

DYFED PENSION FUND STATEMENT OF ACCOUNTS 2019-2020

NARRATIVE REPORT

The Dyfed Pension Fund accounts are set out on the following pages and provide information about the financial position, performance and financial adaptability of the Fund for the year 2019-20. They show the results of the stewardship of management, that is, the accountability of management for the resources entrusted to it, and of the disposition of its assets at the period end.

The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 (the "Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the public sector. Reference is also made to the Financial Reports of Pension Schemes – A Statement of Recommended Practice published by the Pensions Research Accountants Group (PRAG) where it is felt that these disclosures provide more sufficient detail.

For readers with a more detailed or specialist interest of the operation of the Dyfed Pension Fund during 2019-2020, reference should be made to the Annual Report and Accounts 2019-20 (when published).

The main accounts and reports contained within this Statement of Accounts are as follows:

- The Fund Account.
- The Net Assets Statement.
- The Statement by the Consulting Actuary

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of the pension fund's affairs and to secure that one of its officers has the responsibility for the administration of these affairs. In this Authority, that officer is the Director of Corporate Services
- To manage the pension fund affairs to secure economic, efficient and effective use of resources and safeguard its assets
- To approve the Statement of Accounts

The Director of Corporate Services' Responsibilities

The Director of Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Corporate Services has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Kept proper and timely accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities;
- Complied with the Code

Certification of Accounts

I certify that the Statement of Accounts on pages 3 to 37 gives a true and fair view of the financial position of the Dyfed Pension Fund at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Chris Moore FCCA
Director of Corporate Services

Dated: 16 October 2020

Audit Committee Approval

Approval of Dyfed Pension Fund Statement of Accounts post audit

Chair of Audit Committee

Dated: 16 October 2020

The independent auditor's report of the Auditor General for Wales to the members of Carmarthenshire County Council as administering authority for Dyfed Pension Fund

Report on the audit of the financial statements

Opinion

I have audited the financial statements of Dyfed Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004. Dyfed Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20.

Basis for opinion

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

Emphasis of matter – effects of the Covid-19 pandemic on the valuation of property fund and alternative assets

I draw attention to Note 11 of the financial statements, which describes the impact of a material uncertainty disclosed in the fund managers year-end valuation reports for the UK property fund and alternatives fund they manage on behalf of the Dyfed Pension Fund. The Fund has disclosed this material uncertainty and my audit opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

The responsible financial officer is responsible for the other information in the statement of accounts. The other information comprises the narrative report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Report on other requirements

Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the narrative report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Certificate of completion of audit

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

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Adrian Crompton
Auditor General for Wales
October 2020

24 Cathedral Road
Cardiff
CF11 9LJ

Fund Account for the Year Ended 31 March 2020

| 2018-19 £'000 | | <u>Note</u> | 2019-20 £'000 |
|-------------------|---|-------------|------------------|
| * Restated | | | |
| | Dealings with members, employers and others directly involved in the Fund | | |
| | Contributions | | |
| | Employer | | |
| 45,164 | Normal | | 48,008 |
| 6,895 | Augmentation | | 7,881 |
| 4,107 | Past Service Deficit | | 4,349 |
| | Member | | |
| 18,883 | Normal | | 19,961 |
| 103 | Additional voluntary | | 221 |
| 6,651 | Transfers in from other pension funds | 6 | 6,851 |
| 81,803 | | | 87,271 |
| | Benefits payable | | |
| (68,875) | Pensions payable | | (72,859) |
| (12,933) | Commutation and lump sum retirement benefits | | (14,708) |
| (1,923) | Lump sum death benefits | | (2,200) |
| (3,853) | Payments to and on account of leavers | 7 | (3,597) |
| (87,584) | | | (93,364) |
| (5,781) | Net Additions (Withdrawals) from dealings with Members | | (6,093) |
| (12,532) * | Management Expenses | 8 | (11,387) |
| (18,313) | Net Additions (Withdrawals) including fund management expenses | | (17,480) |
| | Returns on Investments | | |
| 12,213 * | Investment Income | 9 | 13,436 |
| (56) | Taxes on Income (Irrecoverable Withholding Tax) | 10 | 0 |
| | Changes in the market value of investments | | |
| (26,956) * | Unrealised | 11.2 | (217,439) |
| 168,686 | Realised | 11.3 | 30,270 |
| 153,887 | Net Return on Investments | | (173,733) |
| 135,574 | Net Increase (Decrease) in the net assets available for benefits during the year | | (191,213) |
| 2,440,112 | Opening Net Assets of Scheme | | 2,575,686 |
| 2,575,686 | Closing Net Assets of Scheme | | 2,384,473 |

*Management Expenses restated to include Implicit costs within the Transaction costs. Implicit costs represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the asset immediately before the trade entered the market. Investment Income has been restated to take indirect fees to the Net Asset Value.

Net Assets Statement for the year ended 31 March 2020

| 31/03/19 £'000 | | <u>Note</u> | 31/03/20 £'000 |
|-------------------------|----------------------------------|-------------|-------------------------|
| 2,563,796 | Investment Assets | | 2,365,404 |
| 7,052 | Cash deposits | | 12,215 |
| 0 | Investment liabilities | | 0 |
| <u>2,570,848</u> | | 11.1 | <u>2,377,619</u> |
| 9,245 | Current assets | 16 | 10,386 |
| (4,407) | Current liabilities | 17 | (3,532) |
| <u>4,838</u> | Net Current Assets/(Liabilities) | | <u>6,854</u> |
| <u>2,575,686</u> | Total Net Assets | | <u>2,384,473</u> |

Reconciliation of the movement in Fund Net Assets

| 2018-19 £'000 | | 2019-20 £'000 |
|-------------------------|---|-------------------------|
| 2,440,112 | Opening Net Assets | 2,575,686 |
| (6,156) | Net New Money Invested | (4,044) |
| 141,730 | Profit and losses on disposal of investments and changes in the market value of investments | (187,169) |
| <u>2,575,686</u> | Closing Net Assets of Fund | <u>2,384,473</u> |

Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2020

1 Description of the Fund

The Dyfed Pension Fund (the Fund) is part of the Local Government Pension Scheme and is administered by Carmarthenshire County Council.

The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report and Accounts 2019-2020 (when published) and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

It is a contributory defined pension scheme administered by Carmarthenshire County Council to provide pensions and other benefits for pensionable employees of Carmarthenshire County Council, Pembrokeshire County Council, Ceredigion County Council and a range of other scheduled and admission bodies within the former Dyfed geographical area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Dyfed Pension Fund Committee (the Committee).

1.2 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 Dyfed Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admission bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admission bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 66 employer organisations within the Dyfed Pension Fund as at 31 March 2020 and these are detailed in Note 21. The membership details of these organisations are summarised below:

| 31/03/19 | | 31/03/20 |
|------------------------|---|----------------------|
| 18,446 | Number of active contributors in the Fund | 18,564 |
| 13,256 | Number of pensioners | 14,059 |
| 15,736 | Number of deferred pensioners | 15,900 |
| <u>47,438</u> * | Total membership | <u>48,523</u> |
| 48 | Number of employers with active members | 46 |

* Restated to include Councillor members

These figures reflect the recorded position as at 31 March 2020 but are always subject to some movement post year end for notifications from employing bodies received after this date.

1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuation as at 31 March 2016. Currently, employer contribution rates range from 7.4% to 27.6% of pensionable pay as detailed in Note 21.

1.4 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 31 March 2008 - 31 March 2014 |
|-----------------|--|--|
| Pension | Each year is worth 1/80 x final pensionable salary. | Each year is worth 1/60 x final pensionable salary. |
| Lump Sum | Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, ill-health pensions and death benefits. For more details, please refer to the Dyfed Pension Fund website – www.dyfedpensionfund.org.uk

2 **Basis of preparation**

The Statement of Accounts summarises the Fund's transactions for the 2019-2020 financial year and its position at year end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2020 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 after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed in the Statement by the Consulting Actuary.

3 Summary of significant accounting policies

Fund Account – revenue recognition

3.1 Contributions

Normal contributions, both from 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.

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

3.2 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.

Individual transfers in/out are accounted for when received/paid, 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 to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

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

3.3 Investment income

3.3.1 Interest income

Interest income is recognised in the fund 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 (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

3.3.2 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.

3.3.3 Distributions from pooled funds

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.

3.3.4 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.

3.4 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.

3.5 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.

As Carmarthenshire County Council is the administering Authority, VAT is recoverable on all Fund Activities. The Accounts are shown exclusive of VAT.

3.6 Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses 2016.

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

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

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

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

An element of one of the Investment Managers' fees is performance related. The performance related fee was £0.76m in 2019-2020 (2018-2019: Fee was £0.67m).

Where an investment manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2019-2020, no fees are based on such estimates (2018-2019: £0).

The costs of the council's pension investments team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund. The Council charged the Pension Fund an amount of £1.1m (£1.0m in 2018-19) in respect of administration and support during 2019-20.

Net assets statement

3.7 Financial assets

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

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

3.7.1 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.

3.7.2 Fixed interest securities

Fixed interest securities are recorded at net market value.

3.7.3 Unquoted investments

Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the investment manager.

3.7.4 Limited partnerships

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

3.7.5 Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if available. If this is not available then these investments will be valued at the closing single price. In the case of accumulation funds, the change in market value will also include income which is reinvested in the Fund.

3.8 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 value of overseas investments and purchases and sales outstanding at the end of the reporting period.

3.9 Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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.

The Fund has had its own bank accounts, which deal with the transactions of the Fund, since 1 April 2011, in accordance with section 6 of the Local Government Pension Scheme (Management and Investment of Pension Funds) Regulations 2009.

Cash balances held by the Fund are invested on a short term basis on the London Money Market by Carmarthenshire County Council until it is required to meet its liabilities or to transfer surplus cash to the investment managers for reinvestment.

3.10 Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset 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.

3.11 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 the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a reference in the accompanying actuarial report.

3.12 Additional voluntary contributions (AVC)

Occupational Pension Schemes are required by Statute to provide in-house AVC arrangements. The Fund has joint providers: Prudential, Standard Life and UTMOST (previously Equitable Life), where a range of investment options are available.

It is for individual scheme members to determine how much they contribute (subject to HM Revenue & Customs limits) and the investment components or its mix.

AVC's are invested separately from the assets of the Fund and are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Pension Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only - Note 18.

4 Critical judgements in applying accounting policies

4.1 Fund liability

The Fund's liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 22. This estimate is subject to significant variances based on changes to the underlying assumptions.

4.2 Unquoted Property investments – Partners Group Red Dragon Limited Partnership

In assessing the fair value of non-traded financial instruments, the Limited Partnership uses a variety of market and income methods such as time of last financing, earnings and multiple

analysis, discounted cash flow method and third party valuation and makes assumptions that are based on market conditions and expected market participant assumptions existing at the end of each reporting period. Other information used in determining the fair value of non-traded financial instruments include latest financial reports, subsequent cash flows and internally performed monitoring of triggering events (such as exits and IPOs) as well as pricing movements in comparable investments together with techniques such as option pricing models and estimated discounted value of future cash flows. These practices are in line with widely used international industry guidelines. The value of the Partners Group Red Dragon Limited Partnership as at 31st March 2020 was £36.0m (31st March 2019: £36.0m).

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 31st March 2020 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 effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways. |
| Property – Limited Partnership investments | The Limited Partnership property investments are valued in line with widely used industry guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Fair value adjustments were conducted to bridge the time lag between the latest available investment Net Asset Values. Incorporating the movements seen in capital markets in the fair value adjustment process, Partners Group liaised with various investment partners for indications around their first quarter Net Asset Values. Overall, fair value adjustments applied during the first quarter of 2020 are significantly higher than those applied previously. | The total Limited Partnership property investments are £36.0m. There is a risk that this investment may be under or overstated in the accounts. |

6 Transfers in from other pension funds

| 2018-19 £'000 | | 2019-20 £'000 |
|------------------|--|------------------|
| 0 | Group transfers in from other schemes and scheme mergers | 0 |
| 6,651 | Individual transfers in from other schemes | 6,851 |
| <u>6,651</u> | | <u>6,851</u> |

7 Payments to and on account of Leavers

| 2018-19 £'000 | | 2019-20 £'000 |
|------------------|---|------------------|
| (144) | Refunds to members leaving service | (196) |
| (5) | Payments for members joining state scheme | 20 |
| 0 | Group transfers | 0 |
| (3,704) | Individual transfers | (3,421) |
| <u>(3,853)</u> | | <u>(3,597)</u> |

8 Management Expenses

| 2018-19 £'000 | | 2019-20 £'000 |
|-------------------|--------------------------------|------------------|
| *Restated | | |
| (1,188) | Administrative costs | (1,274) |
| (10,784) * | Investment management expenses | (9,495) |
| (560) | Oversight and governance costs | (618) |
| <u>(12,532) *</u> | | <u>(11,387)</u> |

*Management Expenses restated to include Implicit costs within the Transaction costs.

2019-20 Audit fees of £28,280 included within Oversight and governance costs. (2018-19 £28,322)

9 Investment Income

| 2018-19 £'000 | | 2019-20 £'000 |
|------------------|-----------------------------|------------------|
| *Restated | | |
| 5,512 * | Income from equities | 645 |
| 6,630 * | Pooled property investments | 11,057 |
| 0 | Income from Alternatives | 1,630 |
| 55 | Interest on cash deposits | 104 |
| 16 | Other | 0 |
| <u>12,213 *</u> | | <u>13,436</u> |

*Investment Income restated to include Implicit costs within the Transaction costs and exclude indirect fees included in Net Asset Value.

10 Taxation

| 2018-19 £'000 | | 2019-20 £'000 |
|------------------|----------------------------|------------------|
| (56) | Withholding tax - equities | 0 |
| <u>(56)</u> | | <u>0</u> |

11 Investments

11.1 Net investment assets

| Fair value 31/03/2019 £'000 | | Fair value 31/03/2020 £'000 |
|-----------------------------------|--------------------------------------|-----------------------------------|
| | <u>Investment assets</u> | |
| | Bonds | |
| | UK Corporate Bonds | |
| 265,299 | - BlackRock | 272,772 |
| | Indexed Linked Securities | |
| 138,699 | - BlackRock | 107,390 |
| | Equities | |
| | UK Quoted Equities | |
| 510,928 | - BlackRock | 424,727 |
| | Alternatives | |
| 27,626 | - BlackRock UK SAIF | 53,198 |
| | Pooled Investments | |
| | Overseas equities | |
| 704,690 | - BlackRock | 642,005 |
| | Global equities | |
| 588,671 | - Wales Pension Partnership | 545,586 |
| | Pooled property investments | |
| 293,605 | - Schroders | 285,681 |
| 27,011 | - Partners Group | 28,022 |
| | Property | |
| 327 | - Schroders | 286 |
| 6,044 | - Partners Group | 5,680 |
| | Cash deposits | |
| 259 | - BlackRock | 27 |
| 4,293 | - Schroders | 10,388 |
| 2,500 | - Partners Group | 1,800 |
| | Investment income due | |
| 689 | - Schroders | 0 |
| | Tax reclaims due | |
| 85 | - BlackRock | 16 |
| 122 | - Schroders | 41 |
| 0 | | 0 |
| <u>2,570,848</u> | Amounts receivable for sales | <u>0</u> |
| | Total investment assets | <u>2,377,619</u> |
| | <u>Investment liabilities</u> | |
| <u>0</u> | Amounts payable for purchases | <u>0</u> |
| <u>0</u> | Total investment liabilities | <u>0</u> |
| <u><u>2,570,848</u></u> | Net investment assets | <u><u>2,377,619</u></u> |

The outbreak of Coronavirus (COVID-19) has impacted global financial and property markets. Due to these market conditions, a material valuation uncertainty has been included in a year end valuation report

for the Dyfed Pension Fund's investments with Schroders (Pooled Property Investments £285,681k, Property £286k) and BlackRock SAIF investments (£53,198k). The specific wording included in the report is "As at 31st March 2020, RICS (Royal Institute of Chartered Surveyors) have advised there is currently material valuation uncertainty of UK Real Estate Funds due to market conditions."

11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £91m whilst sales totalled £65m. The sales realised a net gain of £26m. Acquisition costs are included in the purchase price of the investment.

| | Fair value 31/03/2019 £'000 | Purchases at Cost £'000 | Sales at Cost £'000 | Fees included in NAV £'000 | Cash movement £'000 | Change in unrealised gains/(losses) £'000 | Fair value 31/03/2020 £'000 |
|--|-----------------------------------|-------------------------------|---------------------------|-------------------------------------|---------------------------|--|-----------------------------------|
| Bonds | 403,998 | 181 | (31,817) | 0 | 0 | 7,800 | 380,162 |
| Equities | 510,928 | 11,754 | 0 | 0 | 0 | (97,955) | 424,727 |
| Pooled investments | 1,293,361 | 37,350 | (22,073) | (4,493) | 0 | (116,554) | 1,187,591 |
| Pooled property investments | 320,616 | 16,155 | (11,221) | (2,505) | 0 | (9,342) | 313,703 |
| Property | 6,371 | 0 | 0 | 0 | 0 | (405) | 5,966 |
| Alternatives | 27,626 | 25,866 | 0 | 0 | 0 | (294) | 53,198 |
| | 2,562,900 | 91,306 | (65,111) | (6,998) | 0 | (216,750) | 2,365,347 |
| Other investment balances | | | | | | | |
| Cash deposits | 7,052 | 0 | 0 | 0 | 5,163 | 0 | 12,215 |
| Amount receivable for sales investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment income due | 689 | 0 | 0 | 0 | 0 | (689) | 0 |
| Tax reclaims due | 207 | 0 | 0 | 0 | (150) | 0 | 57 |
| Amounts payable for purchases investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2,570,848 | 91,306 | (65,111) | (6,998) | 5,013 | (217,439) | 2,377,619 |

| | Fair value 31/03/2018 £'000 | Purchases at Cost £'000 | Sales at Cost £'000 | Fees included in NAV £'000 | Cash movement £'000 | Change in unrealised gains/(losses) £'000 | Fair value 31/03/2019 £'000 |
|--|-----------------------------------|-------------------------------|---------------------------|-------------------------------------|---------------------------|--|-----------------------------------|
| Bonds | 489,582 | 243,490 | (280,773) | 0 | 0 | (48,301) | 403,998 |
| Equities | 480,061 | 0 | (170) | 0 | 0 | 31,037 | 510,928 |
| Pooled investments | 1,220,499 | 588,983 | (500,092) | (4,353) | 0 | (11,676) | 1,293,361 |
| Pooled property investments | 231,874 | 97,771 | (7,544) | (2,437) | 0 | 952 | 320,616 |
| Property | 6,057 | 0 | 0 | 0 | 0 | 314 | 6,371 |
| Alternatives | 0 | 27,332 | 0 | 0 | 0 | 294 | 27,626 |
| | 2,428,073 | 957,576 | (788,579) | (6,790) | 0 | (27,380) | 2,562,900 |
| Other investment balances | | | | | | | |
| Cash deposits | 6,587 | 0 | 0 | 0 | 465 | 0 | 7,052 |
| Amount receivable for sales investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment income due | 265 | 0 | 0 | 0 | 0 | 424 | 689 |
| Tax reclaims due | 225 | 0 | 0 | 0 | (18) | 0 | 207 |
| Amounts payable for purchases investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2,435,150 | 957,576 | (788,579) | (6,790) | 447 | (26,956) | 2,570,848 |

11.3 Realised gains and losses

| 2018-19 | | 2019-20 |
|-----------------------|-----------------------------|----------------------|
| £'000 | | £'000 |
| 64,649 | Bonds | 3,350 |
| 101,488 | Pooled Equity Investments | 26,375 |
| 2,549 | Pooled property investments | 545 |
| <u>168,686</u> | | <u>30,270</u> |

11.4 Geographical analysis of investments

| Fair value | Geographical analysis | Fair value |
|-------------------------|------------------------------|-------------------------|
| 31/03/19 | | 31/03/20 |
| £'000 | | £'000 |
| 1,329,108 | UK | 1,208,494 |
| 198,650 | Europe (excl UK) | 179,147 |
| 623,301 | North America | 573,598 |
| 117,561 | Japan | 120,750 |
| 57,013 | Pacific Rim | 45,218 |
| 230,322 | Emerging Markets | 234,714 |
| 14,893 | International pooled funds | 15,698 |
| <u>2,570,848</u> | | <u>2,377,619</u> |

11.5 Fund manager analysis

| Fair value | Fund manager analysis | Fair value |
|-------------------------|------------------------------|-------------------------|
| 31/03/19 | | 31/03/20 |
| £'000 | | £'000 |
| 1,647,585 | BlackRock | 1,500,135 |
| 299,036 | Schroders | 296,395 |
| 35,556 | Partners Group | 35,503 |
| 588,671 | Wales Pension Partnership | 545,586 |
| <u>2,570,848</u> | | <u>2,377,619</u> |

11.6 Wales Pension Partnership (WPP)

Included in Management Expenses (Table 8) is the cost of our involvement in the Wales Pension Partnership (WPP) collective Investment Pooling arrangement. The Oversight and Governance costs are the annual running costs of the pool which includes the Host Authority costs and other External Advisor costs. These costs are funded equally by all eight of the local authority Pension Funds in Wales. The Investment Management Expenses are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees (which also includes the operator fee and other associated costs), transaction costs and custody fees. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). Further details on the WPP can be found in the Annual Report.

Wales Pension Partnership costs included in the Dyfed Pension Fund accounts for 2019-20 and 2018-19 are below:

| Wales Pension Partnership | | |
|----------------------------------|---|---------------------|
| 31/03/19 | | 31/03/20 |
| £'000 | | £'000 |
| | WPP oversight and governance costs | |
| 111 | Running Costs | 70 |
| | WPP Investment Management expenses | |
| 347 | Fund Manager fees | 2,437 |
| 0 | Transaction costs | 199 |
| 18 | Custody Fees | 93 |
| <u>476</u> | | <u>2,799</u> |

The full year effect of the global growth sub funds launched in January/February 2019 is reflected in the 2019-20 Wales Pension Partnership manager fees.

12 Concentration of Investments

The following investments represent more than 5% of the Fund's total net assets as at 31st March 2020:

| | Value as at 31/03/2020 | Proportion of Investment Portfolio |
|--|-----------------------------------|---|
| | £'000 | % |
| Wales Pension Partnership (Global Growth Fund) | 545,586 | 21.22 |
| BlackRock Aquila Life UK Equity Index Fund | 424,725 | 16.52 |
| Blackrock Ascent Life US Equity Fund | 269,630 | 10.49 |
| Blackrock Active Selection Fund UK | 272,772 | 10.61 |
| Blackrock active selection fund - Emerging Market Index Fund | 164,162 | 6.39 |

13 Investment Management Expenses

| 2018-19 | | 2019-20 |
|--------------------------|--------------------------|-----------------------|
| £'000 | | £'000 |
| *Restated | | |
| (4,513) | Management fees | (5,032) |
| (671) | Performance related fees | (763) |
| (29) | Custody fees | (30) |
| (5,571) * | Transaction costs | (3,670) |
| <u>(10,784) *</u> | | <u>(9,495)</u> |

*Investment Management Expenses restated to include Implicit costs within the Transaction costs.

14 Financial Instruments

14.1 Classification of financial instruments

Accounting policies describe how different asset classes 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.

| 2018-19 | | | | 2019-20 | | | |
|--|-----------------------------------|--|------------------|--|-----------------------------------|--|------------------|
| Designated at fair value through profit and loss £'000 | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 | Total £'000 | Designated at fair value through profit and loss £'000 | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 | Total £'000 |
| Financial assets | | | | | | | |
| 403,998 | 0 | 0 | 403,998 | 380,162 | 0 | 0 | 380,162 |
| 510,928 | 0 | 0 | 510,928 | 424,727 | 0 | 0 | 424,727 |
| 27,626 | 0 | 0 | 27,626 | 53,198 | 0 | 0 | 53,198 |
| 1,293,361 | 0 | 0 | 1,293,361 | 1,187,591 | 0 | 0 | 1,187,591 |
| 320,616 | 0 | 0 | 320,616 | 313,703 | 0 | 0 | 313,703 |
| 6,371 | 0 | 0 | 6,371 | 5,966 | 0 | 0 | 5,966 |
| 0 | 12,259 | 0 | 12,259 | 0 | 17,164 | 0 | 17,164 |
| 896 | 0 | 0 | 896 | 57 | 0 | 0 | 57 |
| 0 | 4,038 | 0 | 4,038 | 0 | 5,437 | 0 | 5,437 |
| 2,563,796 | 16,297 | 0 | 2,580,093 | 2,365,404 | 22,601 | 0 | 2,388,005 |
| Financial liabilities | | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | (4,407) | (4,407) | 0 | 0 | (3,532) | (3,532) |
| 0 | 0 | (4,407) | (4,407) | 0 | 0 | (3,532) | (3,532) |
| 2,563,796 | 16,297 | (4,407) | 2,575,686 | 2,365,404 | 22,601 | (3,532) | 2,384,473 |

14.2 Net gains and losses on financial instruments

| 2018-19 £'000 | 2019-20 £'000 |
|--------------------------------------|------------------|
| Financial assets | |
| 141,730 | (187,169) |
| 141,730 | (187,169) |
| 0 Total financial liabilities | |
| 141,730 | (187,169) |

14.3 Fair value of financial instruments and liabilities

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

| Carrying value | Fair value | | Carrying value | Fair value |
|------------------------------|-------------------|---|-----------------------|-------------------|
| 31/03/19 | 31/03/19 | | 31/03/20 | 31/03/20 |
| £'000 | £'000 | | £'000 | £'000 |
| Financial assets | | | | |
| 1,971,208 | 2,563,796 | Fair value through profit and loss | 1,994,998 | 2,365,404 |
| 16,297 | 16,297 | Loans and receivables | 22,601 | 22,601 |
| 1,987,505 | 2,580,093 | Total financial assets | 2,017,599 | 2,388,005 |
| Financial liabilities | | | | |
| 0 | 0 | Fair value through profit and loss | 0 | 0 |
| (4,407) | (4,407) | Financial liabilities at amortised cost | (3,532) | (3,532) |
| (4,407) | (4,407) | Total financial liabilities | (3,532) | (3,532) |
| 1,983,098 | 2,575,686 | Total | 2,014,067 | 2,384,473 |

14.4 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. Transfers between levels are recognised in the year in which they occur.

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 interest securities, quoted index linked securities and certain 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 would include limited partnerships, where fair value is ascertained from periodic valuations provided by those controlling the partnership. Assurance over the valuation is gained from the independent audit of the partnership.

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

| Fair values at 31 March 2020 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total £'000 |
|---|------------------------|-------------------------------|--|------------------|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 969,374 | 1,076,628 | 319,402 | 2,365,404 |
| Loans and receivables | 22,601 | 0 | 0 | 22,601 |
| Total financial assets | 991,975 | 1,076,628 | 319,402 | 2,388,005 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit and loss | 0 | 0 | 0 | 0 |
| Financial liabilities at amortised cost | (3,532) | 0 | 0 | (3,532) |
| Total financial liabilities | (3,532) | 0 | 0 | (3,532) |
| Net financial assets | 988,443 | 1,076,628 | 319,402 | 2,384,473 |

| Fair values at 31 March 2019 | Quoted market price | Using observable inputs | With significant unobservable inputs | Total £'000 |
|---|------------------------|-------------------------------|--|------------------|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 1,105,917 | 1,131,163 | 326,716 | 2,563,796 |
| Loans and receivables | 16,297 | 0 | 0 | 16,297 |
| Total financial assets | 1,122,214 | 1,131,163 | 326,716 | 2,580,093 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit and loss | 0 | 0 | 0 | 0 |
| Financial liabilities at amortised cost | (4,407) | 0 | 0 | (4,407) |
| Total financial liabilities | (4,407) | 0 | 0 | (4,407) |
| Net financial assets | 1,117,807 | 1,131,163 | 326,716 | 2,575,686 |

14.5 Fair value – Basis of valuation

| Description of Asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the Valuations provided |
|-------------------------------------|---------------------|---|--|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |
| Pooled Investments – Quoted Equity | Level 2 | Closing bid price where bid and offer prices are published Closing single price where single price published | NAV-based pricing set on a forward pricing policy | Not required |
| Pooled Investments – Property Funds | Level 3 | Closing bid price where bid and offer prices are published Closing single price where single price published | NAV-based pricing set on a forward pricing policy | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts. |
| Unquoted Equity | Level 3 | Comparable valuation of similar companies in accordance with International Private Equity and Vanture Capital Valuation Guidelines (2012) | EBITDA multiple Revenue multiple Discount for lack of marketability control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

14.6 Reconciliation of fair value measurements within level 3

| Asset Type | Market Value | Transfers into | Transfers out of | Purchases | Sales | Unrealised Gains / (Losses) | Realised Gains / (Losses) | Market Value |
|-------------------------------------|------------------------|------------------|------------------|---------------|-----------------|-----------------------------|---------------------------|------------------------|
| | 01 April 2019 £'000 | Level 3 £'000 | Level 3 £'000 | £'000 | £'000 | £'000 | £'000 | 31 March 2020 £'000 |
| Equities - Unquoted overseas equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Property | 326,716 | 0 | 0 | 16,155 | (10,639) | (13,215) | 385 | 319,402 |
| Total | 326,716 | 0 | 0 | 16,155 | (10,639) | (13,215) | 385 | 319,402 |

14.7 Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2019-20.

15 Nature and extent of risks arising from financial instruments

15.1 Risk and risk management

The Fund has developed a formal risk assessment process and maintains a risk register which is updated annually. This ensures that risks are identified appropriately and are assessed and managed effectively. For more details, and to view the Risk Register, please refer to the Fund's website - www.dyfedpensionfund.org.uk

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 portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Authority 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 Committee. Risk management policies are established to identify and analyse the risks faced by the Authority's pensions operations. Policies are reviewed regularly to reflect changes in activity and market conditions.

15.2 Market risk

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

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising 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 Committee and its independent investment adviser undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in three ways:

- The exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments
- By investing in a diverse portfolio in terms of managers and investments and again by the actuary only anticipating a long-term return on a relatively prudent basis to reduce risk of under-performing

15.3 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 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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

As a result of the COVID-19 pandemic spread early in 2020, global financial markets reflected the impending risks, with resultant material falls in valuations of most asset classes in February and March of 2020.

At the March 2020 reporting date, property fund managers consider that they can attach less weight to previous market evidence for comparison purposes. They are faced with an unprecedented set of circumstances on which to base judgement. The fall in transactions and lack of clarity on pricing means that all major industry valuers have now added Material Uncertainty clauses to their property fund valuations.

LGPS defined benefit pensions are not linked to stock market performance and are set out in statute. Although short term investment values may vary, the LGPS as a long-term investor is securely managed to address any longer term impacts.

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

15.4 Other price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities shown below, are consistent with a one standard deviation movement in the change in value of the assets over the latest three years:

| Asset Type | Potential market movements (+/-) |
|-------------------|---|
| Equity | 13.20% |
| Bonds | 6.70% |
| Index Linked | 8.50% |
| Property | 2.80% |
| Cash | 1.00% |

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

| Asset Type | Value as at 31 March 2020 £'000 | Change % | Value on Increase £'000 | Value on Decrease £'000 |
|-------------------------------|--|---------------------|--|--|
| Cash | 12,215 | 1.00% | 12,337 | 12,093 |
| UK Equities | 424,727 | 13.20% | 480,791 | 368,663 |
| Overseas Equities | 642,005 | 13.20% | 726,749 | 557,260 |
| Global Pooled Equities inc UK | 545,586 | 13.20% | 617,603 | 473,568 |
| Alternatives | 53,198 | 13.20% | 60,220 | 46,176 |
| UK Corporate Bonds | 272,772 | 6.70% | 291,048 | 254,496 |
| Index Linked Gilts | 107,390 | 8.50% | 116,518 | 98,262 |
| Property | 319,669 | 2.80% | 328,620 | 310,718 |
| Sales receivable | 0 | 0.00% | 0 | 0 |
| Purchases payable | 0 | 0.00% | 0 | 0 |
| Income receivables | 57 | 0.00% | 57 | 57 |
| Total Assets | 2,377,619 | | 2,633,943 | 2,121,293 |

| Asset Type | Value as at | Change | Value on | Value on |
|-------------------------------|------------------|--------|------------------|------------------|
| | 31 March 2019 | | Increase | Decrease |
| | £'000 | % | £'000 | £'000 |
| Cash | 7,052 | 0.50% | 7,087 | 7,017 |
| UK Equities | 510,928 | 10.50% | 564,576 | 457,281 |
| Overseas Equities | 704,690 | 10.50% | 778,682 | 630,697 |
| Global Pooled Equities inc UK | 588,671 | 10.50% | 650,481 | 526,861 |
| Alternatives | 27,626 | 10.50% | 30,527 | 24,725 |
| UK Corporate Bonds | 265,299 | 6.50% | 282,543 | 248,054 |
| Index Linked Gilts | 138,699 | 9.80% | 152,291 | 125,106 |
| Property | 326,987 | 2.60% | 335,489 | 318,485 |
| Sales receivable | 0 | 0.00% | 0 | 0 |
| Purchases payable | 0 | 0.00% | 0 | 0 |
| Income receivables | 896 | 0.00% | 896 | 896 |
| Total Assets | 2,570,848 | | 2,802,572 | 2,339,122 |

15.4.1 Sensitivity of assets valued at level 3

| Asset Type | Value as at | Change | Value on | Value on |
|------------------------------|----------------|--------|----------------|----------------|
| | 31 March 2020 | | Increase | Decrease |
| | £'000 | % | £'000 | £'000 |
| Equities - Unquoted overseas | 0 | 13.20% | 0 | 0 |
| Property | 319,402 | 2.80% | 328,345 | 310,459 |
| Total Level 3 Assets | 319,402 | | 328,345 | 310,459 |

15.5 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 by the Committee in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates against the relevant benchmarks.

The actuary, as part of their triennial valuation and dictated by the Funding Strategy Statement, will only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Progress is analysed at three yearly valuations for all employers.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

| 31/03/19 Asset type | 31/03/20 |
|---------------------------------|----------------|
| £'000 | £'000 |
| 7,052 Cash and cash equivalents | 12,215 |
| 5,207 Cash held at CCC | 4,949 |
| 403,998 Bonds | 380,162 |
| 416,257 Total | 397,326 |

15.6 Interest rate risk sensitivity analysis

Interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

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 | Value as at 31/03/20 £'000 | Change in year in the net assets available to pay benefits | |
|---|----------------------------------|---|----------------|
| | | +1% £'000 | -1% £'000 |
| Cash and cash equivalents | 12,215 | 122 | (122) |
| Cash held at CCC | 4,949 | 49 | (49) |
| Bonds | 380,162 | 3,802 | (3,802) |
| Total change in available assets | 397,326 | 3,973 | (3,973) |

| Asset type | Value as at 31/03/19 £'000 | Change in year in the net assets available to pay benefits | |
|---|----------------------------------|---|----------------|
| | | +1% £'000 | -1% £'000 |
| Cash and cash equivalents | 7,052 | 71 | (71) |
| Cash held at CCC | 5,207 | 52 | (52) |
| Bonds | 403,998 | 4,040 | (4,040) |
| Total change in available assets | 416,257 | 4,163 | (4,163) |

15.7 Discount Rate

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 fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

15.8 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 (£ GBP Sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than £ GBP Sterling.

The Fund's currency rate risk is routinely monitored by the Committee in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at 31 March 2020:

| Fair value 31/03/19 £'000 | Asset type | Fair value 31/03/20 £'000 |
|---------------------------------|------------------------------|---------------------------------|
| 1,213,890 | Overseas Equities | 1,143,481 |
| 27,846 | Property | 25,578 |
| 4 | Cash | 66 |
| 1,241,740 | Total overseas assets | 1,169,125 |

15.9 Currency risk sensitivity analysis

The aggregate currency exposure within the Fund as at 31 March 2020 was 7.40% (2018-19: 8.80%).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.40% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Asset type | Fair value 31/03/20 £'000 | Change in year in the net assets available to pay benefits | |
|---|---------------------------------|---|-----------------|
| | | +7.40% £'000 | -7.40% £'000 |
| Overseas equities | 1,143,481 | 84,618 | (84,618) |
| Property | 25,578 | 1,893 | (1,893) |
| Cash | 66 | 5 | (5) |
| Total change in available assets | 1,169,125 | 86,516 | (86,516) |

| Asset type | Fair value 31/03/19 £'000 | Change in year in the net assets available to pay benefits | |
|---|---------------------------------|---|------------------|
| | | +8.80% £'000 | -8.80% £'000 |
| Overseas equities | 1,213,890 | 106,822 | (106,822) |
| Property | 27,846 | 2,450 | (2,450) |
| Cash | 4 | 0 | 0 |
| Total change in available assets | 1,241,740 | 109,272 | (109,272) |

15.10 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 value of the Fund's financial assets and liabilities.

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

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 Carmarthenshire County Council monitors membership movements on an annual basis.

New employers to the Fund have to agree to the provision of a bond to prevent the risk of future financial loss to the Fund in the event of not being able to meet its pension liability on cessation. Carmarthenshire County Council currently guarantees to meet any future liabilities falling on the Fund as a result of cessation. This is done to ensure that actuarial recovery periods and amounts are kept at a manageable level for smaller employers.

No collateral is held as security on financial assets. Carmarthenshire County Council does not generally allow credit to employers.

All investments held by investment managers are held in the name of the Dyfed Pension Fund at the custodian – Northern Trust, so if the investment manager fails the Fund’s investments are not classed amongst the manager’s assets.

Any cash held is in the Carmarthenshire County Council accounts and is invested in line with Carmarthenshire County Council’s approved credit rated counterparty list.

15.11 Liquidity risk

This refers to the possibility that the Fund might not have sufficient Funds available to meet its commitments to make payments.

Carmarthenshire County Council has a comprehensive cash flow management system that seeks to ensure that cash is available when needed.

The amount held in the Fund’s bank accounts meet the normal liquidity needs of the Fund and any surplus cash is invested. The Fund’s actuaries establish what contributions should be paid in order that all future liabilities can be met.

The investments of the Fund are mainly of a liquid nature. Although any forced liquidation of the investments may be subject to a financial loss.

16 Current assets

| 31/03/19 £'000 | | 31/03/20 £'000 |
|-------------------|---------------------------------|-------------------|
| | Contributions due from employer | |
| 1,804 | - Employer | 2,428 |
| 1,624 | - Employee | 1,696 |
| 5,207 | Cash Balances | 4,949 |
| 610 | Debtors | 1,313 |
| <u>9,245</u> | | <u>10,386</u> |

16.1 Analysis of Current assets

| 31/03/19 | | 31/03/20 |
|-----------------|---------------------------------------|-----------------|
| £'000 | | £'000 |
| 3 | HMRC | 3 |
| 7,731 | Other local authorities | 8,021 |
| 1 | NHS bodies | 1 |
| 0 | Public corporations and trading funds | 1,117 |
| 1,510 | Other entities and individuals | 1,244 |
| 9,245 | | 10,386 |

17 **Current liabilities**

| 31/03/19 | | 31/03/20 |
|-----------------|-----------------|-----------------|
| £'000 | | £'000 |
| (2,266) | Unpaid benefits | (1,884) |
| (2,141) | Creditors | (1,648) |
| (4,407) | | (3,532) |

17.1 Analysis of Current liabilities

| 31/03/19 | | 31/03/20 |
|-----------------|---------------------------------------|-----------------|
| £'000 | | £'000 |
| (759) | HMRC | (689) |
| (106) | Other local authorities | (35) |
| (684) | Public corporations and trading funds | (606) |
| (2,858) | Other entities and individuals | (2,202) |
| (4,407) | | (3,532) |

18 **Additional Voluntary Contributions (AVC)**

Occupational Pension Schemes are required by Statute to provide in-house AVC arrangements. The Fund has joint providers: Prudential, Standard Life and UTMOST (previously Equitable Life), where a range of investment options are available.

It is for individual Scheme members to determine how much they contribute (subject to HMRC limits) and the investment components or its mix.

The contributions made to separately invested AVC schemes and the value of these investments as at the balance sheet date are shown below:

| AVC Provider | Value as at 31/03/19 £ '000 | Contributions £ '000 | Expenditure £ '000 | Change in Market Value £ '000 | Value as at 31/03/20 £ '000 |
|---------------|-----------------------------------|-------------------------|-----------------------|-------------------------------------|-----------------------------------|
| Prudential | 5,754 | 1,712 | (1,075) | (115) | 6,276 |
| UTMOST | 522 | 9 | 0 | (38) | 493 |
| Standard Life | 3,326 | 423 | (905) | (47) | 2,797 |
| Total | 9,602 | 2,144 | (1,980) | (200) | 9,566 |

19 Funding arrangements

In line with Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contributions rates for the forthcoming triennial period. The valuation that these financial statements are based on took place as at 31 March 2016. The last such valuation took place as at 31 March 2019.

For more details, and to view the Funding Strategy Statement (FSS), please refer to the Fund's website – www.dyfedpensionfund.org.uk and the Annual Report and Accounts 2019-20.

20 Related Party Transactions

The Fund is administered by Carmarthenshire County Council (the Authority), consequently there is a strong relationship between the Authority and the Fund.

The Authority incurred costs of £1.108 million (2018-2019: £1.038 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund.

The Authority is also the single largest employer of members in the Fund and contributed £35.015 million to the Fund in 2019-2020 (2018-2019: £32.441 million).

The Fund holds part of its cash balance with the Authority in order to meet its day to day expenditure. This cash is invested on the Money Markets by the Authority's Treasury Management section. During the year to 31 March 2020, the Fund had an average investment balance of £18.64 million (2018-2019: £13.58 million) earning interest of £140,466 (2018-2019: £88,575).

20.1 Governance

Pension Committee

There are three members and one substitute member of the Pension Committee. During 2019-20 these were Councillor Elwyn Williams, Councillor Robert Evans who was replaced by Councillor Deryk Cundy in January 2020, Councillor Jim Jones (active member) and the substitute was Councillor Dai Thomas (active member).

The Director of Corporate Services, Mr Chris Moore, who has the role of Section 151 Officer for the Authority, played a key role in the financial management of the Fund and is also an active member of the Fund.

The Committee members and the Senior Officers that advise the Committee are required to declare their interest at each meeting. The Committee members and Director of Corporate Services accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

Pension Board

A Pension Board was approved by County Council on the 11th February 2015 effective from 1st April 2015 in line with the Public Service Pension Act 2013. It consists of three employer representatives, three member representatives and an independent chair.

For more details, and to view the Governance Policy, please refer to the Fund's website – www.dyfedpensionfund.org.uk and the Annual Report and Accounts 2019-20.

20.2 Key Management Personnel

The key management personnel of the fund is the Section 151 Officer. Total remuneration payable to key management personnel is set out below:

| 31/03/19 | | 31/03/20 |
|------------------|--------------------------|------------------|
| £'000 | | £'000 |
| 14 | Short-term benefits | 14 |
| <u>3</u> | Post-employment benefits | <u>3</u> |
| <u>17</u> | | <u>17</u> |

21 Employing bodies contribution rates, contributions receivable and benefits payable

| 2018-19 | | | | 2019-20 | | | |
|---------------------------------------|---------------------------------------|-----------------------------|------------------------------|--------------------------------|---------------------------------------|-----------------------------|------------------------------|
| Contri- bution rate % | Deficit Contri- bution £'000 | Contri- butions £'000 | Benefits payable £'000 | Contri- bution rate % | Deficit Contri- bution £'000 | Contri- butions £'000 | Benefits payable £'000 |
| Scheduled bodies | | | | | | | |
| 15.1 | 2,623 | 29,818 | 35,528 | 15.1 | 2,720 | 32,295 | 37,661 |
| 15.6 | 864 | 16,468 | 17,794 | 15.6 | 889 | 18,210 | 19,553 |
| 15.3 | 140 | 11,505 | 11,621 | 15.3 | 241 | 11,799 | 13,417 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 13.5 | 90 | 4,732 | 3,002 | 13.5 | 93 | 4,875 | 3,100 |
| 14.1 | 74 | 1,294 | 1,248 | 14.1 | 76 | 1,346 | 1,194 |
| 16.2 | 0 | 291 | 313 | 16.2 | 0 | 402 | 509 |
| 16.1 | 113 | 1,531 | 1,058 | 16.1 | 117 | 1,628 | 1,005 |
| 15.8 | (84) | 633 | 778 | 15.8 | (87) | 667 | 910 |
| 15.0 | 84 | 1,081 | 423 | 15.0 | 87 | 1,129 | 551 |
| | 3,904 | 67,353 | 71,765 | | 4,136 | 72,351 | 77,900 |
| Designated (Resolution) bodies | | | | | | | |
| 23.0 | 0 | 11 | 13 | 23.0 | 0 | 16 | 13 |
| 24.9 | 0 | 0 | 0 | 24.9 | 0 | 0 | 0 |
| 17.9 | 17 | 80 | 111 | 17.9 | 18 | 80 | 99 |
| 21.6 | 0 | 31 | 0 | 21.6 | 0 | 33 | 0 |
| 21.7 | 0 | 12 | 0 | 21.7 | 0 | 14 | 0 |
| 24.0 | 1 | 5 | 4 | 24.0 | 1 | 6 | 4 |
| - | 0 | 11 | 31 | - | 0 | 12 | 32 |
| 27.6 | 9 | 13 | 12 | 27.6 | 10 | 15 | 12 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 20.7 | 0 | 2 | 1 | 20.7 | 0 | 2 | 1 |
| 24.9 | 0 | 0 | 1 | 24.9 | 0 | 0 | 1 |
| 15.9 | 6 | 194 | 156 | 15.9 | 6 | 213 | 214 |
| 19.1 | 7 | 57 | 91 | 19.1 | 7 | 62 | 104 |
| 15.9 | 0 | 8 | 0 | 15.9 | 0 | 9 | 0 |
| 19.5 | 5 | 39 | 21 | 19.5 | 5 | 34 | 12 |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 19.6 | (2) | 39 | 7 | 19.6 | (2) | 53 | 42 |
| 16.3 | (2) | 10 | 12 | 16.3 | (2) | 10 | 19 |
| 16.6 | 1 | 13 | 0 | 16.6 | 1 | 14 | 0 |
| 13.5 | 1 | 10 | 0 | 13.5 | 1 | 10 | 0 |
| | 43 | 535 | 460 | | 45 | 583 | 553 |

(continued overleaf)

(continued from previous page)

| 2018-19 | | | | 2019-20 | | | |
|--|---------------------------------------|-----------------------------|------------------------------|--------------------------------|---------------------------------------|-----------------------------|------------------------------|
| Contri- bution rate % | Deficit Contri- bution £'000 | Contri- butions £'000 | Benefits payable £'000 | Contri- bution rate % | Deficit Contri- bution £'000 | Contri- butions £'000 | Benefits payable £'000 |
| Admission bodies | | | | | | | |
| Community Admission Body (CAB) | | | | | | | |
| 17.9 | 11 | 44 | 53 | 17.9 | 12 | 46 | 24 |
| 15.1 | (21) | 1,148 | 1,323 | 15.1 | (21) | 932 | 1,126 |
| 17.0 | 10 | 32 | 40 | 17.0 | 10 | 29 | 35 |
| 27.6 | (9) | 10 | 0 | 27.6 | (9) | 13 | 118 |
| 15.9 | 2 | 14 | 40 | 15.9 | 2 | 13 | 41 |
| 23.3 | 5 | 3 | 15 | 23.3 | 5 | 3 | 16 |
| 0.0 | 0 | 0 | 34 | 0.0 | 0 | 0 | 38 |
| 11.7 | 11 | 71 | 11 | 11.7 | 11 | 72 | 11 |
| 10.5 | 29 | 36 | 32 | 10.5 | 30 | 36 | 32 |
| 10.8 | 1 | 38 | 0 | 10.8 | 1 | 55 | 0 |
| 7.4 | (2) | 13 | 10 | 7.4 | (2) | 12 | 10 |
| Narberth & District Community & Sports Association | | | | | | | |
| 19.3 | (3) | 9 | 15 | 19.3 | (3) | 4 | 10 |
| 20.1 | 1 | 66 | 100 | 20.1 | 1 | 61 | 56 |
| 13.7 | 4 | 83 | 69 | 13.7 | 5 | 82 | 27 |
| 15.8 | (5) | 267 | 222 | 15.8 | (6) | 253 | 220 |
| 18.4 | 72 | 602 | 497 | 18.4 | 74 | 659 | 669 |
| 22.3 | 83 | 11 | 219 | 22.3 | 86 | 11 | 214 |
| 14.7 | (24) | 223 | 334 | 14.7 | (24) | 236 | 413 |
| 14.8 | 5 | 28 | 41 | 14.8 | 5 | 31 | 41 |
| 15.8 | (3) | 26 | 73 | 15.8 | (3) | 29 | 75 |
| 14.2 | 1 | 7 | 0 | 14.2 | 1 | 6 | 0 |
| | 168 | 2,731 | 3,128 | | 175 | 2,583 | 3,176 |
| Transferee Admission Body (TAB) | | | | | | | |
| 19.3 | 0 | 16 | 38 | 19.3 | 0 | 17 | 38 |
| 26.6 | (1) | 6 | 54 | 26.6 | 0 | 0 | 14 |
| 15.3 | 0 | 214 | 27 | 15.3 | 0 | 398 | 4 |
| 21.2 | (7) | 117 | 106 | 21.2 | (7) | 65 | 122 |
| | (8) | 353 | 225 | | (7) | 480 | 178 |
| Bodies with no pensionable employees | | | | | | | |
| 0.0 | 0 | 5 | 6 | 0.0 | 0 | 6 | 7 |
| 0.0 | 0 | 0 | 13 | 0.0 | 0 | 0 | 13 |
| 0.0 | 0 | 0 | 90 | 0.0 | 0 | 0 | 41 |
| 0.0 | 0 | 52 | 317 | 0.0 | 0 | 52 | 320 |
| 0.0 | 0 | 1 | 7 | 0.0 | 0 | 1 | 7 |
| 0.0 | 0 | 2 | 10 | 0.0 | 0 | 2 | 4 |
| 0.0 | 0 | 0 | 2 | 0.0 | 0 | 0 | 2 |
| 0.0 | 0 | 0 | 7,668 | 0.0 | 0 | 0 | 7,527 |
| 0.0 | 0 | 0 | 2 | 0.0 | 0 | 0 | 2 |
| 0.0 | 0 | 7 | 7 | 0.0 | 0 | 7 | 7 |
| 0.0 | 0 | 4 | 16 | 0.0 | 0 | 4 | 16 |
| 0.0 | 0 | 0 | 7 | 0.0 | 0 | 0 | 7 |
| 0.0 | 0 | 0 | 6 | 0.0 | 0 | 0 | 5 |
| 0.0 | 0 | 2 | 2 | 0.0 | 0 | 2 | 2 |
| | 0 | 73 | 8,153 | | 0 | 74 | 7,960 |
| 4,107 71,045 83,731 Total | | | | 4,349 76,071 89,767 | | | |

21.1 Bodies with No Pensionable Employees where pension increase is recharged

It has been assumed that for the following bodies, the proportion of pension increases stated below will continue to be recharged.

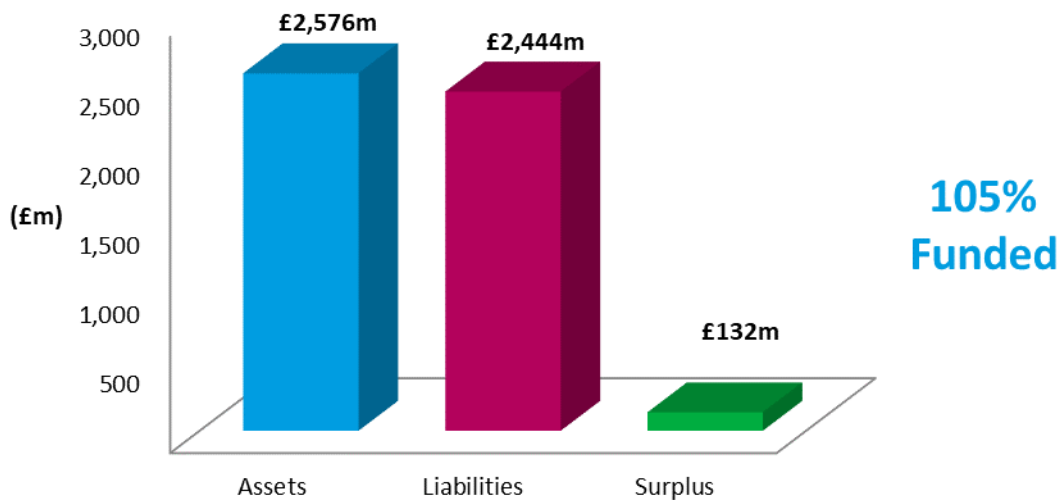
| | Proportion to be recharged % |
|----------------------------|------------------------------|
| DVLA | 100 |
| Milford Haven Town Council | 100 |
| National Health Service | 100 |
| Carmarthen Family Centre | 100 |
| Dwr Cymru Welsh Water | 50 |

22 Actuarial Statement

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Dyfed Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £2,576 million represented 105% of the Fund's past service liabilities of £2,444 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £132 million.



The valuation also showed that a Primary contribution rate of 18.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually

appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 14 years, and the total initial recovery payment (the “Secondary rate” for 2020-2023) is an offset of approximately £3m per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

| | For past service liabilities (Solvency Funding Target) | For future service liabilities (Primary rate of contribution) |
|---|--|---|
| Rate of return on investments (discount rate) | 4.1% per annum | 4.65% per annum |
| Rate of pay increases (long term) | 3.9% per annum | 3.9% per annum |
| Rate of increases in pensions in payment (in excess of GMP) | 2.4% per annum | 2.4% per annum |

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £28 million and an increase in the Primary Contribution rate of 1.1% of Pensionable Pay per annum. Provision for these costs has been included within the secondary rate for all employers (and also within the whole Fund average Secondary rate of £3 million per annum offset shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

| | 31 March 2019 | 31 March 2020 |
|--|-----------------|----------------|
| Rate of return on investments (discount rate) | 2.4% per annum | 2.4% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 2.2% per annum | 2.1% per annum |
| Rate of pay increases | 3.7%* per annum | 3.6% per annum |
| Rate of increases in pensions in payment (in excess of GMP)/Deferred revaluation | 2.3% per annum | 2.2% per annum |

* This is the long-term assumption. An allowance corresponding to that made at the previous formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £3,291 million excluding the potential impact of the McCloud Judgment. Interest over the year increased the liabilities by c£80 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£66 million (this includes any increase in liabilities arising as a result of early retirement and GMP indexation – see comments elsewhere in this statement). Allowing for the potential impact of the McCloud judgment increased the liabilities by £38 million.

There was also a decrease in liabilities of £28 million due to “actuarial gains” (i.e the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2020 is therefore £3,447 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £10 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

John Livesey

Fellow of the Institute and
Faculty of Actuaries

Laura Evans

Fellow of the Institute and
Faculty of Actuaries

Mercer Limited
May 2020

The Actuary has based the figures for the provision for McCloud broadly on the proposed remedy in the HM Treasury consultation issued in July 2020 with an increase of approximately £28m in past service liabilities, this is included within the secondary rate for all employers.

23 Current Economic Climate

As a result of the COVID-19 pandemic, pension fund investments have been subject to volatility. The markets, however, have continued trading and while it is recognised that the volatility exists, information is available to measure the financial instruments at 31 March 2020. Some investment markets, in particular equities, have recouped a significant proportion of the losses incurred from the lows of late March 2020 with the fund value at the end of August 2020 at £2.733billion, an increase of more than 15% from 31 March 2020. However, the outlook remains highly uncertain for financial markets and the economy, both in the UK and globally.

The impact for the Dyfed Pension Fund will possibly be seen next financial year with a potential financial impact with increased costs and potential loss of dividend / investment income during 2020-21. This area is being managed carefully with regular contact and updates being received from the investment managers and the Dyfed Pension Fund independent adviser.