Cronfa Bensiwn Gwynedd Pension Fund

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1. Foreword

It has been a better year for the Gwynedd Pension Fund, largely as a result of improved performance by our equity managers and the position taken by the Fund in relation to its bond investments. In terms of our investment expectations, the overall Fund return of 8.2% is above the benchmark for the year of 6.3%. This reflects the improved performance from the active equity managers who outperformed their benchmarks, as did the absolute bond mandate which is now beginning to serve its purpose.

In comparative terms, the performance for 2013/14 was significantly better than the previous year, with the Gwynedd Fund ranked 19th out of 85 in terms of investment performance compared with other local authority funds.

Markets generally produced better performance than the previous year, with equities and property performing well. Our bond mandate is absolute return and now that bond yields are negative our returns remained positive, returning 3.3% for the year (see pages 18 to 20 for details).

The fund assets stood at £1,310m at 31 March 2014, an increase of £117m during the year, as shown in the accounts on page 24.

During 2013/14 the triennial actuarial valuation as at 31 March 2013 was completed. It was good to see that the funding level increased to 85%, which is ahead of the average of 79% in England and Wales. However, the deficit increased, which was generally the case across all funds. This is primarily due to increases in life expectancy and the low level of gilt yields at the time of valuation.

The results for individual employers can be very different from those for the whole fund, and this has been taken into consideration in setting the contribution levels. For this valuation, pooling of smaller employers for contribution purposes was discontinued, and insurance was introduced to protect them from the risk of costs from early retirements due to ill-health.

In order to protect the Pension Fund from decreases in total employer contributions, from April 2014 the deficit element of each employer's contributions is paid as a monthly cash sum, rather than as a percentage of pay.

The decisions made during the valuation process were formalised in the new Funding Strategy Statement, which was circulated to all interested parties prior to formal approval by the Pensions Committee in March 2014.

The administrative unit continued their effective performance as measured against their targets (see page 6). The communications activity has been critical in helping employers to introduce the new Local Government Pensions Scheme from 1st April 2014. A significant amount of work was involved in implementing the new systems to ensure that a smooth transfer was possible.

It has been a busy year for the Pension Fund, with a number of changes and consultations taking place. The collaboration project developed by the eight pension funds in Wales has been overtaken by the Westminster Government's consultation on opportunities for collaboration, cost savings and efficiencies. Whilst there was a possibility that mergers of pension funds would be an option, this has not been proposed with the Government recognising it should be possible to achieve efficiencies and savings through collaboration. The proposal that all equity investment should be passive, rather than active, in order to save costs was more unexpected. That would have been to this Fund's detriment last year. Our response supported the view that funds should be given the choice to comply with this proposal or explain why a decision has been made to pursue active management.

A further consultation on changes in governance arrangements is underway. The draft regulations require a Pensions Board to be established, with equal representation for employers and employees. Elected councillors can also be members of the Board, but cannot outnumber the other representatives. The current arrangement for Gwynedd Pension Fund is a Pensions Committee under Gwynedd Council's constitution. The consultation period closes in the middle of August and the Fund will be responding to the proposals.

This is my last report as Corporate Director responsible for strategic investment of the Pension Fund, as I will be taking up my new post as Gwynedd Council's Chief Executive in the Autumn. I have enjoyed my work for the Fund and I look forward to seeing it grow in the future.

Dilwyn O. Williams
Corporate Director

2. Review of the Year

2.1 Pensions Administration

General and Introduction

Completing the Welsh and English Pension fund valuations, taxation on individual pension accrual, and ongoing consultation on the carrying over of the 85 year rule protections into the new CARE arrangement were the leading issues and topics during the year. The results of the funds' valuations would, for the first time, measure liabilities on a combination of final salary accruals to March 2014 and assumptions based on the new CARE arrangement. All other things being equal, it is hoped that the introduction of the CARE scheme would see Local Government Pension Scheme (LGPS) prove more sustainable in the longer term.

Gwynedd Pension Fund Valuation 2013

Scheme deficits have been a concern for a number of years, especially in light of continual increases in longevity, low gilt yields and lower than expected investment returns. Historically, smaller employers in the Gwynedd Fund had been pooled to determine common contribution rates and to share the high risk associated with fluctuations in membership, in particular the cost impact of ill health retirements.

A series of video conferences took place between Fund officers and the Actuary during the summer of 2013 to determine, agree and set assumptions for the valuation. Employers were consulted on a number of issues, with the smaller employers in particular asked to attend valuation meetings to discuss the consequences of de-pooling and the introduction of ill health insurance cover.

Ill health insurance cover

The main drawback of small employer pooling is cross subsidization of employer liabilities. In order to mitigate this, the Fund looked at alternative ways of covering the risk associated with ill health retirements, the principle reason behind pooling. Hymans Robertson recommended an insurance policy, where the premium costs would be broadly equivalent to reductions in employer contributions by not covering the previous pooled risk. Cover started from the 1 April 2014, allowing individual employers their own contribution rates based on membership profile and historical experience.

Deficit Recovery

Shifts in individual employers' active membership raised further concerns. Historically, recovery of deficits was made by means of adding a percentage of payroll on the future accrual rate based on assumtions of consistent levels of membership. However, with membership levels under threat from the current financial climate, there was a real risk that the recovery of deficit would not reach the expected level. Therefore, for the 2013 valuation the Actuary was asked to identify deficits in cash terms, rather than percentage of payroll. As a result, from 1 April 2014 employer contributions towards deficit were based on equal monthly cash amounts for the recovery of deficits, and percentage of payroll to account for future benefit accrual. This way the amount recovered would remain constant, irrespective of future membership levels.

The valuation timetable ran relatively smoothly, with data being sent to the Actuary on time. Preliminary results were available mid-autumn and a valuation employer meeting was arranged at Siambr Dafydd Orwig for the 7th November 2013. Individual results were distributed and employers invited to question any aspect of valuation, in terms of assumptions and results, with senior officers of Gwynedd Pension Fund and Mr Richard Warden from Hymans Robertson present to answer accordingly.

LGPS 2014 (the CARE scheme)

With the Local Government Pension Scheme Regulations 2013 being laid before parliament on 19th September 2013, there was concern over the issuing of Transitional Regulations. These regulations were, amongst other things, to set out how the “85 year rule” protections, the most complex area of the scheme, were to carry over into the new arrangement.

Draft Transitional Regulations were issued in December 2013, but the final, and much changed, regulations were only laid before Parliament on 10th March 2014 and received at Gwynedd Council on the afternoon of 12th March 2014, only nineteen days before they came into force. These were followed on 31 March by the first of eight sets of actuarial guidance, with yet more to follow.

The lateness of the transitional regulations meant that our software was not able to calculate retirement estimates accurately, resulting in manual intervention whilst upgrades were installed. Transfer and divorce calculations had to be put on hold pending further actuarial guidance, and other normally routine calculations had to be double checked manually, causing some delay. We apologise for any problems this may have caused for employers.

A presentation on LGPS 2014 was given as part of the Fund’s Annual General Meeting on 25th July 2013, and followed by updated presentations during the employers’ valuation meeting in November. The Fund’s Communication Team organised and attended over 150 bilingual employee presentations between January and May 2014, ranging in area from Wrexham in the east to Pwllheli in the west and Holyhead in the north to Dolgellau in the south. It is estimated that approximately 2,500 have attended these presentations. The Fund’s website was updated in the period leading up to 1st April to provide extensive information to both employers and members. This included new forms, documents, leaflets and booklets, most of which were also distributed in hard copy versions. I would like to offer my thanks to the Unit staff for their hard work and conscientious efforts during the valuation year, and in particular in preparing for LGPS 2014.

Taxation on Individual pension

The continuing reduction in allowances for annual and lifetime pension accrual has seen an increase in enquiries and requests for information. In the year 2014/15 these allowances will reduce further to £40,000 and £1.25m respectively, and it is expected that more members will become subject to tax charges, and consequently further enquiries.

Analysis of Scheme Demographics

In the 18 years since reorganisation in Wales (1 April 1996), the number of pensions in payment has grown from 5,043 to 8,323, an increase of 65.04%. The pension payroll now has more monthly payments than all the other Gwynedd Council payrolls combined. It includes 192 pensioners in the 90 to 100 age group with a further six over the age of 100.

The number of actives and deferreds has also grown significantly over the years. A comparison between the 1995 valuation report (the nearest year to reorganisation) and the 2013 report (the latest valuation) are shown in the table below:

	31/03/1995	31/03/2013	% increase
Actives	5,428	14,344	64%
*Pensioners	4,033	7,264	80%
Deferred Members	1,198	11,000	818%
Total	10,659	32,608	206%

this time the number of pensioners in the above table does not include former teachers receiving compensation

Whilst accepting that members with multi posts are now treated with separate records, the increase in general membership remains substantial, in particular the increase in deferred members. The number of early retirements during reorganisation resulted in the age profile of the fund getting younger. Now those 'younger' members are approaching or have already reached retirement age. The following table shows the number of active and deferred members in the age groups 50-55 and over 55 in the fund in March 2014.

	Actives	Deferreds	Total
Age between 50 – 55	2,230	1,385	3,615
Age 55 and over	2,929	1,569	4,498
Total	5,199	2,954	8,113

These statistics point to further growth in pensioner numbers in the short to mid term. The 4,498 in the over 55 age group can, from 1 April 2014, terminate their employment and voluntarily claim immediate, if reduced, benefits.

All Wales Partnership

Discussions continue on the future of scheme administration, both in England and Wales, with pressure rising for a wholesale review of governance arrangements. As far as administration in Wales is concerned, a report produced in 2011 concluded that a greater effort on collaboration would be undertaken. So far the fruits of this collaboration have been more on producing consistent documentation, such as scheme leaflets, booklets and annual benefit statements. The next logical step to be undertaken is to look at standarising working practices and targets, so that Wales will have a more flexible pensions specialist workforce able to share work during peaks and troughs.

Budget 2014

Some significant proposals to reform defined contribution (DC) pensions were announced as part of Budget 2014, including plans to make fundamental reforms to the tax treatment of such schemes and in particular flexibility around the ability to take lump sums as an alternative to purchasing an annuity. Whilst these changes may not directly apply to the LGPS there are some changes that will apply, including increases to the trivial commutation amount, and the possibility of stopping transfers from public service pension scheme to DC schemes except in certain limited circumstances. With regard to the latter, HM Treasury has launched a consultation entitled 'Freedom and choice in pensions'.

Performance Monitoring

A certain number of the section's core activities are measured as part of the Council's Performance Monitoring. From 2010/11 targets CD9.05 and CD9.06 were reduced from a target of an average of twelve working days to ten. Both of these involve the administrative work required to process death and dependant benefits.

			2012/2013		2013/2014	
REF	**CORE ACTIVITIES**	**TARGET**	**NO OF CASES**	**AVERAGE DAYS TAKEN**	**NO OF CASES**	**AVERAGE DAYS TAKEN**
CD9.01	Average number of work days taken to send a quotation letter offering a transfer in	40 days	122	20.55	132	28.6
CD9.02	Average number of work days taken to send a quotation letter detailing a transfer out	40 days	67	10	70	5.9
CD9.03	Average number of work days taken to send a letter informing value of benefits – estimate	10 days	1,255	5.9	1,109	7.6
CD9.04	Average number of work days taken to send a letter informing value of benefits – actual	10 days	638	38	471	5.1
CD9.05	Average no of days taken to acknowledge death of active / preserved / pensioner member	10 days	9	6.8	23	6.4
CD9.06	Average number of work days taken to notify dependents benefits	10 days	192	9.3	162	7.7
CD9.07	Monthly pension payments processed and paid on time	100%	*Approx. Average 7877 pr mth	Reached 100% target	* Approx. Average 8193 pr mth	Reached 100% target
CD9.08	Number of cases where amended payments were necessary as a result an error in the section	Not to exceed 8 cases for the year	3	N/A	2	N/A

The number of monthly pension payments shown includes approximately 940 former teachers in receipt of compensatory pension

Gareth Jones
Pensions Manager

2.2 Actuarial Valuation

During 2013/14 the triennial formal actuarial valuation as at March 2013 was completed. The Gwynedd Fund's funding level increased from 84% to 85%, which is better than the England and Wales pension funds' average funding level of 79%. However, the deficit increased from £183m at 31 March 2010 to £210m at 31 March 2103. The deterioration in the deficit reflects the adverse conditions that the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities. The impact of the lower gilt yield has been reduced slightly by the Administering Authority's decision to increase the asset outperformance assumption from 1.4% used at the 2010 valuation to 1.7% at the 2013 valuation.

As with any set of pension scheme valuation results, this triennial valuation is just a snapshot at a particular point in time. Whilst adhering to prudent actuarial assumptions, the Gwynedd fund has managed to restrict the impact on future employer contribution rates to a reasonable increase, helping to keep the LGPS affordable, viable and fair to taxpayers.

Following advice from the actuary the employer pension contributions have been calculated as a percentage of pay for future service liabilities, and an annual cash sum paid in monthly instalments from 1st April 2014. This is to protect the pension fund from significant decreases in contributions if the numbers of employees decline due to budget reductions in the challenging current economic climate.

Further details are shown in section 4.2 below.

2.3 Funding Strategy Statement

The Funding Strategy Statement was reviewed during 2013/14, to reflect the Actuarial Valuation at 31 March 2013, and the employers participating in the Fund were consulted during this process. The Funding Strategy Statement sets out the fund-specific strategy which will identify how employers' pension liabilities are best met going forward. It includes the employer contribution rates from 1 April 2014 onwards.

Further details are included in section 4.8 below and a copy of the Funding Strategy is available at http://www.gwyneddpensionfund.org.uk/upload/public/attachments/1222/Funding_Strategy_Statement_2014.pdf on the Pension Fund website.

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

Definition of IAS19

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

National Park Authority and the Police and Crime Commissioner for North Wales. All other employers are still subject to FRS17 reporting requirements.

Accounting for IAS19 and FRS17

Adoption of IAS19 or FRS17 means that employers have to recognise the net asset or liability, and a pensions reserve, in the balance sheet. They also have to make entries in the Consolidated Revenue Account for movements in the asset or liability relating to defined benefit schemes. For those reporting under IAS19 there were new reporting requirements and a seminar was held with employers to explain the changes prior to production of the year end reports.

IAS19 and FRS17 Reports as at 31/03/2014

In January 2014, work was undertaken to collect all the necessary data required by the Actuary to calculate the individual IAS19 or FRS17 information for each of the Fund's employers. The majority of the reports were sent to the employers between 6th May and 12th May 2014.

IAS19 and FRS17 Results as at 31/03/2014

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

- the deficit has increased due to falling real bond yields;
- this has been partially offset by strong asset returns;
- the projected pension expense for next year has also risen, due to falling bond yields.

2.5 Consultation on Collaboration

The project to examine the opportunities for improvement through collaboration across the eight local government pension funds in Wales continued during the year, with the decision to commission a business case for a collective investment vehicle in Wales. This work is currently on hold due to the relevant consultation by the Department of Communities and Local Government regarding 'Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiences' regarding the way forward for pension funds in England and Wales.

The Westminster Government's proposals include:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale.
- Reducing investment fees and other costs of investment by using passive management for listed assets.
- Leaving discretion regarding asset allocation with the local fund authorities.
- Not to pursue fund mergers at this time.

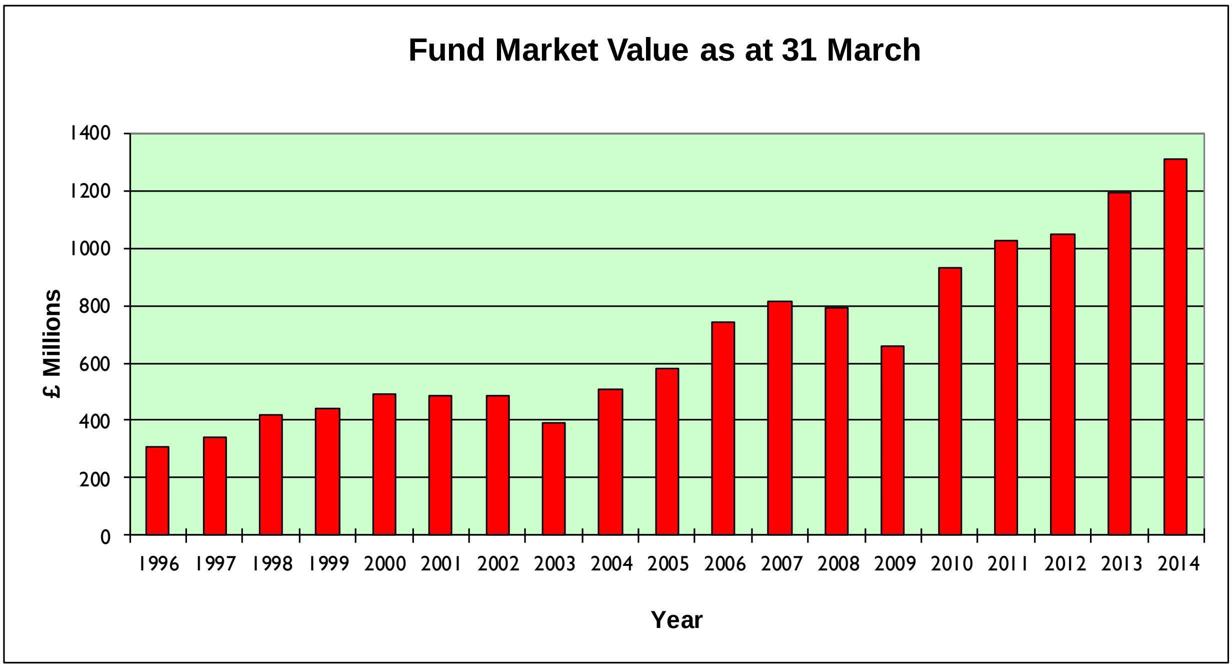
The consultation period lasted 10 weeks to 11 July 2014. Gwynedd Council responded as administering authority for the Pension Fund. A joint response from the eight Welsh pension funds was also submitted.

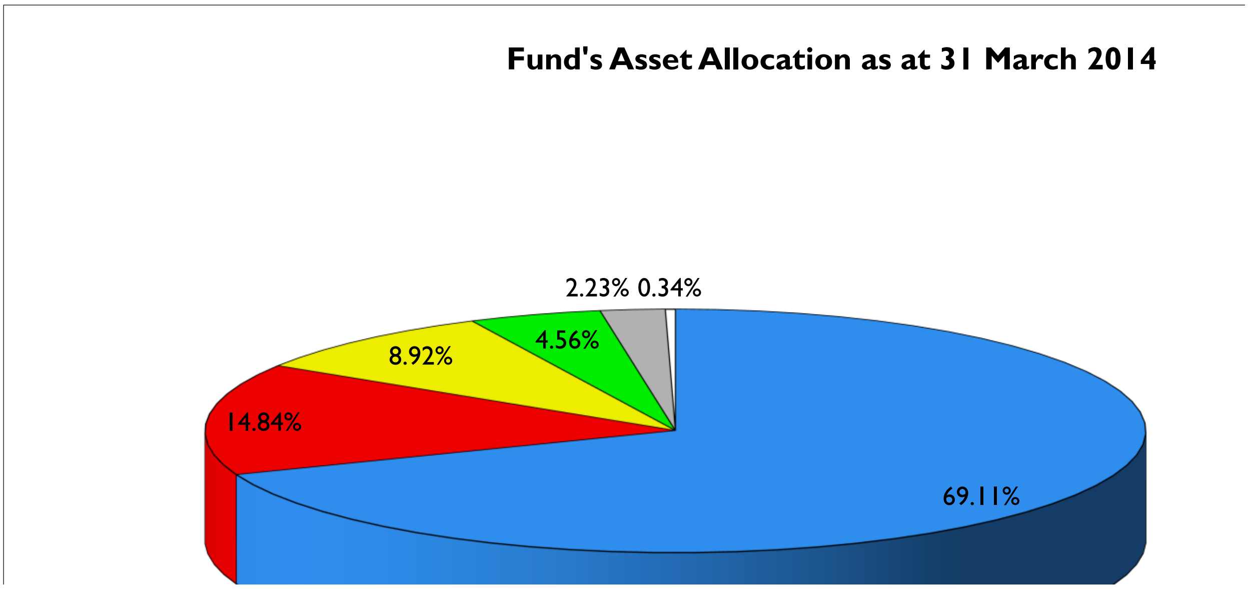
The Pension Fund's response welcomed the intention not to pursue fund mergers and to concentrate of the option of collaboration in investments in order to achieve savings and efficiencies. It also stressed the need for good governance, which allows local participation and influence on the proposed collective investment vehicles.

Following the consultation above, draft regulations have been issued on scheme governance, to establish a standard structure for all LGPA funds in England and Wales. The Westminster Government's intention is to enact provisions set out in the Public Service Pensions Act 2013 requiring funds to establish local pension boards to govern each fund by 1st April 2015.

Dafydd L. Edwards
Head of Finance

3. Recent Trends





4. Management Report

4.1 Scheme Administration

General

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

Gwynedd Council administers the Gwynedd Pension Fund for its own employees and those of 22 other scheduled bodies (including 2 Local Authorities) and 17 admitted bodies. The Fund does not cover teachers, for whom separate arrangements exist. The Fund is financed by contributions from employees and employers, together with income earned from investments. Up to March 2008 employees contributed to the Fund at the statutory rate of 6%, with manual workers who were paying at 5% prior to 31st March 1998 contributing at this protected rate. The employer's contribution rate is assessed periodically by the Fund's Actuary.

Since April 2008 employees' contribution rates have been determined in bands according to their full time equivalent pay indexed annually in line with inflation. The bandings from 1 April 2013 are shown in the table below:

Band	Salary Range	Contribution rate
1	£0 - £13,700	5.5%
2	£13,701 - £16,100	5.8%
3	£16,101 - £20,800	5.9%
4	£20,801 - £34,700	6.5%
5	£34,701 - £46,500	6.8%
6	£46,501 - £87,100	7.2%
7	More than £87,100	7.5%

Benefits

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

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

- **Annual Pension**
  The Calculation of the annual standard pension is based on the following formula:

  Final Pay x 1/80 x Total Membership to 31 March 2008, plus
  Final Pay x 1/60 x Total Membership from 1 April 2008 to 31 March 2014

Once the pension is in payment it will rise each April in line with the increase in the Consumer Price Index. Details of the changes to scheme regulations from 1 April 2014 will be included in the 2014/15 report.

- **Lump Sum**
  There is also an entitlement to a standard tax-free lump sum on membership to 31 March 2008, based on the following formula:

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

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

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

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

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

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

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

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

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

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

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

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

Death after Retirement

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

4.2 Actuarial Position

General

The most recent actuarial valuation of the Fund was undertaken as at 31st March 2013 (previously 31st March 2010), and it requires full solvency of the Fund.

Method and Assumptions Used

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

	% per annum
Discount Rate	4.7%
Pay Increases *	4.3%**
Price Inflation / Pension Increases	2.5%

* Plus an allowance for promotional pay increases

** 1% per annum for 2013/14, 2014/15 and 2015/16, reverting to 4.3% thereafter.

The Results

The key funding objective of the Fund is to build up sufficient assets to provide adequate security for members' benefits as they accrue. When the value of the Fund's assets match the value of its liabilities the Fund is said to be 100% funded. In the valuation report for 31 March 2013, published on the 31 March 2014 by Hymans Robertson the Funding level was 85% (compared to 84% at 31 March 2010) and there was a funding shortfall of £210m. The market value of assets at the valuation date was £1,195m and liabilities were assessed to be £1,405m.

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

	£m
Net Liabilities :-	
Active Members	699
Deferred Pensioners	185
Pensioners	521
Total Net Liabilities	**1,405**
Total Value of Assets	**1,195**
Surplus (Deficit)	**(210)**
Funding Level	**85%**

Common Rate of Contribution (CRC)

The CRC payable is the cost of future benefit accrual increased by an amount to bring the funding level back to 100% over a period of up to 20 years as set out in the Funding Strategy Statement. Based on the Fund's funding level at 31 March 2013, the future service contribution rate was set at 18.3% with a further 5.6% required to fund the past service deficit. The contribution from each employer is the CRC plus an individual adjustment, if appropriate, to reflect the individual circumstances of each employer.

4.3 Administrative and Custodial Arrangements

Governance

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

Governance Policies

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

Copies can be seen on the Pension Fund website.

Specialist Advice

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

Investment Managers

Over the period of this report, there were 5 Investment Managers, as follows: BlackRock, Fidelity International (Fidelity), Insight Investment (Insight), Veritas and Partners Group. We have also invested directly in Lothbury Investment Management's (Lothbury) Property Fund, Threadneedle's Pensions Property Fund, UBS Life Triton Property Fund and UBS Central London Office Value Added Fund.

The target distribution of Fund assets for the year is shown in the table below. The investment in infrastructure will be built up over a period of time and therefore the actual allocation has not reached the target during the year.

The target distribution of Fund assets is as follows:

Manager	%
BlackRock	29.5
Veritas	19.0
Fidelity	19.0
Insight	15.0
UBS / Lothbury / Threadneedle / BlackRock (Property Only)	10.0
Partners – Private equity	5.0
Partners – Infrastructure	2.5
Total	100.0

Custodians

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

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

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

- The Northern Trust Company as custodian of those assets managed by Veritas.

Lothbury, Threadneedle and UBS, with whom we have direct investments, have the Northern Trust Company as their custodians.

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

Administrative Procedures

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

Asset Allocation

One of the key determinants of the Fund's long-term overall performance is its strategic asset allocation. The Fund's strategic asset allocation is 72.5% equities, 15% UK bonds, 10% property and 2.5% infrastructure.

The following table shows the Fund's benchmark allocation for 2013/14.

	BlackRock %	Veritas %	Fidelity %	Insight %	UBS/Threadneedle/ Lothbury/ BlackRock Property %	Partners Group %	Total %
Percentage of Fund	**29.5**	**19.0**	**19.0**	**15.0**	**10.0**	**7.5**	**100.0**
UK Equities	**56.0**	**8.3**	**8.3**	**-**	**-**	**-**	**19.5**
Overseas Equities	**44.0**	**91.7**	**91.7**	**-**	**-**	**-**	**48.0**
North America	7.4	51.8	51.8	-	-	-	21.4
Europe ex-UK	14.1	14.5	14.5	-	-	-	10.1
Japan	6.0	7.8	7.8	-	-	-	4.8
Pacific Basin	9.0	4.9	4.9	-	-	-	4.5
Emerging Markets	7.5	12.7	12.7	-	-	-	7.2
Private Equity	**-**	**-**	**-**	**-**	**-**	**66.7**	**5.0**
Total Equities	**100.0**	**100.0**	**100.0**	**-**	**-**	**66.7**	**72.5**
UK Bonds	-	-	-	100.0	-	-	15.0
Total Bonds	**-**	**-**	**-**	**100.0**	**-**	**-**	**15.0**
Property	**-**	**-**	**-**	**-**	**100.0**	**-**	**10.0**
Infrastructure						**33.3**	**2.5**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

4.4 Investment Powers

Investment Powers

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

Investment Restrictions

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

	The Fund's Current Restrictions (A)	Regulations: Increase the Limits to (B)
1. Any single sub-underwriting contract.	1%	5%
2. All contributions to any single partnership.	5%	5%
3. All contributions to partnerships.	15%	30%
4. The sum of all loans and any deposits with any local authority, or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the Financial Services and Markets Act 2000 [4]) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%	10%
5. All investments in unlisted securities of companies.	10%	15%
6. Any single holding.	10%	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank).	10%	10%
8. All sub-underwriting contracts	15%	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust schemes managed by any one body.	25%	35%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%	35%
11. All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body.	25%	35%
12. Any single insurance contract.	35%	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	25%	35%

4.5 Investment Management

General

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

Investment Manager Briefs

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

Investment Manager	Brief
BlackRock	Passive
Fidelity	Active
Insight	Active
Veritas	Active
Partners	Active

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

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

Veritas and Fidelity have an "active" equity brief while Insight has an "active" bond brief. Partners Group has been given "active" private equity and infrastructure briefs.

4.6 Investment Performance

Quarterly Meetings

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

Performance Monitoring

Gwynedd subscribes to a service provided by the State Street Global Services which calculates the rate of return for Gwynedd and for other Pension Funds and provides comparisons.

Targets

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

Manager	Benchmark	Target
BlackRock	FTSE All-Share and FTSE All-World Indices	Benchmark Return
Veritas	MSCI All Countries World Index	Benchmark + 2% p.a. (gross of fees)
Fidelity	MSCI All Countries World Index	Benchmark + 2%-3% p.a. (gross of fees)
Insight	Cash (Libor)	Benchmark +2% p.a.
Partners	MSCI World	Benchmark + 5% p.a.*

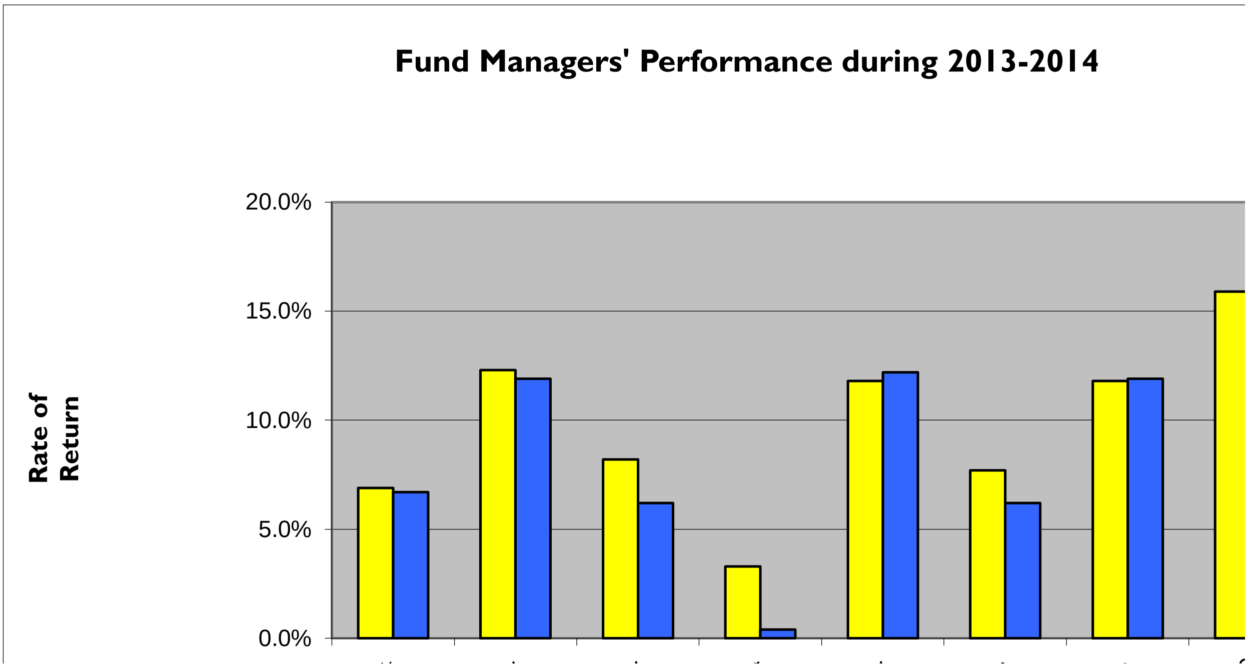
**Partners do not have an official performance target. The target stated above is purely for indicative purposes.*
MSCI=Morgan Stanley Capital International

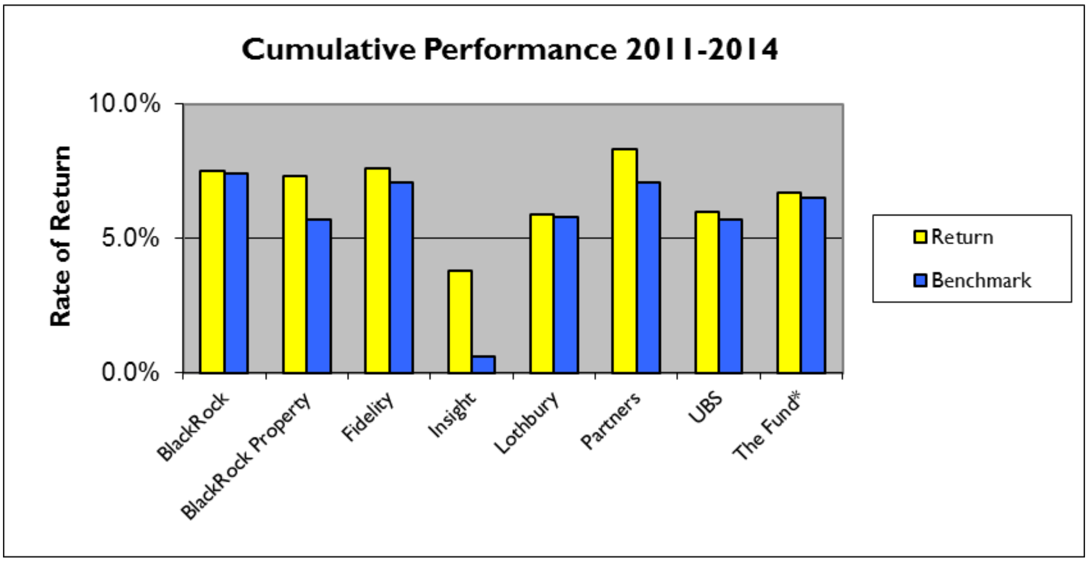
We have made direct investments with Lothbury, UBS and Threadneedle, so therefore have not given them a benchmark. However, for indicative purposes we monitor them against the IPD Balanced Property Unit Trust Index.

Fund Performance

Against the benchmark, the Fund outperformed by 1.9% during the 2013/14 financial year. The Fund achieved a return of +8.2% against a benchmark return of +6.3%. Over a three year period the Fund outperformed against the benchmark, with a return of +6.7% against a benchmark return of +6.5%.

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





*These figures include an element of Capital's performance until their termination in July 2012 and an element of Veritas performance, since their inception in July 2012.

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

	1 Year Return	1 Year Benchmark	3 Year Return	3 Year Benchmark
BlackRock	6.9%	6.7%	7.5%	7.4%
BlackRock Property	12.3%	11.9%	7.3%	5.7%
Fidelity	8.2%	6.2%	7.6%	7.1%
Insight	3.3%	0.4%	3.8%	0.6%
Lothbury	11.8%	12.2%	5.9%	5.8%
Partners	7.7%	6.2%	8.3%	7.1%
Threadneedle	11.8%	11.9%	n/a	n/a
UBS	15.9%	11.9%	6.0%	5.7%
Veritas	11.6%	6.2%	n/a	n/a
TOTAL FUND	**8.2%**	**6.3%**	**6.7%**	**6.5%**

Local Authority League Table

Each year The WM Company produces a League Table that ranks Local Authority Pension Funds according to their investment performance during the financial year. Out of the 85 pension funds who subscribe to the service, Gwynedd was 12th and ranked in the 19th percentile with a return of +8.2% compared to the median of +6.5%.

The following table shows the performance of the Fund in the Local Authority League Tables each year over the past 10 years.

The Year to	Fund Benchmark	Fund Target	Fund Return	Median Return	Percentile
31 March 2014	6.7%	7.71%	8.2%	6.5%	19th
31 March 2013	12.7%	14.2%	11.7%	13.8%	90th
31 March 2012	0.70%	0.99%	0.50%	3.0%	92nd
31 March 2011	7.80%	9.26%	8.50%	8.10%	40th
31 March 2010	40.80%	41.59%	39.70%	35.60%	20th
31 March 2009	-20.60%	-20.25%	-20.60%	-20.30%	57th
31 March 2008	-3.70%	-2.80%	-5.70%	-3.10%	85th
31 March 2007	7.70%	8.56%	6.70%	7.00%	56th
31 March 2006	25.70%	26.89%	24.4%	25.0%	54th
31 March 2005	12.30%	13.15%	11.5%	11.3%	43rd

4.7 Statement of Investment Principles

General

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

Reviewing the SIP

A full review of the SIP was undertaken during 2012/13. Following consultation with employers and union representatives the following changes were made:

- Inclusion of infrastructure as an asset classification for investment by the fund.
- Change of investment limits in limited partnerships and benchmarks to include the agreed infrastructure investment.

- Inclusion of the Fund's commitment to the Stewardship Code and membership of the Local Authority Pension Fund Forum (LAPFF) to enhance consideration of and influence over social, environmental and ethical issues in investee companies.

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

A copy can be seen on the Pension Fund website.

4.8 Funding Strategy Statement

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

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

Reviewing the FSS
The FSS was reviewed during 2013/14 as part of the 31 March 2013 Actuarial Valuation process. The review process involved consultation with all the Fund's employers and the Fund's Actuary.
The current FSS was adopted by the Pensions Committee on 17th March 2014.

Copies of the FSS
Copies of the FSS were sent out to all the Fund's employers and the fund's actuary, adviser and union representatives on 31st March 2014.

A copy can be seen on the Pension Fund website.

4.9 Knowledge and Skills Framework

The Pensions Committee has formally adopted the following knowledge and skills policy statement:

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

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

The Pensions Committee agreed that a self assessment questionnaire be circulated to members of the Committee in order to establish the training requirements before moving on to develop an appropriate training programme. The results of the questionnaire will be used to identify the training required.

5. Management Structure

Administering Authority
Gwynedd Council

Pensions Committee 2013/14
Councillor Peter Read (Chairman 2013/14)
Councillor John Pughe Roberts (Vice-Chairman 2013/14)
Councillor Stephen Churchman (Vice-Chairman 2014/15)
Councillor Trevor Edwards
Councillor Peredur Jenkins
Councillor Dafydd Meurig
Councillor W. Tudor Owen (Chairman 2014/15)
Councillor Tom Jones (Co-opted Member to April 2013)
Councillor Hywel Eifion Jones (Co-opted Member from May 2013)
Councillor Margaret Lyon (Co-opted Member)

Corporate Director
Mr Dilwyn O. Williams

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

Advisor
Mr Paul Potter (Hymans Robertson)

Investment Managers
BlackRock
Fidelity International
Insight Investment
Lothbury
Partners Group
Threadneedle
UBS Global Asset Management Limited
Veritas

Actuaries
Hymans Robertson

Custodian
Northern Trust

Bankers
Barclays Bank plc

Auditors
Wales Audit Office

Contact Details
Enquiries and more detailed information regarding:

- the Gwynedd Pension Fund can be obtained by contacting:

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

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

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

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

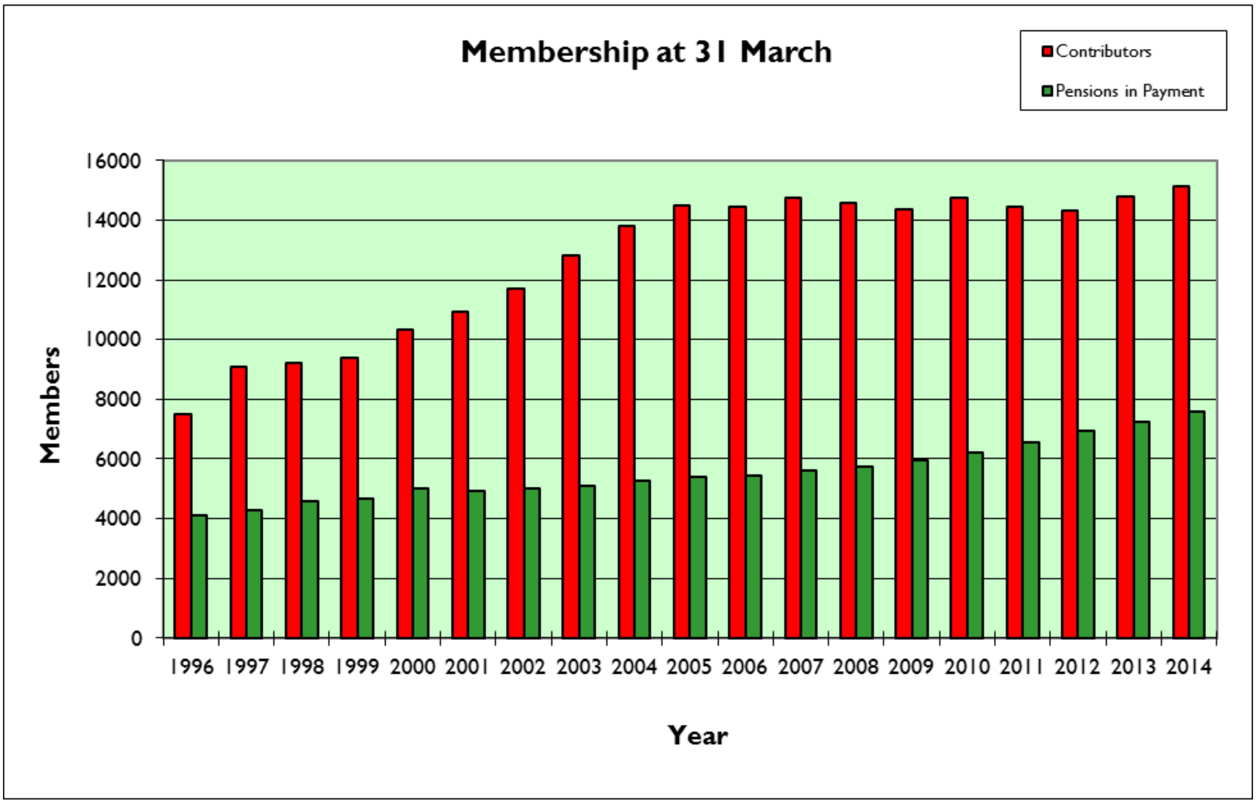
  ☎ 01286 679128
  🖹 01286 679589

carolineroberts@gwynedd.gov.uk

Fund Website
www.gwyneddpensionfund.org.uk

6. Membership Summary

The graph below shows the changes in the Fund's membership over the last 19 years. It shows that while the number of pensioners has slowly increased from 4,092 in 1996 to 7,584 in 2014, the number of active contributors has more than doubled, from 7,511 in 1996 to 15,131 in 2014.



The table below provides the membership summary:

31 March 2013	Description	31 March 2014
14,798	Contributors	15,131
8,369	Deferred Pensioners	10,500
7,231	Pensions in Payment	7,584
1,385	Unclaimed Benefits	1,424
31,783	**Total Membership**	**34,639**

7. Statement of Accounts 2013 -14 subject to audit

GWYNEDD PENSION FUND ACCOUNTS 2013-14

31 March 2013 £'000		Notes	31 March 2014 £'000
	Dealings with members, employers and others directly involved in the fund		
63,451	Contributions Receivable	7	65,700
18	Interest on Deferred Contributions		17
1	Income from Divorce Calculations		3
0	Interest on Late Payment of Contributions		0
3,126	Transfers in from other pension schemes	8	3,810
66,596	**Total contributions received**		**69,530**
(41,714)	Benefits Payable	9	(45,167)
(2,592)	Payments to and on account of leavers	10	(1,516)
(1,068)	Administrative Expenses	11	(1,268)
(45,374)	**Total benefits paid**		**(47,951)**
21,222	**Net additions from dealings with members**		**21,579**
	Returns on Investments		
11,929	Investment income	12	13,993
(335)	Taxes on income	13	(466)
116,102	Profit and (losses) on disposal of investments and changes in the market value of investments	15	88,421
(5,720)	Investment management expenses	14	(6,850)
121,976	**Net returns on investments**		**95,098**
	Net assets of the Fund		
1,049,671	At 1st April		1,192,869
21,222	Net additions from dealings with members		21,579
121,976	Net returns on investments		95,098
1,192,869			**1,309,546**

NET ASSETS STATEMENT AS AT 31 MARCH

31 March 2013 £'000		Notes	31 March 2014 £'000
1,170,051	Investment assets	15	1,280,403
17,316	Cash deposits	15	15,453
1,187,367			**1,295,856**
(4,297)	Investment liabilities	15	(308)
13,682	Current assets	20	17,450
(3,883)	Current liabilities	21	(3,452)
1,192,869			**1,309,546**

The Financial Statements do not take into account the Fund's liability to pay pensions and other benefits to all the present contributors to the Fund after the scheme year end, but rather summarise the transactions and net assets of the scheme. The liabilities of the Fund are taken into account in the periodic actuarial valuations of the Fund (the most recently as at 31 March 2013) and are reflected in the levels of employers' contributions determined at the valuation, so that the Fund will again be able to meet 100% of future liabilities. The actuarial present value of promised retirement benefits is shown in Note 19.

NOTES TO THE GWYNEDD PENSION FUND ACCOUNTS

NOTE 1 – DESCRIPTION OF FUND

The Gwynedd Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by Gwynedd Council. The council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more detail, reference should be made to the Gwynedd Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

It is a contributory defined pension scheme administered by Gwynedd Council to provide pensions and other benefits for pensionable employees of Gwynedd Council, two other local authorities and other scheduled, resolution and admission bodies within the old Gwynedd County Council area. Teachers, police officers and firefighters are not included as they 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 parish councils. They have the power to decide if their employees can join the LGPS and pass a resolution accordingly.
- Admission bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 59 employer organisations within Gwynedd Pension Fund including the council itself, as detailed below:

Gwynedd Pension Fund	31 March 2013	31 March 2014
Number of employers with active members	40	39
Number of employees in scheme		
Gwynedd Council	5,391	6,525
Other employers	9,408	8,606
Total	**14,799**	**15,131**
Number of pensioners		
Gwynedd Council	2,153	2,296
Other employers	5,078	5,288
Total	**7,231**	**7,584**
Deferred pensioners		
Gwynedd Council	3,601	4,313
Other employers	4,768	6,187
Total	**8,369**	**10,500**

The following bodies are active employers within the Pension Fund:

Scheduled Bodies	
Gwynedd Council	Snowdonia National Park
Conwy County Borough Council	Bryn Eilian School
Isle of Anglesey County Council	Emrys ap Iwan School
Police and Crime Commissioner for North Wales	Pen y Bryn School
Llandrillo – Menai Group	Eirias High School
Resolution Bodies	
Llanllyfni Community Council	Ffestiniog Town Council
Bangor City Council	Llandudno Town Council
Abergele Town Council	Llangefni Town Council
Colwyn Bay Town Council	Menai Bridge Town Council
Beaumaris Town Council	Towyn and Kinmel Bay Town Council
Holyhead Town Council	Tywyn Town Council
Caernarfon Town Council	
Admission Bodies	
Coleg Harlech WEA	North Wales Society for the Blind
CAIS	Conwy Voluntary Services
Conwy Citizens Advice Bureau	Careers Wales North West
Ynys Môn Citizens Advice Bureau	Mantell Gwynedd
Cwmni Cynnal	Medrwn Môn
Cwmni'r Fran Wen	Menter Môn
Holyhead Joint Burial Committee	
Community Admission Bodies	
Cartrefi Conwy	Cartrefi Cymunedol Gwynedd
Transferee Admission Body	
Eden Foods (no active members since 31 August 2013)	Jewsons

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. During 2013/14 employer contribution rates ranged from 5.1% to 29.1% of pensionable pay. New employer contribution rates will be applied from 1st April 2014 following the actuarial valuation carried out as at 31 March 2013.

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

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

Service from 1 April 2014 onwards will be based on new regulations as follows:

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

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

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

NOTE 2 – BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution Income

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

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

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

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

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

c) Investment income

i) Interest income

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

ii) Dividend income

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

iii) Distributions from pooled funds including property

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

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Administrative expenses

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

g) Investment management expenses

All investment management expenses are accounted for an accruals basis.

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

In addition the fund has negotiated with the following manager that an element of their fee be performance related:

Fidelity – Global Equity

Performance-related fees of £37,844 were paid to the managers in 2013/14 (£0 in 2012/13).

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

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

Net assets statement

h) Financial assets

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

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

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with IFRS guidelines. It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors.

iv) Limited partnerships

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

v) Pooled investment vehicles

Pooled investments vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Foreign currency transactions

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

j) Derivatives

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

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

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

k) Cash and cash equivalents

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

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement. (Note 19).

n) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure are valued by the investment managers using guidelines set out by IFRS accounting standards. The value of unquoted securities at 31 March 2014 was £64 million (£62 million at 31 March 2013).

Pension fund liability

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability would change if the assumptions used were changed. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability, an increase in assumed earnings inflation would increase the value of liabilities and an increase in assumed life expectancy would increase the liability.
Debtors	At 31 March 2014, the fund had a balance of sundry debtors of £6.8m. A review of significant balances suggested that it was not appropriate to make any impairment of the debts.	If collection rates were to deteriorate, it would be necessary to reconsider this decision.

Private equity and infrastructure	Private equity and infrastructure investments are valued at fair value in accordance with IFRS accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £64 million. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2014, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

By category

2012/13 £'000		2013/14 £'000
49,126	Employers	50,908
14,325	Employees/Members	14,792
63,451		**65,700**

By authority

2012/13 £'000		2013/14 £'000
21,333	Gwynedd Council	23,297
36,999	Other Scheduled bodies	38,065
2,827	Admission bodies	1,722
2,033	Community admission body	2,369
63	Transferee admission body	31
142	Resolution Body	162
54	Closed fund*	54
63,451		**65,700**

* 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 – TRANSFERS IN FROM OTHER PENSION FUNDS

2012/13 £'000		2013/14 £'000
3,126	Individual transfers	3,810
3,126		**3,810**

NOTE 9 - BENEFITS PAYABLE

By category

2012/13 £'000		2013/14 £'000
32,237	Pensions	34,425
8,583	Commutation and lump sum retirement benefits	9,787
894	Lump sum death benefits	955
41,714		**45,167**

By authority

2012/13 £'000		2013/14 £'000
10,169	Gwynedd Council	11,613
18,182	Other Scheduled bodies	20,012
1,223	Admission bodies	984
543	Community admission body	1,000
15	Transferee admission body	75
11,495	Closed Fund	11,414
87	Resolution Body	69
41,714		**45,167**

NOTE 10 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2012/13 £'000		2013/14 £'000
37	Refunds to members leaving service net of tax repayments	(1)
1	Payments for members joining state scheme	1
2,554	Individual transfers	1,516
2,592		**1,516**

NOTE 11 – ADMINISTRATIVE EXPENSES

2012/13 £'000		2013/14 £'000
393	Direct employee costs	427
87	Other direct costs	209
434	Support services including IT	366
66	Pension fund committee	50
25	External audit fees	29
63	Actuarial fees	187
1,068		**1,268**

Administrative expenses include amounts charged to the Pension Fund by Gwynedd Council for staff costs, support services and accommodation. Further details are given in Note 23.

NOTE 12 – INVESTMENT INCOME

2012/13 £'000		2013/14 £'000
6	Fixed Interest Securities	0
1,176	UK equities	2,816
5,052	Overseas equities	5,374
923	Private equity	1,264
0	Infrastructure	99
4,593	Pooled property investments	4,322
179	Interest on cash deposits	118
11,929		**13,993**

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

The Council had a deposit of £4m with Heritable Bank, which went into administration in October 2008. An impairment of £2,723 was charged to the Pension Fund in 2012/13. During 2013/14 a distribution of £36,327 was received by the Pension Fund. These amounts have been included in the interest on cash deposits figure for the relevant year in the above table. Further information is included in Note 26.

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NOTE 13 – TAXES ON INCOME

2012/13 £'000		2013/14 £'000
335	Withholding tax – equities	466
335		**466**

NOTE 14 – INVESTMENT MANAGEMENT EXPENSES

2012/13 £'000		2013/14 £'000
5,614	Management fees	6,720
46	Custody fees	50
16	Performance monitoring service	16
44	Investment consultancy fees	64
5,720		**6,850**

NOTE 15 – INVESTMENTS

2012/13 £'000		2013/14 £'000
	Investment assets	
157,644	Absolute return	194,386
206,697	Equities	238,975
634,387	Pooled investments	666,049
105,974	Pooled property investments	116,800
58,723	Private Equity	59,696
3,064	Infrastructure	4,497
	Derivative contracts:	
3,562	Forward currency contracts	0
1,170,051		**1,280,403**
17,316	Cash deposits	15,453
1,187,367	**Total investment assets**	**1,295,856**
	Investment liabilities	
	Derivative contracts:	
(3,620)	Forward currency contracts	0
(677)	Amounts payable for purchases	(308)
(4,297)	**Total investment liabilities**	**(308)**
1,183,070	**Net investment assets**	**1,295,548**

Note 15a – Reconciliation of movements in investments and derivatives

2013/14	Market value at 1 April 2013	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2014
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	157,644	31,000	0	5,742	194,386
Equities	206,697	58,392	(49,222)	23,108	238,975
Pooled investments	634,387	7,834	(19,413)	43,242	666,050
Pooled property investments	105,974	1,531	0	9,295	116,800
Private equity / infrastructure	61,787	16,273	(16,894)	3,026	64,192
	1,166,489	115,030	(85,529)	84,413	1,280,403
Forward foreign currency contracts	(58)			11	0
Cash deposits	17,316			(44)	15,453
Amount receivable for sales of investments	0				0
Amounts payable for purchases of investments	(677)				(308)
Fees within pooled vehicles				4,041	
Net investment assets	**1,183,070**	**115,030**	**(85,529)**	**88,421**	**1,295,548**

2012/13	Market value at 1 April 2012	Purchases during the year	Sales during the year	Change in market value during the year	Market value at 31 March 2013
	£'000	£'000	£'000	£'000	£'000
Fixed interest absolute return securities	150,723	0	(210)	7,131	157,644
Equities	153,058	206,019	(171,726)	19,346	206,697
Pooled investments	577,137	1,716	(30,999)	86,533	634,387
Pooled property investments	92,685	17,851	0	(4,562)	105,974
Private equity / infrastructure	58,645	9,359	(10,970)	4,753	61,787
	1,032,248	234,945	(213,905)	113,201	1,166,489
Forward foreign currency contracts	16			(82)	(58)
Cash deposits	17,624			(219)	17,316
Amount receivable for sales of investments	284				0
Amounts payable for purchases of investments	(6,756)				(677)
Fees within pooled vehicles				3,202	
Net investment assets	**1,043,416**	**234,945**	**(213,905)**	**116,102**	**1,183,070**

Transaction costs, such as commissions, stamp duty and other transaction fees, are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year total £186,342 (2012/13 £426,308). The costs for 2012/13 were higher than usual due to the transition to a new manager which involved a signficant number of purchases and sales of investments. In addition to these costs indirect costs are incurred through the bid-offer spread on investments within pooled funds.

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

31 March 2013 £'000		31 March 2014 £'000
	Equities	
	UK	
45,299	Quoted	45,272
	Overseas	
161,398	Quoted	193,703
	Pooled funds	
	UK	
218,891	Unit trusts	229,634
	Global (including UK)	
157,644	Fixed income	194,386
211,337	Unit trusts	231,295
	Overseas	
204,159	Unit trusts	205,120
105,974	**Property unit trusts**	116,800
58,723	**Private equity**	59,696
3,064	**Infrastructure**	4,497
1,166,489		**1,280,403**

Analysis of derivatives

Objectives and policies for holding derivatives

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

Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. The fund no longer hedges a proportion of the Euro within the portfolio managed by UBS.

Settlement	Asset Value £'000	Liability Value £'000
Net forward foreign currency contracts at 31 March 2014		**0**
Prior year comparative		
Open forward foreign currency contracts at 31 March 2013	**3,534**	**(3,518)**
Net forward foreign currency contracts at 31 March 2013		**16**

Investments analysed by fund manager

Market Value at 31 March 2013 £'000	%		Market Value at 31 March 2014 £'000	%
412,513	34.9	BlackRock	427,249	33.0
240,729	20.3	Fidelity	258,421	19.9
157,648	13.3	Insight	194,394	15.0
20,887	1.8	Lothbury	23,395	1.8
61,787	5.2	Partners Group	64,193	5.0
10,736	0.9	Threadneedle	12,001	0.9
56,223	4.8	UBS	63,323	4.9
222,547	18.8	Veritas	252,572	19.5
1,183,070	**100.0**		**1,295,548**	**100.0**

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

Market value 31 March 2013 £'000	% of total fund	Security	Market value 31 March 2014 £'000	% of total fund
211,337	17.71	Fidelity Institutional Select Global Equity	231,295	17.66
218,889	18.34	BlackRock Asset Management Aquila Life UK Equity Index Fund	229,633	17.53
157,644	13.21	Insight LDI Solution Bonds Plus	194,386	14.84

Note 15c – Stock lending

The Statement of Investment Principles (SIP) states that stock lending will be permitted subject to specific approval. Currently the fund does not undertake any stock lending.

NOTE 16 – FINANCIAL INSTRUMENTS

Note 16a – Classification of financial instruments

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

As at 31 March 2013				As at 31 March 2014		
Designated as fair value through profit and loss	**Loans and receivables**	**Financial liabilities at cost**		**Designated as fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial assets			
157,644			Fixed interest securities	194,386		
206,697			Equities	238,975		
634,387			Pooled investments	666,049		
105,974			Pooled property investments	116,800		
58,723			Private equity	59,696		
3,064			Infrastructure	4,497		
3,562			Derivative contracts	0		
121	24,662		Cash	189	25,959	
	6,216		Debtors		6,755	
1,170,172	**30,878**	**0**		**1,280,592**	**32,714**	**0**
			Financial liabilities			
(3,620)			Derivative contracts	0		
(650)		(3,911)	Creditors	(308)		(3,452)
(4,270)	**0**	**(3,911)**		**(308)**	**0**	**(3,452)**
1,165,902	**30,878**	**(3,911)**		**1,280,284**	**32,714**	**(3,452)**

Note 16b – Fair value of financial instruments and liabilities

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

31 March 2013			31 March 2014	
Carrying value £'000	Fair value £'000		Carrying value £'000	Fair value £'000
		Financial assets		
916,860	1,170,172	Fair value through profit and loss	964,240	1,280,593
30,878	30,878	Loans and receivables	32,728	32,714
947,738	**1,201,050**	**Total financial assets**	**996,968**	**1,313,307**
		Financial liabilities		
(4,216)	(4,270)	Fair value through profit and loss	(254)	(253)
(3,911)	(3,911)	Financial liabilities at cost	(2,325)	(3,508)
(8,127)	**(8,181)**	**Total financial liabilities**	**(2,579)**	**(3,761)**
939,611	**1,192,869**	**Net financial assets**	**994,389**	**1,309,546**

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

Note 16c – Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

Values at 31 March 2014	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total £'000**
Financial assets				
Financial assets at fair value through profit and loss	556,347	660,053	64,193	1,280,593
Loans and receivables	32,714	0	0	32,714
Total financial assets	**589,061**	**660,053**	**64,193**	**1,313,307**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(253)	0	(253)
Financial liabilities at cost	(3,508)	0	0	(3,508)
Total financial liabilities	**(3,508)**	**(253)**	**0**	**(3,761)**
Net financial assets	**585,553**	**659,800**	**64,193**	**1,309,546**

Values at 31 March 2013	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total £'000**
Financial assets				
Financial assets at fair value through profit and loss	513,845	594,540	61,787	1,170,172
Loans and receivables	30,878	0	0	30,878
Total financial assets	**544,723**	**594,540**	**61,787**	**1,201,050**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(4,270)	0	(4,270)
Financial liabilities at cost	(3,911)	0	0	(3,911)
Total financial liabilities	**(3,911)**	**(4,270)**	**0**	**(8,181)**
Net financial assets	**540,812**	**590,270**	**61,787**	**1,192,869**

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

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

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

Other price risk

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

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

Other price risk – sensitivity analysis

Following analysis of the observed historical volatility of asset class returns in consultation with the fund's investment analytics advisors potential price changes have been determined for the various classes of assets held by the fund. The rates to be applied to the fund's asset categories are as follows:

Asset type	**Potential market movement (+/-)**	
	31 March 2013	**31 March 2014**
	%	%
Equities	12.5	11.6
Fixed Income	1.5	1.3
Alternatives (Private Equity)	9.6	6.2
Property	1.9	2.4
Cash	0.0	0.0

The potential volatilities disclosed above are consistent with a one-standard deviation movement in the change of value of the assets over the latest three years. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

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

Asset type	**Value as at 31 March 2014**	**Percentage change**	**Value on increase**	**Value on decrease**
	£'000	%	**£'000**	**£'000**
Equities	905,024	11.6	1,009,826	800,222
Fixed Income	194,386	1.3	196,913	191,859
Alternatives (Private Equity)	64,193	6.2	68,154	60,232
Property	116,800	2.4	119,615	113,985
Cash	25,839	0.0	25,844	25,834
Total assets available to pay benefits	**1,306,242**		**1,420,352**	**1,192,132**

Asset type	**Value as at 31 March 2013**	**Percentage change**	**Value on increase**	**Value on decrease**
	£'000	%	**£'000**	**£'000**
Equities	841,084	12.5	946,556	735,612
Fixed Income	157,644	1.5	160,056	155,232
Alternatives (Private Equity)	61,787	9.6	67,694	55,880
Property	105,974	1.9	108,009	103,939
Cash	24,047	0.0	24,049	24,044
Total assets available to pay benefits	**1,190,536**		**1,306,364**	**1,074,707**

Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 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 2013	As at 31 March 2014
	£'000	£'000
Cash and cash equivalents	7,466	10,695
Cash balances	17,316	15,452
Fixed interest securities	157,644	194,386
Total	**182,426**	**220,353**

Interest rate risk sensitivity analysis

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

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	10,695	107	(107)
Cash balances	15,452	155	(155)
Fixed interest securities*	194,386	(1,108)	1,108
Total change in assets available	**220,533**	**(846)**	**846**

Asset type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	7,466	75	(75)
Cash balances	17,316	173	(173)
Fixed interest securities*	157,644	851	(851)
Total change in assets available	**182,426**	**1,099**	**(1,099)**

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

Currency risk

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

The fund has made commitments to private equity and infrastructure in foreign currency, (€140million and $7million). These commitments are being drawn down on request from the investment manager over a number of years. The current commitments still outstanding are shown in Note 24. The risk is that the pound is weak relative to the dollar and euro at the time of the drawdown and then strengthens when the fund is fully funded. The fund has been funding the commitments since 2005 and therefore the liability is balanced out over a long period.

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

The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency exposure - asset type	**As at 31 March 2013 £'000**	**As at 31 March 2014 £'000**
Overseas and Global Equities	576,897	630,118
Global Fixed Income	157,644	194,386
Overseas Alternatives (Private Equity and infrastructure)	61,787	64,193
Overseas Property	3,673	3,276
Overseas Currency	121	189
Total overseas assets	**800,122**	**892,162**

Currency risk – sensitivity analysis

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

A 5.2% fluctuation in the currency is considered reasonable based on the fund investment analytics advisors analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period to 31 March 2014. The equivalent rate for the year ended 31 March 2013 was 5.2 %. This analysis assumes that all other variables, in particular interest rates, remain constant.

The following tables show analyses of the fund's exposure to individual foreign currencies as at 31 March 2014 and as at the previous year end:

Currency exposure - by currency	Value at 31 March 2014	Change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Australian Dollar	12,958	9.8	14,227	11,687
Brazilian Real	5,543	12.7	6,247	4,840
EURO	91,180	6.3	96,933	85,426
Hong Kong Dollar	8,320	8.0	8,984	7,656
South African Rand	7,290	11.3	8,114	6,465
Swedish Krona	6,701	7.0	7,172	6,230
Swiss Franc	9,897	7.4	10,631	9,163
US Dollar	119,472	8.1	129,114	109,831
Pooled Investments				
Global Basket	425,681	5.2	447,859	403,503
Global ex UK Basket	177,994	5.7	188,087	167,902
Emerging Basket	27,126	6.4	28,853	25,398
Total change in assets available	**892,162**	**5.2**	**938,366**	**845,958**

* The % change for Total Currency in the table above includes the impact of correlation across the underlying currencies.

Currency exposure - by currency	Value at 31 March 2013	Change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Australian Dollar	11,926	10.0	13,113	10,739
Brazilian Real	6,175	11.6	6,892	5,457
EURO	88,385	7.8	95,279	81,491
Hong Kong Dollar	5,876	8.5	6,378	5,375
Japanese Yen	5,850	11.8	6,538	5,161
Norwegian Krone	5,720	9.0	6,237	5,202
South African Rand	6,692	12.0	7,492	5,892
Swedish Krona	5,794	8.1	6,265	5,323
Swiss Franc	6,993	9.4	7,648	6,339
US Dollar	83,570	8.7	90,873	78,266
Pooled Investments				
Global Basket	368,981	5.3	388,611	349,351
Global ex UK Basket	174,768	5.8	184,904	164,631
Emerging Basket	29,392	6.4	31,281	27,502
Total change in assets available	**800,122**	**5.2**	**841,405**	**758,835**

Currency Exposure - by asset type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	630,118	662,751	597,485
Global Fixed Income	194,386	204,453	184,319
Overseas Alternatives (Private Equity and infrastructure)	64,193	67,517	60,869
Overseas Property	3,276	3,446	3,106
Overseas Currency	189	199	179
Total change in assets available	**892,162**	**938,366**	**845,958**

Currency Exposure - by asset type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		Value on increase	Value on decrease
	£'000	£'000	£'000
Overseas and Global Equities	576,897	606,662	547,128
Global Fixed Income	157,644	165,778	149,510
Overseas Alternatives (Private Equity and infrastructure)	61,787	64,975	58,599
Overseas Property	3,673	3,862	3,483
Overseas Currency	121	128	115
Total change in assets available	**800,122**	**841,405**	**758,835**

b) Credit risk

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

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

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

Investment Manager	Percentage of Portfolio
BlackRock	29.5%
Fidelity	19%
Insight	15%
Partners Group	7.5%
Property (UBS, Threadneedle, Lothbury, BlackRock)	10%
Veritas	19%

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

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

In order to maximise the returns from Short Term Investments and Cash Deposits, the Council invests any temporarily surplus funds in its bank accounts along with any surplus funds in the Gwynedd Pension Fund bank accounts. An appropriate share of the interest earned is paid to the Pension Fund and any losses on investment are shared with the Pension Fund in the same proportion. Due to the nature of the banking arrangements any surplus cash in the Pension Fund bank accounts is not transferred to the Council's bank accounts. As the Short Term Investments are made in the name of Gwynedd Council they are shown in full on the Council's Balance Sheet. The Pension Fund element of the Short Term Investments and Cash Deposits at 31 March 2014 was £12.1m (£7.4m at 31 March 2013).

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's credit criteria. The council has also set limits as to the maximum percentage of deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency. The council believes it has managed its exposure to credit risk, and has had only one experience of default or uncollectable deposits when Heritable Bank went into administration in 2008. Full details can be seen in Note 26.

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

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

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

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payment costs; and also cash to meet investment commitments.

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

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

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

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2014 the value of illiquid assets was £126m, which represented 9.6% of the total fund assets (31 March 2013: £117m, which represented 10.1% 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 2014 are due within one year as was the case at 31 March 2013.

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

NOTE 18 – FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme (Administration) Regulations 2008, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

Description of Funding Policy
The funding policy is set out in the Funding Strategy Statement (FSS) dated March 2014.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund (and the share of the fund attributable to individual employers)
- to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment
- not to restrain unnecessarily the investment strategy of the fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- to help employers recognise and manage pension liabilities as they accrue
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective

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

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 80% chance that the Fund will return to full funding over the 21 years.

Funding Position as at the Last Formal Funding Valuation
The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,195 million, were sufficient to meet 85% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £210 million.

The common contribution rate for the whole fund based on the funding level at 31 March 2013 is 18.3% for future service and a further 5.6% to fund the past service deficit, giving a total rate of 23.9%. The common contribution rate is a theoretical figure – an average across the whole fund. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

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 2013 valuation were as follows:

	% per annum Nominal	**% per annum Real**
Discount rate	4.7	2.2
Pay increases*	4.3	1.8
Price inflation / Pension increases	2.5	-

* Salary increases are assumed to be 1% per annum until 31 March 2016 reverting to the long term assumption shown thereafter.

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions that were adopted for the 31 March 2013 valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the fund. These curves are based on actual data supplied by the Administering Authority. The life expectancy assumptions based on the actuary's fund-specific mortality review are as follows:

Mortality assumption at age 65	**Male Years**	**Female Years**
Current pensioners	22.0	24.0
Future pensioners (assumed current age 45)	24.4	26.6

Experience over the Period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been better than expected meaning that future funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. 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.

In order to assess the value of the benefits on this basis the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18) and has also used them to provide the IAS19 and FRS 17 reports for individual employers in the fund. The actuary has also valued ill health and death benefits in line with IAS19.

The actuarial present value of promised retirement benefits at 31 March 2014 was £1,747m (£1,667m at 31 March 2013). All the retirement benefits are vested. The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS19 basis and therefore differ from the results of the 2013 triennial funding valuation (see Note 18) because IAS19 stipulates a discount rate rather than a rate that reflects market rates.

Assumptions used

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

	31 March 2013	**31 March 2014**
Assumption	%	%
Inflation/ pension increase rate	2.8	2.8
Salary increase rate	5.1*	4.6**
Discount rate	4.5	4.3

* Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term rate shown thereafter.

** Salary increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long term rate shown thereafter.

The longevity assumption is the same as used for assessing the funding position as shown in Note 18 above.

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

NOTE 20 – CURRENT ASSETS

2012/13		2013/14
£'000		£'000
753	Contributions due - employees	1,119
2,584	Contributions due – employers	3,861
2,879	Sundry Debtors	1,775
6,216	**Total Debtors**	**6,755**
7,466	Cash	10,695
13,682	**Total**	**17,450**

Analysis of debtors

2012/13		2013/14
£'000		£'000
1,918	Administering Authority	2,116
1,394	Central government bodies	955
1,347	Other local authorities	2,564
3	NHS bodies	3
1,554	Other entities and individuals	1,117
6,216	**Total**	**6,755**

NOTE 21 – CURRENT LIABILITIES

2012/13		2013/14
£'000		£'000
1,616	Sundry creditors	1,904
2,267	Benefits payable	1,548
3,883	**Total**	**3,452**

Analysis of creditors

2012/13 £'000		2013/14 £'000
866	Administering Authority	1,126
15	Central government bodies	22
5	Other local authorities	0
2,997	Other entities and individuals	2,304
3,883	**Total**	**3,452**

NOTE 22 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC's)

The market value of the funds is stated below:

	Market value at 31 March 2013 £'000	Market value at 31 March 2014 £'000
Clerical Medical	2,734	2,792
Equitable Life	413	380
Standard Life	189	214
Total	**3,336**	**3,386**

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

	2012 / 2013 £'000	2013 / 2014 £'000
Clerical Medical	372	331
Equitable Life	1	0
Standard Life	12	10
Total	**385**	**341**

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 £1,001,991 (£835,101 in 2012/13) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also one of the largest employers of members of the pension fund and contributed £17.65m to the fund in 2013/14 (£16.65m in 2012/13). At the end of the year the council owed £2,116 to the fund (see Note 20) which was primarily in respect of contributions for March 2014 and the fund owed £1,126 to the Council (see Note 21) which was primarily in respect of recharges from the council.

The Gwynedd Pension Fund has three bank accounts which are held as part of Gwynedd Council's Group of Bank Accounts. The overall surplus cash held in the Group of Bank Accounts is invested on a daily basis. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund, based on the Fund's daily balances over the year. During 2013/14, the fund received interest of £77,251 (£86,481 in 2012/13) from Gwynedd Council.

Governance

There was 1 member of the pensions committee who was in receipt of pension benefits from the Gwynedd Pension Fund during 2013/14 (Committee member T.O. Edwards). In addition, committee members T.O. Edwards, P. Jenkins, D. Meurig and W.T. Owen are active members of the pension fund.

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

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

NOTE 24 - COMMITMENTS UNDER INVESTMENT CONTRACTS

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

	Total commitment	Commitment at 31 March 2013	Commitment at 31 March 2014
	€'000	**€'000**	**€'000**
P.G. Direct 2006	20,000	1,384	1,384
P.G. Global Value 2006	50,000	4,592	4,091
P.G. Secondary 2008	15,000	1,960	1,960
P.G. Global Value 2011	15,000	10,657	7,883
P.G. Global Infrastructure 2012	40,000	36,213	34,039
P.G. Direct 2012	12,000	0	8,280
P.G. Global Value 2014	12,000	0	10,178
Total Euros	**164,000**	**54,806**	**67,815**
	$'000	**$'000**	**$'000**
P.G. Emerging Markets 2011	**7,000**	**5,268**	**3,843**

'PG' above refers to Partners Group, the investment manager who 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

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

NOTE 26 – IMPAIRMENT LOSSES

a) Impairment for bad and doubtful debts

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

b) Impairment of Icelandic bank deposit

During 2008/09 the Council made a deposit of £4m with Heritable Bank which is a UK registered bank under Scottish Law. The pension fund's share of that investment was £565,200.

The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 2009, outlined that the return to creditors was projected to be 80p in the £ by the end of 2013. The Council received a return of 77.25% amounting to £3,105,729 from the administrators up to 31 March 2013. During 2013/14 the administrators distributed a further 16.74% bringing the total return up to 93.99%.

The relevant proportion of the decrease in impairment (£34,022) and the increase in notional interest (£2,305) has been allocated to the pension fund.