ASSETS

| <b>31 March<br/>2020<br/>£'000</b> |                               | <b>31 March<br/>2021<br/>£'000</b> |
|------------------------------------|-------------------------------|------------------------------------|
| 403                                | Contributions due – employees | 421                                |
| 1,234                              | Contributions due – employers | 1,402                              |
| 2,192                              | Sundry debtors                | 2,194                              |
| <b>3,829</b>                       | <b>Total debtors</b>          | <b>4,017</b>                       |
| 8,100                              | Cash                          | 12,136                             |
| <b>11,929</b>                      | <b>Total</b>                  | <b>16,153</b>                      |

## NOTE 21 – CURRENT LIABILITIES

| <b>31 March<br/>2020<br/>£'000</b> |                  | <b>31 March<br/>2021<br/>£'000</b> |
|------------------------------------|------------------|------------------------------------|
| 1,828                              | Sundry creditors | 1,671                              |
| 1,062                              | Benefits payable | 1,542                              |
| <b>2,890</b>                       | <b>Total</b>     | <b>3,213</b>                       |

## NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

The market value of the funds are stated below:

|                  | <b>Market value at<br/>31 March 2020<br/>£'000</b> | <b>Market value at<br/>31 March 2021<br/>£'000</b> |
|------------------|--|--|
| Clerical Medical | 3,674  | 4,372  |
| Utmost Life      | 193  | 193  |
| Standard Life    | 5  | 5  |
| <b>Total</b>     | <b>3,872</b>                                       | <b>4,570</b>                                       |

AVC contributions were paid directly to the managers as follows:

|                  | <b>2019/20<br/>£'000</b> | <b>2020/2021<br/>£'000</b> |
|------------------|--------------------------|----------------------------|
| Clerical Medical | 601                      | 597                        |
| Standard Life    | 10                       | 0                          |
| <b>Total</b>     | <b>611</b>               | <b>597</b>                 |



## **NOTE 23 - RELATED PARTY TRANSACTIONS**

### **Gwynedd Council**

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

The Council incurred costs of £1,231,146 (£1,275,899 in 2019/20) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also one of the largest employers of members of the Fund and contributed £25.33m to the Fund in 2020/21 (£27.06m in 2019/20). At the end of the year the Council owed £0.09m to the Fund which was primarily in respect of interest paid on the Pension Fund's balances and contributions for March 2021 and the Fund owed £1.25m to the Council which was primarily in respect of recharges to the Council for the administrative costs.

The Gwynedd Pension Fund has two bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2020/21, the Fund received interest of £88,037 (£266,995 in 2019/20) from Gwynedd Council.

### **Governance**

There were two members of the Pensions Committee who were in receipt of pension benefits from the Gwynedd Pension Fund during 2020/21 (committee members P. Jenkins and J.B. Hughes). In addition, committee members P. Read (member until May 2020), S.W. Churchman, R.W. Williams, J.B. Hughes, A.W. Jones, I. Thomas, G. Edwards and S. Glyn are active members of the Pension Fund. The late D. Cowans was also an active member of the Pension Fund.

Two members of the Pension Board were in receipt of pension benefits from the Gwynedd Pension Fund during 2020/21 (board members H.E. Jones and S. Warnes). In addition, Board members A.LI. Evans, O. Richards, H. Trainor and S.E. Parry are active members of the Pension Fund.

### **Key Management Personnel**

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

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

## NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

|                                 | Total<br>commitments | Commitment at<br>31 March 2020 | Commitment at<br>31 March 2021 |
|---------------------------------|----------------------|--------------------------------|--------------------------------|
|                                 | €'000                | €'000                          | €'000                          |
| P.G. Direct 2006                | 20,000               | 776                            | 776                            |
| P.G. Global Value 2006          | 50,000               | 3,477                          | 3,477                          |
| P.G. Secondary 2008             | 15,000               | 1,960                          | 1,960                          |
| P.G. Global Value 2011          | 15,000               | 2,096                          | 2,096                          |
| P.G. Global Infrastructure 2012 | 40,000               | 8,147                          | 7,019                          |
| P.G. Direct 2012                | 12,000               | 1,181                          | 1,181                          |
| P.G. Global Value 2014          | 12,000               | 1,531                          | 1,531                          |
| P.G. Direct Equity 2016         | 50,000               | 2,826                          | 2,826                          |
| P.G. Global Value 2017          | 42,000               | 25,973                         | 23,120                         |
| P.G. Global Infrastructure 2018 | 28,000               | 23,688                         | 21,516                         |
| P.G. Direct Equity 2019         | 48,000               | n/a                            | 30,964                         |
| PG Direct Infrastructure 2020   | 32,000               | n/a                            | 29,602                         |
| <b>Total Euros</b>              | <b>364,000</b>       | <b>71,655</b>                  | <b>126,068</b>                 |
|                                 | <b>\$'000</b>        | <b>\$'000</b>                  | <b>\$'000</b>                  |
| P.G. Emerging Markets 2011      | 7,000                | 1,082                          | 1,082                          |
| P.G. Secondary 2015             | 38,000               | 18,401                         | 17,640                         |
| P.G. Direct Infrastructure 2015 | 43,600               | 20,840                         | 13,780                         |
| <b>Total Dollars</b>            | <b>88,600</b>        | <b>40,323</b>                  | <b>32,502</b>                  |

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

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

## NOTE 25 – CONTINGENT ASSETS

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

## NOTE 26 – CONTINGENT LIABILITIES

There are no contingent liabilities identified.

## **NOTE 27 – IMPAIRMENT LOSSES**

### **Impairment of Icelandic bank deposit**

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200. The company was placed in administration on 7 October 2008. The Council has received a return of £3,976,718, equating to 99.4% from the administrators up to 31 March 2021. The final dividend was received in July 2020 and the administration has now been completed.