



DYFED PENSION FUND

Annual Report & Accounts 2021-2022

Administered by:



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Chairman's Foreword

Welcome to this year's Dyfed Pension Fund Annual Report and Accounts.

2021-2022 started so well with rapid economic recovery as the COVID-19 restrictions eased and as the fiscal and monetary stimulus put in place during the pandemic took effect. Towards the end of the year though the world economy suffered a "triple whammy", if you like, with rising inflation (which I predicted during last year), increasing interest rates and the terrible war in Ukraine. These issues have had and continue to have a profound effect on our work and personal lives.

During the year the pension committee approved a further equity restructure, the Fund's Responsible Investment (RI) Policy, the Wales Pension Partnership (WPP) 2022-2025 Business Plan and received regular progress updates on pensions administration projects.

The equity restructure resulted in an additional £30m to the BlackRock UK Strategic Alternative Income Fund (SAIF) taking the total allocation to this fund to £150m (5% of the Fund) and an additional £60m to our property managers Schrodgers making the total allocation with them £400m (13% of the Fund). This ensures that the investments are back in line with the Fund's strategic asset allocation. Going forward SAIF is expected to deliver a cash yield of some 3.5% and a total return of 4-4.5% and Schrodgers will deliver estimated additional cash flows of £2.8m per annum. This rationalisation also results in a further reduction in the Fund's carbon intensity and just as importantly some inflation protection which is even more essential now given that inflation is rising steeply.

The Fund is a long-term investor aiming to deliver a sustainable pension fund for all stakeholders and has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members. Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in the Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers and minimising the long-term cost of the scheme. The pension committee believes that consideration of Environmental, Social and Corporate Governance (ESG) factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective. The RI Policy sets out the Fund's investment beliefs and is shown in Section 9.

The WPP investment pool is making good progress and is demonstrating a clear commitment to pooling and the value it can deliver. The Dyfed Pension Fund had 38% invested in the WPP at year-end and a further 39% in the jointly procured BlackRock pooled funds. WPP's work plan sets out the key priorities and objectives over the next three years for governance, ongoing sub-fund development, operator services, investments and reporting, communication and training and resources, budget and fees. As a member of the Joint Governance Committee (JGC) I am proud of the work that has been undertaken to date and am excited by the prospect of the Fund investing in the Sustainable Equity sub-fund which will launch in 2022-2023. The training that is provided by the WPP, and its partners, to pension committee and pension board members is well presented, informative and second to none. WPP's extensive [website](#) is worth a look!

It is important to remember that the Pensions Administration team not only administers the Local Government Scheme and its provisions but also, by agreement, similar services to the Chief Constable and Chief Fire Officers administering the Police and Firefighter's Pension Schemes for Dyfed Powys Police, Mid & West Wales Fire and Rescue Service and North Wales Fire and Rescue Service respectively. The projects that are currently being undertaken by the team include regulatory work such as McCloud/Sargeant and pensions dashboards, further development work to on board employers onto I-connect in order that data can be transferred electronically and GMP Reconciliation where over 99% of the records held have been reconciled. I am also pleased to inform you that the team has outperformed the benchmark in all categories and compared to the All-Wales average has a lower administration cost per scheme member at £27.62. Further detail in these areas can be found in Section 3.

With the membership of the Fund increasing by 2.4% (1,235) during the year, the total workflow (retirements, starters, transfers and leavers) continuing at a high level and the pandemic still necessitating hybrid working, the team have continued to pay our pensioners on time and engaged effectively with employers throughout the year.

And finally, the triennial valuation is upon us once again! Senior officers have been working with our actuary, Mercer, on initial calculations as at 31 March 2022. The results are due out in the Autumn and I have been reliably informed that we will once again have a high funding level which is good news for all our stakeholders.

I would like to thank my fellow pension committee members for their continued support and dedication to the role and the senior managers and officers in the Administration and Investment teams for maintaining a high-quality service for all our stakeholders and ensuring that the Dyfed Pension Fund goes from strength to strength.

Councillor Elwyn Williams

Chair of the Dyfed Pension Fund Committee



Introduction

As the Chair mentioned in his Foreword it has been another eventful year for the Fund.

How has this affected investment returns?

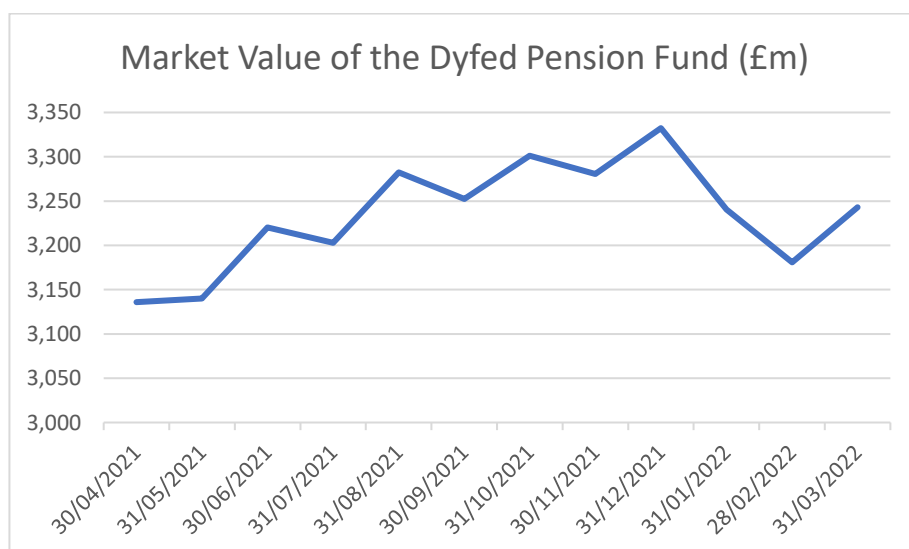
The Fund produced an overall return of 6.2% during the year, underperforming the average LGPS fund return of 8.6%. This was largely as a result of the Fund's relatively high level of equities and low investment in alternative assets, such as, private equity, hedge funds and private debt. Asset class returns can be seen in the table below:

One year performance to 31/03/22

Asset Class	Return (%)	LA Universe (%)	Out/(Under) Performance (%)	Ranking
Equities	5.50	7.60	(2.10)	76
Bond/Credit	(2.70)	(0.30)	(2.40)	73
Alternatives	8.70	19.00	(10.30)	84
Property	17.20	17.90	(0.70)	58
Overall	6.20	8.60	(2.40)	69

Over the long term the asset allocation has benefitted the Fund returning 8.2% p.a. over the 3 years since the March 2019 actuarial valuation, 7.1% p.a. over the last 5 years and 9.4% over the last 10 years, putting it well ahead of the median LGPS Fund and indeed ranking it in the top quartile. More information can be found in Section 2.

The market value of the Fund fluctuated during the year and recovered in March 2022 following the slump in January and February 2022. I expect the value to continue to fluctuate in 2022-23 due to the reasons we have already highlighted in this report.



With reference to the actuarial valuation mentioned above the triennial exercise as at 31 March 2022 has commenced. The purpose of the actuarial valuation is to determine:

- The expected cost of providing the benefits built up by members at the valuation date (the “liabilities”) and compare this against the funds held by the Fund (the “assets”).
- The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Fund (the ‘Primary Contribution Rate’).
- An appropriate plan for making up the shortfall if the Fund has less assets than liabilities. This plan will cover the amounts which will need to be paid (the ‘Secondary Contribution Rate’) and the timeframe over which they will be paid (‘the Recovery Period’).

Early indications from Mercer, our actuary, is that the Fund is again well funded. Increasing inflation and the rise in interest rates will be factored into the assumptions that are used to calculate the funding level and employer contribution rates. The full employer results will be available at the Fund’s Annual Consultative Meeting in Autumn 2022.

We continue to make good progress on the responsible investment front. The Chair has already mentioned our Responsible Investment (RI) Policy and also the pension committee were presented with an RI update during the year. The main points were:

- Continued active engagement on a variety of issues, via our Wales Pension partnership (WPP) stewardship partner, Robeco
- Met with and continued constructive engagement with Divest Dyfed and Friends of the Earth groups
- Worked with WPP to set up a Sustainable Equity sub-fund. This will be launched during 2022
- Initiated discussions with BlackRock on a lower carbon / zero fossil fuel variant of their ACS Low Carbon Fund which the Fund is already invested in
- Commenced discussions with WPP on local investments within Wales

As you can see this is all very promising and continues our lower carbon journey.

I would like to thank the Chair for his kind words again this year. Global events, whether it be the pandemic or the Ukraine war, affect our working and personal lives and it is important that we continue to work together to ensure that our teams’ wellbeing is at the forefront of our minds.

Thank you all for your continued dedication to your roles in Administration and Investment and for your support to all the Dyfed Pension Fund’s stakeholders.

Chris Moore

**Director of Corporate Services
Carmarthenshire County Council**



Section 1 - Management & Financial Performance Reports

Fund Management & Advisers

The Dyfed Pension Fund is administered by Carmarthenshire County Council (the administering authority) and under the Council's constitution the Dyfed Pension Fund Committee has overall strategic responsibility for managing the Fund. The Fund's Governance Policy sets out the roles and responsibilities of the Committee.

During 2021-22 the Committee members were:

- Councillor Elwyn Williams - Chairman of the Committee
- Councillor Derek Cundy - Committee Member
- Councillor Jim Jones - Committee Member
- Councillor Dai Thomas - Substitute Committee Member

The following officers from Carmarthenshire County Council also attended Committee meetings and/or acted as advisers:

- Mr Chris Moore, FCCA - Director of Corporate Services
- Mr Randal Hemingway, CPFA - Head of Financial Services
- Mr Anthony Parnell, FCCA - Treasury and Pension Investments Manager
- Mr Kevin Gerard, MIPPM - Pensions Manager

The Dyfed Pension Fund Committee has adopted the Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Code sets out the knowledge and skills needed for those involved with pension scheme governance as recommended by Lord Hutton in his report on public sector pensions.

The Committee and officers attended various training courses, seminars and conferences on administration and investment matters. These were provided by the investment managers, consultants, officers, national and local government associations. The meeting attendance and training events for each Committee member are shown below:

Meeting attendance and training events 2021-22	Cllr Elwyn Williams	Cllr Deryk Cundy	Cllr Jim Jones	Cllr Dai Thomas
Voting rights	✓	✓	✓	
2021-22 Meeting attendance:				
Committee Meeting 16 June 2021	✓	✓	✓	
ACM 7 October 2021	✓	✓		✓
Committee Meeting 8 October 2021	✓	✓		✓
Committee Meeting 3 December 2021	✓	✓	✓	
Committee Meeting 29 March 2022	✓	✓	✓	

2021-22 Training events:				
Briefing Session (Schroders) May 2021	✓	✓		✓
Briefing Session (BlackRock) June 2021	✓	✓	✓	
Business Meeting (LAPFF) July 2021	✓			
Investment Summit (LGC) September 2021	✓			✓
AGM & Business Meeting (LAPFF) October 2021	✓			
Fundamentals Training (LGPC)				✓
Annual Conference (LAPFF) December 2021		✓		

In addition to the training above, the Wales Pension Partnership held a number of training sessions during 2021-22 which were available to all Committee members.

The Fund's Independent Investment Adviser: Mr Adrian Brown (MJ Hudson Investment Advisers) - Advises the Committee on all aspects of investment management at quarterly meetings and ad hoc meetings as necessary

Investment Managers: BlackRock, Schroders, Partners Group, Wales Pension Partnership

Legal Advisers: Eversheds

Performance Measurement

Company: Local Authority Pension Performance Analytics (PIRC)

Fund Actuary: Mercer

Custodian: Northern Trust

Bankers: Barclays Bank Plc

AVC Providers: Prudential, Standard Life and UTMOST

External Auditor: Auditor General for Wales

Risk Management

Carmarthenshire County Council, the Administering Authority to the Dyfed Pension Fund, recognises the importance of effective risk management. Risk management is the process by which the council systematically identifies and addresses the risks associated with its activities.

Risk management is a key part of Carmarthenshire County Council's corporate governance arrangements and the council has a formal risk management strategy which is regularly reviewed and developed in response to changes within the council and the external environment.

As required by the risk management strategy the Fund uses the risk register tool to identify, prioritise, manage and monitor risks associated with the Dyfed Pension Fund. This register can be found on the Dyfed Pension Fund's website.

The Funding Strategy Statement (FSS) (Section 7) and the Investment Strategy Statement (ISS)(Section 8) explain the Fund's key risks and how they are identified, mitigated, managed and reviewed. Investment advice is received from Mr Adrian Brown, the Independent Investment Adviser, and the Dyfed Pension Fund Committee meet and review fund manager performance and activity at least quarterly.

Financial Performance

Income & Expenditure

The table below shows actual income and expenditure for 2021-22 against budget:

	Actual 2020-21 £'000	Budget 2021-22 £'000	Actual 2021-22 £'000	Variance 2021-22 £'000
Income				
Employee Contributions	21,599	22,121	22,847	726
Employer Contributions	62,455	66,893	66,168	(725)
Transfers In	3,196	3,000	4,196	1,196
Investment Income	32,187	15,798	32,138	16,340
Total Income	119,437	107,812	125,349	17,537
Expenditure				
Benefits Payable	(89,783)	(92,363)	(92,402)	(39)
Transfers Out	(3,595)	(3,120)	(3,534)	(414)
Management Expenses	(1,883)	(1,938)	(1,976)	(38)
Investment Management Expenses	(13,303)	(10,391)	(12,435)	(2,044)
Total Expenditure	(108,564)	(107,812)	(110,347)	(2,535)
Changes in the Market Value of Investments	654,254	-	178,055	-
Net Increase/(Decrease) in the fund	665,127	-	193,057	-

Section 2 - Investment Policy & Performance Reports

Fund Investments

Investment Policy

The Fund sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS) (Section 8). The ISS also sets out the Fund's policies in respect of responsible investment and other environmental or social issues.

The Investment Policy and the approach to the management of risk for the Fund as a whole and in respect of the investment managers is outlined in the ISS. The ISS has been developed alongside the Fund's funding strategy on an integrated basis taking into account the risks inherent in the Fund. The ISS document can be found on our [website](#).

Responsible Investment (RI) Policy

The Fund is a long-term investor aiming to deliver a sustainable pension fund for all stakeholders and has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members.

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in the Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers and minimising the long-term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance (ESG) factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Responsible Investment Policy can be found in Section 9 of this report or on the [website](#).

Membership of Pension Fund Institutions

The Fund subscribes to and is a member of Pension and Lifetime Savings Association (PLSA), Local Authority Pension Fund Forum (LAPFF), CIPFA Pension's Network, LGA Scheme Advisory Board (SAB) and LGA Local Government Pension Committee (LGPC).

Voting

Managers are instructed to vote the Fund's shares in companies in line with the Fund's Voting Policy and the PLSA voting guidelines. These guidelines set out principles that should be followed when voting.

Manager changes

There were no manager changes during the year, however there was a transition:

The Fund divested an element of its BlackRock ILG and BlackRock regional equity portfolios to increase its allocation to BlackRock's UK SAIF and Schroders property portfolios by £30m and £60m, respectively.

Asset Allocation

Mandate	Approach	Manager	Benchmark (%)	Actual (%)
Equities		Allocation	65.00	72.56
Global	Active	Wales Pension Partnership		30.51
Japanese	Active	BlackRock		3.39
Other Regional	Passive	BlackRock		28.64
ACS Low Carbon	Passive	BlackRock		10.02
Fixed Interest		Allocation	10.00	8.62
Index Linked Gilts	Passive	BlackRock		0.97
Fixed Interest Bonds	Active	Wales Pension Partnership		7.65
Property		Allocation	15.00	14.26
Property	Active	Schroders		12.83
Property	Active	Partners Group		1.43
Infrastructure		Allocation	5.00	0.00
Infrastructure				0.00
Alternatives		Allocation	5.00	3.73
SAIF	Active	BlackRock		3.73
Cash		Allocation	0.00	0.83
Cash	Active	Various		0.83
Total			100.00	100.00

The table above shows that the Fund's actual allocation to equities is more than the benchmark. The Pension Committee are reviewing the allocations with a view of rebalancing the investments in line with the benchmarks once infrastructure investments are available.

The table below shows the change in fund value from the beginning of the year to the end of the year and is broken down by asset class. The value of the Fund increased by 6.4% from 2020-21 to 2021-22:

	Value as at 31/03/21	Value as at 31/03/22
	£'000	£'000
UK Equities	518,105	570,137
Global & Overseas Equities	1,769,008	1,778,321
Index Linked Gilts	61,172	31,515
Fixed Interest Bonds	258,679	247,621
Property	338,043	461,700
Alternatives (SAIF)	84,314	120,559
Cash	11,376	24,969
Accrued Income	547	1,855
Total	3,041,244	3,236,677

Investment Performance

Total Fund performance was below the LA Universe average over the one and three year periods, equal to the average over the 5 year period and above the average over the ten year period.

Periods to 31/03/22	Return (%)	LA Universe (%)	Out/(Under) Performance (%)	Ranking
1 year	6.20	8.60	(2.40)	69
3 years*	8.20	8.30	(0.10)	64
5 years*	7.10	7.10	0.00	44
10 years*	9.40	8.90	0.50	20

*Annualised Returns

Individual Managers' Performance

The following tables show the performance of each manager for the year ending 31 March 2022.

Partners Group

The performance of investments in private property is measured by Internal Rate of Return (IRR), a figure that will be volatile until the Fund reaches maturity. The current portfolio IRR is 7%. As a time-weighted return based on cash flows it is not a meaningful performance measurement until all capital contributed and earnings has been returned to the investor. Until then the IRR will peak and dip based on the timing of cash inflows and outflows. The portfolio of investments continue to meet Partners Group's expectations in terms of performance.

The table illustrates the cash flows as at 31 March 2022. The valuation of the property portfolio is above the original cost of investment:

Portfolio investments	
Committed	£99.53m
Commitment level - directs	23.78%
Commitment level - secondaries	31.87%
Commitment level - primaries	46.96%
Invested	£80.82m
Investment level	81.20%

Partners Group Red Dragon, L.P.	
Commitments	£97.00m
Capital contributions	£66.26m
Capital contributions (in % of commitments)	68.31%
Unfunded commitments	£30.74m
Distributions	£42.00m
Net asset value	£46.33m

Schroders

The fund underperformed the benchmark over the one, three and five year periods by -2.00%, -1.00% and -0.30% respectively.

Performance to 31/03/22	Return (%)	Benchmark (%)	Out/(Under) Performance
1 year	21.10	23.10	(2.00)
3 years*	7.00	8.00	(1.00)
5 years*	7.50	7.80	(0.30)

*Annualised Returns

BlackRock

The manager outperformed the benchmark over the one, three and five year periods by 1.30%, 1.57% and 1.38% respectively.

Performance to 31/03/22	Return (%)	Benchmark (%)	Out/(Under) Performance
1 year	7.61	6.31	1.30
3 years*	8.84	7.27	1.57
5 years*	7.09	5.71	1.38

*Annualised Returns

Wales Pension Partnership

Global Growth Fund

The Fund underperformed the benchmark over the one year period by -9.81%. The Fund has also underperformed the benchmark since its inception in February 2019 by -1.31%.

Performance to 31/03/22	Net Return (%)	Benchmark (%)	Out/(Under) Performance
1 year	2.61	12.42	(9.81)
Inception to Date	12.31	13.62	(1.31)

Global Credit Fund

The Fund outperformed the benchmark over the one year period by 0.81%. The Fund has also outperformed the benchmark since its inception in August 2020 by 1.19%.

Performance to 31/03/22	Net Return (%)	Benchmark (%)	Out/(Under) Performance
1 year	(4.29)	(5.10)	0.81
Inception to Date	(2.74)	(3.93)	1.19

BlackRock

Strategic Alternative Income Fund

2021 was a challenging year overall with heightened uncertainty due to the lingering effects of the pandemic. The Secure Alternative Income Fund (“SAIF”, “the Fund”) has continued to deliver resilience, weathering the pandemic, and providing security of income to our investors through a difficult time. SAIF’s flexible, multi-asset approach, supported by BlackRock’s broad and differentiated access across secure income markets, has enabled its investors to capitalise on attractive opportunities throughout various market regimes since the Fund’s inception in 2017.

SAIF’s highly diversified approach to investing spans cash flow types and duration, in addition to strategies and sectors. We continue to believe that a flexible and balanced approach allows us to better capture relative value through the investment cycle while being more aptly suited to partially absorb the impact of higher rates and inflation.

Quarter over quarter, as of Q4’21, the Fund’s NAV per share increased by 1.3%. Year over year, as of Q4’21, NAV per share increased by 2.3%. SAIF’s trailing 12-month distributed net yield experienced by second close investors (including Dyfed) for the 2021 calendar year was 4.1%.

The Fund’s cash flows continue to have an estimated weighted average life in excess of 10 years and a tenor of c.10-15 years, c.84% of investments are UK based and c.41% are explicitly linked to UK inflation. SAIF is invested in five asset classes, spanning more than 20 sectors and has made selective use of its flexibility to invest in non-Sterling opportunities that are additive, differentiated, and offer attractive risk-adjusted returns. As of 31 December 2021, SAIF has made 175 investments on a look-through basis across 52 direct investments and two fund investments.

Deployment

During 2021, SAIF made around 15 investments, including funding existing commitments to several investments. Examples include Project Left 2.0, a secondary acquisition of £108m worth of units in the Renewable Income UK Fund (RIUK). Given the market for operational wind and solar projects became highly competitive in recent years, SAIF executed Project Left 2.0 in Q3’21, showcasing its flexible approach to investing in inflation-linked, subsidy-backed renewable power assets in the UK via the secondary market, thus achieving better risk-adjusted returns than direct investment in operational assets. Another example of SAIF’s flexibility and focus on relative value is Project Aura, which provided debt financing to a registered social housing provider as it acquired an operational portfolio of c.2.8k properties in the UK. This opportunity generates an attractive risk-adjusted return by investing in housing through infrastructure debt (rather than through owning the real estate itself) while also catering to the essential needs of communities.

As of May 2022, Dyfed’s commitment to the second close (£120m) is 100% deployed and the more recent commitment to the fifth close (£30m) is 19% deployed, well ahead of straight-line deployment expectations. The investment pipeline remains strong with a healthy set of opportunities spanning multiple asset classes, sectors, and parts of the capital structure.

Outlook

We ended 2021 with a more positive outlook on Covid-19, however, optimism for an economic restart in 2022 was dampened by concerns around inflation and the Russian invasion of Ukraine. To clarify, the Fund does not have any direct exposure to Russia, Ukraine, and Belarus. We are closely monitoring inflation, the increases in rates, and the impact of these on the outlook for growth. We believe the Fund will benefit from inflation linkage, given c.70% of SAIF's exposure is explicitly (via contractual terms) or implicitly (via floating rate notes) linked to inflation. Should the economy slow down, we believe the Fund has a well-diversified portfolio of defensive assets that have stood the test of the pandemic and is well positioned to continue to deliver resilience, income security, and durability.

Environmental, Social and Governance (ESG)

At BlackRock, we have always focused on helping our clients try to reach their long-term investment goals through resilient and well-constructed portfolios. Our investment conviction is that ESG-integrated portfolios can provide better risk-adjusted returns to investors over the long term, and that ESG-related data provides an increasingly important set of tools to identify unpriced risks and opportunities within portfolios. ESG is integrated across our active portfolios in both public and private markets. In index portfolios where the objective is to replicate a predetermined market benchmark, we engage with investee companies on ESG issues to enhance long-term value for our clients.

Responsible Investment

Proxy voting at BlackRock is centralised within the Investment Stewardship team of over 65 specialists. As a fiduciary to our clients, our firm is built to support the long-term value of assets our clients are invested in. From BlackRock's perspective, sound management of business-relevant sustainability issues can contribute to a company's sustainable long-term financial performance. Incorporating these considerations into the investment research, portfolio construction, and stewardship process can enhance long-term risk-adjusted returns for our clients.

Voting is the most broad-based form of engagement we have with companies, providing a channel for feedback to the board and management about investor perceptions of their performance and governance practices.

BlackRock votes annually at more than 17,000 shareholder meetings, taking a case-by-case approach to the items put to a shareholder vote. Our analysis is informed by our internally developed proxy voting guidelines, our pre-vote engagements, research, and the situational factors at a particular company. We aim to vote at all shareholder meetings of companies in which our clients are invested. In cases where there are significant obstacles to voting, such as share blocking or requirements for a power of attorney, we will review the resolutions to assess the extent of the restrictions on voting against the potential benefits.

Low Carbon Investment Stewardship Example

Dyfed Pension Fund is an investor in BlackRock's ACS World Low Carbon Equity Tracker Fund which tracks the MSCI World Low Carbon Target Reduced Fossil Fuel Select Index. The index aims to address two dimensions of carbon exposure – carbon emissions and fossil fuel reserves. The index is designed to achieve a target level of predicted tracking error while minimizing the carbon exposure and excluding companies with exposure to Fossil Fuels.

Annual to 31 March 2022, BlackRock's Low Carbon Fund had 914 companies within the portfolio. Over the period, there were 1,011 company engagements and, of that, 554 individual companies were engaged. Regionally, this transpires to 44% of engagements occurring within the Americas, 39% within EMEA and 18% in APAC. In terms of voting statistics, BlackRock voted on 95.9% of the 1,103 votable meetings and 92.6% of the 14,957 proposals (management and shareholder).

Fund Returns 1 April 2021 to 31 March 2022

Returns %	12 Months to 31-Mar-22	
	Account (%)	Index (%)
Aquila UK Equity Index Fund	13.08	13.03
Aquila Life European Equity Index Fund ex UK	6.84	6.28
Ascent Life Japanese Equity Fund	0.29	-2.42
iShares Emerging Market Index Sub Fund	-11.52	-11.37
ACS World Low Carbon Equity Tracker Fund	14.36	15.74
Total Fund	7.61	6.31
Index Linked Gilt Portfolio	4.85	4.85
Total Fund including UK Index Linked Gilts	7.55	-

Source: BlackRock 2022.

BlackRock Performance

Over the last year, Dyfed Pension Fund's Main Portfolio returned 7.61% for the period compared to a composite index return of 6.31%, thereby outperforming the index by 1.3%. The passively managed funds tracked the indices they are managed against.

On the active side, the Japanese Equities outperformed the benchmark by 2.71%.

Gavin Lewis, Managing Director

Schroders

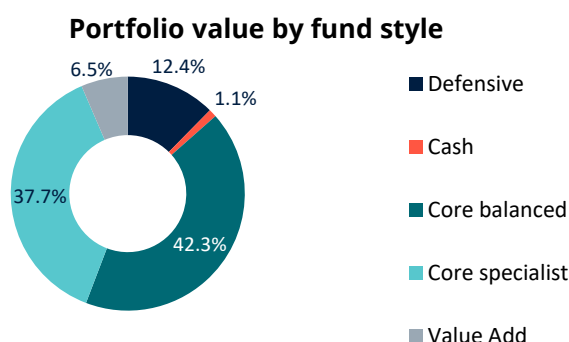
Background

Schroders was appointed to manage a pan-European portfolio of indirect investments in March 2010. As at 31st March 2022 the value of the property portfolio stood at circa £428 million. At the financial year end, 98.9% by value was invested in the UK and 1.1% by value was held in cash (all of which was committed). There are nominal residual holdings in Continental Europe, following the wind-down of most of the underlying funds.

The portfolio strategy has evolved over the last 11 years, from largely investing in balanced real estate funds (i.e. funds that invest in retail, office and industrial properties) to increasingly investing in sector specialist vehicles. This gives Dyfed access to best in class specialist managers and has given Dyfed exposure to emerging niche strategies such as retirement living and social supported housing. The strategy has also evolved to incorporate ESG into all aspects of the investment process, including the selection and monitoring of funds and reporting to clients.

The look-through sector structure of the UK portfolio is broadly in line with the Schroders House View i.e. underweight to retail compared to the benchmark and overweight to industrials, regional offices and non-mainstream 'alternative' sectors. The main divergence with the House View is Dyfed's underweight position to central London offices and retail warehouses. We are looking to reduce the underweight to the latter via a trade in units in a specialist retail warehouse fund and we can access central London offices via our investment in Future Workplace Property Unit Trust.

By fund style, approximately 42.3% of the portfolio by value is invested in UK core balanced strategies, whilst the portfolio has substantially increased exposure to core specialist strategies (now 37.7%) over the past five years. 12.4% of the portfolio is now invested in defensive strategies that provide downside protection and 6.5% of the portfolio is invested in value add strategies, which are forecast to be highly accretive to overall portfolio returns over the next three years.



Note: Chart includes cash held with client

Environmental Social and Governance

The Schroders Capital Real Estate Solutions (SCRES) Sustainability Policy covers the activities we undertake as part of our due diligence process to understand the Environmental, Social and Governance (ESG) credentials of all of the funds on our Investment Platform. We commit to proactively engaging with managers and encourage them to be transparent and open with investors in demonstrating how they incorporate sustainability considerations and risks into their investment processes. The policy sets out our ESG requirements for managers as well as our commitments to clients. Throughout the course of this year we will be collecting data through surveys, case studies and interviews to ensure that the funds we invest in deliver the sustainability initiatives we set out in our policy. A copy of the full policy is available on request.

The Task Force for Climate-Related Financial Disclosure (TCFD)

The Task Force for Climate-Related Financial Disclosure (TCFD) aims to mainstream reporting on climate-related risks and opportunities in organisations' annual financial filings. The TCFD framework is applicable to all sectors including real estate. The recommendations are structured around four sections: Governance, Strategy, Risk Management, and Metrics and Targets. Schroders publicly supported the TCFD's recommendations in 2017 along with over 100 other corporates. There are now over 1,000 supporters.

Schroders has set out a Climate Transition Action Plan which can be accessed by clicking [here](#). We have a responsibility to manage the capital our clients entrust to us and to protect it from risks that climate change poses to support investment performance for the longer term. Our understanding of the future potential impacts and risks from climate change is constantly evolving. Therefore we are seeking to further embed the forward-looking identification and assessment of climate related issues into our research process. This will support the monitoring of emerging risks and identify possible enhancements to core components of our investment process, such as our risk assessment and management framework.

Schroders Net Zero 2050 Commitment

Schroder Real Estate Capital has committed to achieving Net Zero Carbon by 2050. Our Pathway to Net Zero Carbon can be accessed by clicking [here](#). Our Net Zero Pathway builds on our existing programme to improve the sustainability credentials of our assets and supports the increased emphasis for reducing emissions to limit global warming to 1.5°C, as set out in the 2015 Paris Agreement. The Pathway will evolve over time as Schroder Real Estate and the wider industry develops its understanding of how to address the carbon impact of real estate activities and as regulatory initiatives develop. SCRES's approach to Net Zero requires active engagement with third party managers to encourage and influence their approach. We are in the process of ensuring these managers establish Net Zero Carbon Pathways that include setting interim targets. We will monitor their progress to assess that they are on track to achieve Net Zero emissions by 2050. In our Sustainability Policy we have made a pledge that we will only make new investments in funds that have published Net Zero Pathways. We require all existing fund investments to have established Net Zero Pathways by end 2022.

Carbon Footprint

The table below presents an updated carbon footprint based on Dyfed's portfolio composition as at end March 2022. We calculate the portfolio's carbon footprint by multiplying the percentage ownership of each fund by the respective fund's carbon emission output in tonnes as reported by the manager. The output of each fund is summed to create an emissions total for Dyfed's portfolio. The carbon footprint is then presented in terms of how many tonnes of carbon dioxide is emitted at portfolio level alongside a scope I, II and III emissions breakdown. We are continuing to challenge the Manager's of the underlying holdings to provide increased transparency in the reporting of carbon which will help us to develop this proprietary analysis.

Dyfed Portfolio Value 31 March 2022		£428,389,947 Emissions Estimated	
% of portfolio where emissions have been reported	48.20%	% of portfolio covered via extrapolation	90.30%
£ of portfolio where emissions have been reported	£206,399,482	£ of portfolio where emissions have been reported	£387,044,049
Scope 1 GHG emissions (tonnes)	223.16	Scope 1 GHG emissions (tonnes)	375.6
Scope 2 GHG emissions (tonnes)	431.39	Scope 1 GHG emissions (tonnes)	731.17
Scope 3 GHG emissions (tonnes)	753.53	Scope 1 GHG emissions (tonnes)	1322.26
Total GHG emissions (tonnes)	1408.1	Total GHG emissions (tonnes)	2429.02
Total GHG emissions per £m	6.8	Total GHG emissions per £m	6.3
Emissions not reported			
% of Dyfed portfolio not covered	9.70%		
£ of portfolio where emissions have not been reported	£41,345,898		

Performance

The strong performance that we saw from UK commercial real estate in 2021 continued into the first quarter of 2022, despite the wider macro-economic uncertainty. Absolute returns from real estate have been very strong, with the Dyfed Pension Fund delivering a total return of 21.1% (net of fees) in the twelve months to end Q1 2022. Returns were below the benchmark over the quarter (-0.5%). Relative returns have been weak over twelve months (-2.0%), reflecting the dilution from the defensive allocation within the portfolio and commitments to value add strategies, both of which will enhance returns in a period of weaker returns from real estate. Returns are below benchmark over three years (-1.0% per annum), five years (-0.3% per annum) but remain in-line with the benchmark over ten years. Whilst we see volatility in returns between quarters, we would like to remind investors that real estate is a long-term investment.

UK Property Outlook

The UK real estate market made a strong start to 2022, maintaining the pattern seen in 2021. Total returns in the first four months of this year were 7.4% and industrial continued to be the best performing sector, thanks to superior rental value growth compared with retail and office. While it is possible that this strong performance will continue through the second half of 2022, we think it more likely that the total returns will weaken as economic growth slows. Although higher inflation should feed through to rents, other things being equal, the slowdown in economic growth could cut demand for space. Moreover, real estate yields are sensitive to bond yields and finance costs and the jump in 10 year bond yields to 2.5% means that the gap between bond and real estate yields is now at its narrowest since 2009.

In theory the assets which are most exposed to rising interest rates are those with relatively fixed, or insecure income streams. This includes shops, shopping centres, business hotels, offices in secondary locations and in general, any building with poor energy efficiency. The sharp increase in construction costs (>15%) and tightening in bank loan terms is also likely to lead to a fall in the prices of land and re-development projects. Conversely, the assets and sectors which will probably be most defensive over the next 12 months are those with good prospects for income growth over the long-term. These include multi-let industrials, offices with strong energy efficiency and well-being credentials, retail warehouses and certain niche sectors such as life sciences and self storage.

Portfolio Strategy

The strategy in 2021 was to make sales in less differentiated balanced funds with weaker performance prospects and invest into an unconstrained, value add fund to take advantage of any mis-pricing in the market. The cost of repositioning the portfolio was dilutive to relative returns in 2021 given the very strong returns from real estate, but this strategy is forecast to be highly accretive to the portfolio over the next three years.

There is significant embedded performance in the portfolio, with UK Retirement Living Fund, Social Supported Housing Fund and Schroders Special Situations Fund forecast to deliver significant alpha over the next three years. All three strategies have been dilutive during their acquisition phase, but will start to deliver strong returns as developments are completed, business plans are executed and assets sold. The portfolio includes several holdings that offer downside protection, such as convenience retail and real estate debt, that enhance the forward looking risk adjusted returns of the portfolio and will provide resilience in a period of anticipated lower returns from the wider real estate market. We have identified some strategies, including self-storage, hotels and selected residential strategies, that will help to enhance the risk adjusted returns of the portfolio and we aim to make selected allocations to these strategies in 2022.

Patrick Bone, Fund Manager

Partners Group

Overview

Partners Group Red Dragon LP invests in a wide range of European real estate opportunities which are accessed via primary, secondary, and direct investments. As of 31 March 2022, the portfolio comprised 8 direct investments, 15 secondary transactions and 13 primary commitments. The portfolio is in value creation and realisation mode and is actively making distributions.

Exit activity

Over the previous 12 months, the portfolio has received GBP 6.3 million in distributions. In the first quarter of 2022, GBP 1.8 million distributions were received from 2 primary funds in the portfolio. Firstly, NREP Nordic Strategies Fund II fully realised its logistics portfolio, and secondly, the Spanish Mixed-use Portfolio (Forte) exited 2 underlying assets located in Barcelona.

New investments

In May 2021, the portfolio invested capital in a leading provider of premium quality modular education buildings in the Nordics. In July 2021, the programme committed capital to a Spanish mixed used residential portfolio.

Portfolio development

Over the previous 12 months, an additional GBP 2 million was contributed to investments. At 31 March 2022 the portfolio NAV is GBP 46.3 million, an increase of GBP 7.8 million. Over the time period, Partners Group Red Dragon's net investment multiple increased from 1.26x to 1.33x.

Partners Group's prudent underwriting and active management continues to support the value in its portfolio investments, while continuously evaluating divestment opportunities.

Real Estate Market

During the first quarter of 2022, global real estate transaction volume grew 33% year on year. The strong start to the year, was tempered by the geopolitical consequences of the Russia-Ukraine conflict. We are in a period of economic volatility with significant inflationary pressures.

In Europe, improved office pricing was mainly driven by increased investment activity stemming mostly from large single-asset transactions. In addition, a more attractive pricing for newer office buildings denotes a shift toward assets that have appealing amenities to a broad range of tenants. Meanwhile, the UK industrial market continued to enjoy favourable pricing buoyed by robust demand and positive rent growth.

ESG in Real Estate at Partners Group

Achieving net zero

Partners Group are committed to working towards net zero carbon emissions across the entire organization and managing the Red Dragon portfolio towards the Paris Agreement goal of achieving net zero by 2050. Partners Group has further committed to reducing the carbon emission intensity of the portfolio by 50% by 2035. Partners Group's Climate Change Strategy outlines the firm's approach towards achieving these goals. The strategy aligns with the Task Force on Climate-related Financial Disclosures' (TCFD) recommended disclosures.

Partners Group assesses ESG within real estate on an asset-by-asset basis, recognising that we will have a part to play in improving the asset throughout our ownership process whether this is direct or through a third-party real estate manager.

ESG risk considerations

All investments are subject to ESG due diligence, which includes dedicated climate-related due diligence. These requirements are set according to the climate sensitivity of the property type, in line with the climate-related factors identified by the Sustainability Accounting Standards Board (SASB).

An additional risk that Partners Group considers is that of an asset becoming "stranded". This occurs when an older asset fails to adhere to changing regulations or becomes vulnerable in the face of environmental factors. Assets such as offices and residential buildings are increasingly vulnerable to changes in regulation such as minimum energy efficiency requirements, given the pace of change observed in the current market.

ESG: transformational investing in real estate

Partners Group focuses on transformational investing. Within real estate, our vision for transformation goes beyond the hardware upgrades and encompasses environmentally conscious and people-oriented building modernization. We view this as an opportunity to make meaningful contributions to global ESG efforts; our end products are not only sustainable but also promote the wellbeing and connectivity of end users.

Robert Evans, Client Solutions

Wales Pension Partnership

The WPP was established in 2017 with the objective to deliver:

- economies of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure

The WPP is one of the eight Local Government Pension pools nationally and is a collaboration of the eight LGPS funds in Wales including Cardiff and the Vale of Glamorgan, Clwyd, Dyfed, Greater Gwent (Torfaen), Gwynedd, Powys, Rhondda Cynon Taf and Swansea.

Pooling progress to date

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. The WPP have made significant progress towards delivering on this objective. The launching of WPPs first three active equity sub-funds in 2019-20, five fixed income sub-funds in 2020-21 and the Emerging Markets equity sub-fund in 2021-22, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 72% of assets.

As at 31 March 2022, the total assets of the eight Constituent Authorities was £23.1bn, £16.6bn of which is managed by the pool, see breakdown below:

Asset Class	Managed by	Launch Date	31 March 2022 £000	%
Global Growth Equity Fund	Link Fund Solutions	February 2019	3,303,494	14.3
Global Opportunities Equity Fund	Russell Investments	February 2019	3,387,940	14.7
UK Opportunities Equity Fund	Russell Investments	September 2019	730,278	3.2
Emerging Markets Equity Fund	Russell Investments	October 2021	464,615	2.0
Global Credit Fund	Russell Investments	July 2020	757,659	3.3
Global Government Bond Fund	Russell Investments	July 2020	507,273	2.2
UK Credit Fund	Link Fund Solutions	July 2020	574,224	2.5
Multi-Asset Credit Fund	Russell Investments	July 2020	723,184	3.1
Absolute Return Bond Fund	Russell Investments	September 2020	509,605	2.2
Passive Investments	BlackRock	March 2016	5,599,927	24.2
Investments not yet pooled			6,534,711	28.3
Total Investments across all 8 Pension Funds			23,092,910	100

The Dyfed Pension Fund's element of the table above are detailed below:

	31 March 2022 £000	%
Global Growth Equity Fund	987,519	30.51
Global Credit Fund	247,621	7.65
Passive Investments (BlackRock)	1,251,344	38.66
Investments not yet pooled	750,193	23.18
Total Investment Assets	3,236,677	100

Pooling costs

Carmarthenshire County Council, as the Host Authority for the Wales Pension Partnership is responsible for providing administrative and secretarial support and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The WPP budget is included in the WPP Business Plan and approved annually by all eight Constituent Authorities.

The Host Authority and External Advisor costs, the running costs are funded equally (unless specific projects have been agreed for individual Funds) by all eight of the Constituent Authorities and recharged on an annual basis. The amount recharged to the Dyfed Pension Fund for the financial year ending 31 March 2022 was £135k. In addition to the running costs, there are also transition costs associated with the transition of assets into the pool.

2020-21 £000	WPP pooling costs	2021-22 £000
19	Host Authority Costs	20
69	External Advisor Costs	115
1,312	Transition Costs	0
1,400	Total	135

Ongoing Investment Management Costs

The table below discloses the investment management costs split between those held by the WPP (including the passive equities) and those held outside of the WPP:

	Asset Pool				Non-Asset Pool				Fund Total	
	Direct £000s	Indirect £000s	Total £000s	bps	Direct £000s	Indirect £000s	Total £000s	bps	£000s	bps
Management Fees	149	3,888	4,037	16	1,823	1,164	2,987	40	7,024	56
Asset pool shared costs	135	0	135	1	0	0	0	0	135	1
Transaction costs	0	1,866	1,866	7	0	3,283	3,283	44	5,149	51
Custody	0	184	184	1	39	0	39	1	223	2
Other	0	39	39	1	0	0	0	0	39	1
Total	284	5,977	6,261	26	1,862	4,447	6,309	85	12,570	111

Asset Allocation and Performance

Asset Category	Opening Value		Closing Value		Performance (1 year)	Index
	£000s	%	£000s	%	%	%
Pooled Assets						
UK Passive	518,289	17.0	570,137	17.6	13.03	13.03
Canadian Passive	15,352	0.5	0	0.0	-	-
European Passive	79,420	2.6	85,436	2.6	6.84	6.46
Pacific Basin Passive	32,241	1.1	0	0.0	-	-
EM Passive	267,934	8.8	271,323	8.4	(7.25)	(6.58)
ACS World Low Carbon*	305,992	10.0	324,448	10.0	16.05	15.39
Equities Active	962,408	31.6	987,519	30.5	2.61	12.42
Fixed Income Active	258,679	8.5	247,621	7.7	(4.27)	(5.10)
Pooled Assets	2,440,315	80.1	2,486,484	76.8		

Assets not yet pooled						
Property	338,043	11.0	461,700	14.3	18.35	23.14
Alternatives	84,314	3.0	120,559	3.7	8.73	(4.58)
Active Equities	105,477	3.5	109,595	3.4	0.29	(2.32)
Cash	11,923	0.4	26,824	0.8	0.21	N/A
Index Linked	61,172	2.0	31,515	1.0	4.85	4.85
Non-Pooled Assets	600,929	19.9	750,193	23.2		
Total Assets	3,041,244	100	3,236,677	100		

Underlying Manager Fees

Reference is made under section 11.6 of the Statement of Accounts that underlying manager fees for the Global Credit Fund are not included within the investment manager fees of the Fund. During 2021-22 these underlying manager fees were £179,467.72 (2020-21: £107,906.05).

Objectives 2022-23

Following the launch of a number of sub-funds to date, progress will continue to be made with significant rationalisation of the existing range of mandates. The operator / allocators will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the eight constituent funds and facilitate a significant move of the assets to be pooled.

In establishing the WPP pool, the prime focus has been on pooling the most liquid assets, namely equities and fixed income. In July 2021, the Joint Governance Committee appointed bfinance as WPP's Allocator Advisors and they will assist the WPP with the identification of Private Markets Allocators for the Private Market Asset Classes.

A transition timetable has been provided below:

Investment Portfolio	Timeline for Launch / Implementation
Sustainable Equities	Launch due by the end of 2022
Private Debt / Infrastructure	Launch due before the end of 2022/23
Private Equity	Launch scheduled for early 2023/24

During 2021-22, the WPP published its first annual Stewardship Report and has been accepted as a signatory to the 2020 UK Stewardship Code. During 2022/23 the WPP hopes to enhance its approach as a responsible investor further with the establishment of an engagement framework, enhancing reporting in accordance with the requirements of the UK Stewardship Code and the Taskforce on Climate-Related Financial disclosure (TCFD) and to continue reviewing existing sub-fund mandates to ensure compatibility with WPP's Responsible Investment and Climate Risk Beliefs.

There will also be a focus on the review and development of additional WPP policies, as well as the provision of timely and relevant training facilitated by the pool for the benefit of its wider stakeholder groups.

Securities Lending

Securities lending commenced in March 2020. Revenue is split on a 85:15 basis between WPP and Northern Trust with all costs for running the securities lending programme taken from Northern Trust's share of the fee split. A minimum of 5% of the nominal quantity of each individual equity holding is held back and a maximum of 25% of total AUM is on loan at any one time. Total revenue of LF Wales Revenue during 2021/22 was £1,296,016 (gross) / £1,101,659 (net) with £430,743,792 out on loan as at 31 March 2022.

More detailed information can be found in WPP's Annual Return which is published on the WPP website - <https://www.walespensionpartnership.org/>

PIRC

2021-22 Performance

- Last year the average Fund returned 8.6%, with 50% of Funds delivering a return between 6% and 10%.
- Developed equities performed well until the first Quarter of 2022 when the Ukraine war and fear of resulting inflation weighed heavily and markets fell. Over the twelve months however, developed markets were positive. Emerging markets, battered by a strong US Dollar and the continuing impact of COVID were the worst performing of all asset classes.
- Bond markets delivered negative results for the year, only inflation linked and private debt making it onto positive territory.
- Strong results were delivered from alternative assets. Private equity once again delivering outstanding returns. Property too continued to do well, returning almost 18%.

Asset Allocation

- Over the year there was further disinvestment from Equities into 'diversifying' assets.
- Within Equities there was a continuation of the move started the previous year into 'climate aware' investments.
- Most portfolio changes through the year reflected the ongoing move into Pool sub-funds.

Latest Year Asset Allocation

% Average Allocation	End March 2021	End March 2022	Change
Equities	56	52	-4
Bonds	17	18	1
Cash	3	2	-1
Alternatives	14	17	3
Diversified Growth	2	2	0
Property	8	9	1

Universe Longer Term Results

- Long term performance of the LGPS remains strong. The average funds delivered a positive return in all but six of the last 30 years and delivered an annualised performance of over 8% p.a.
- Equities have driven the strong long term performance.
- Alternatives have performed strongly due in a large part to the excellent returns from private equity.

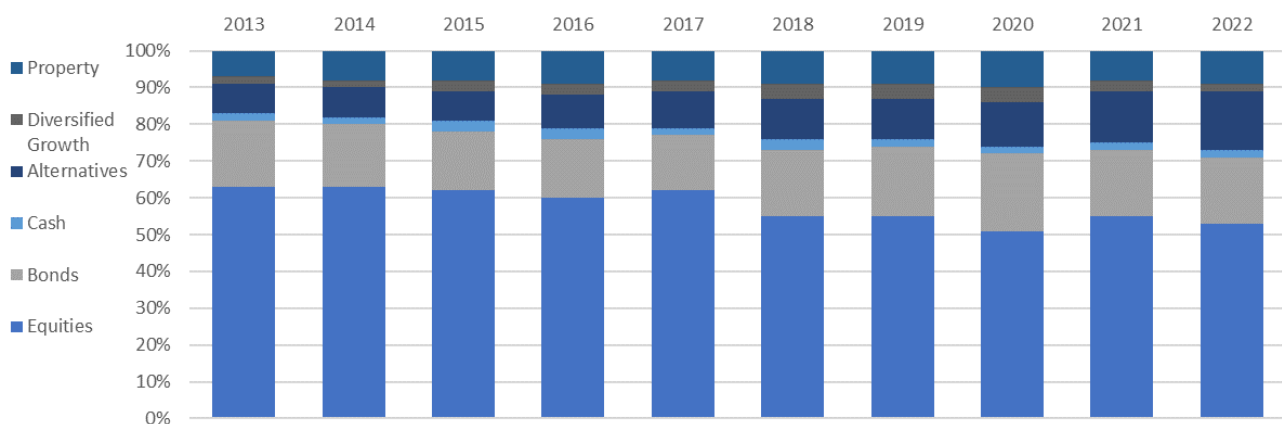
Long Term Asset Returns (% p.a.)

	3 Years (%)	5 Years (%)	10 Years (%)	20 Years (%)	30 Years (%)
Total	6.4	5.8	7.7	6.7	8.1
Equities	10.3	8.4	10.6	8.1	9.2
Bonds	2.6	2.5	4.7	5.7	6.9
Cash	0.5	0.4	0.9	2.3	2.8
Diversified Growth	5.1	3.5			
Alternatives	11.0	9.8	10.1	7.5	
Property	6.3	6.8	8.6	7.1	8.2

Asset Allocations

- Equities remain the largest allocation within most fund's assets. 80% of this allocation is now invested overseas.
- Alternatives have increased over the decade. Private equity makes up a half of this allocation and represents around 8% of the average fund. In accordance with the 2016 government pooling criteria infrastructure exposure continues to increase and now constitutes 6% of the average Fund assets.

% Asset Allocation – Last Ten Years

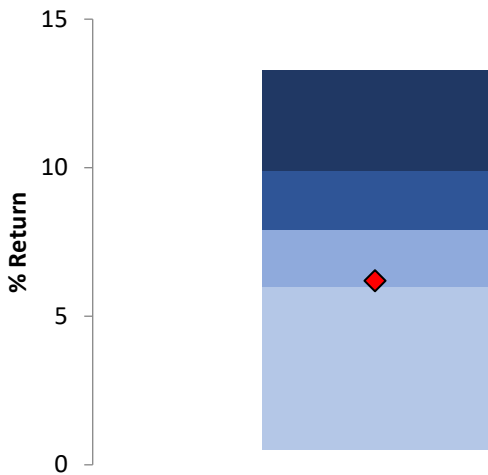


Dyfed Pension Fund Performance

Latest Year Performance

- In the latest year the Dyfed Fund return of 6.2% was below the average of 8.6%.

Fund Performance Within Universe Range of Results

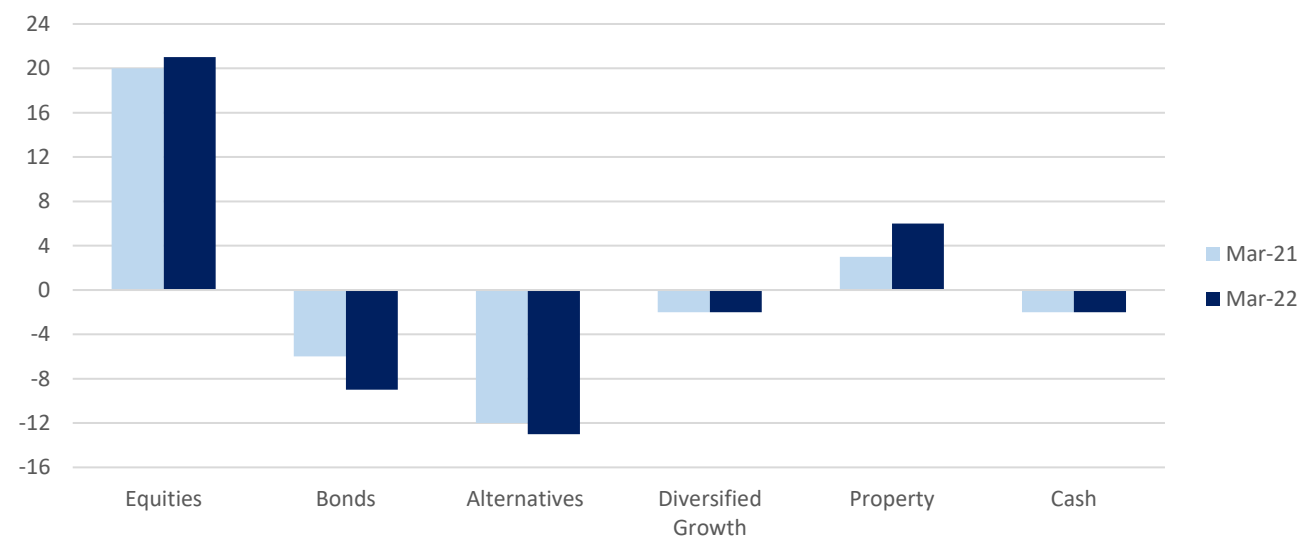


The figure shows the Fund return within the range of results achieved by the LGPS Universe in the latest year. The returns are divided into quarters (quartiles) and the fund is shown as a red diamond.

Fund Asset Allocation

- The Fund is structured quite differently from the average.
- The key difference is the relatively high level of equities and low investment in alternatives.
- Last year these differences reduced the relative performance by close to 3%.

Asset Allocation Relative to Universe Average

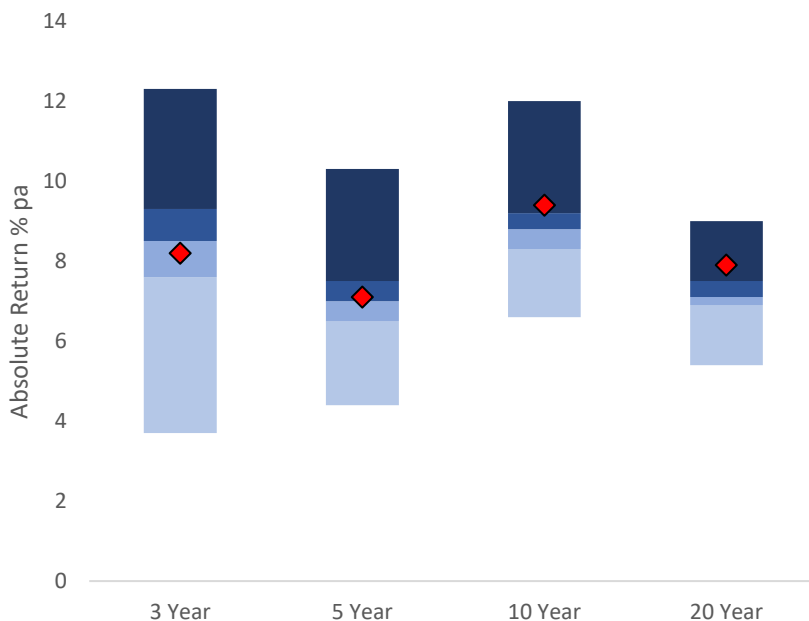


The chart shows the Fund's relative % weightings at asset class level at 31st March 2021 and 2022.

Fund Longer Term Results

- The latest year result has brought down the three year performance to below average.
- Longer term results are still strong largely due to the strong returns delivered by the active equity managers.

Longer Term Returns and Rankings



	3 Year	5 Year	10 Year	20 Year
Fund	8.2	7.1	9.4	7.9
Universe Average	8.3	7.1	8.9	7.3
Ranking	(64)	(44)	(20)	(6)
CPI Inflation	3.0	2.7	2.1	2.1

Fund Risk and Reward

- Within investments there is always a trade-off between risk and return. Normally the higher a return that is being looked for the more volatility the Fund must expect.
- Over the last five years the Fund has been rewarded for the additional volatility that it has experienced.
- Over the longer term the Fund produced a better than average return but experienced a slightly higher than average level of volatility.

Karen Thrumble, Local Authority Pension Performance Analytics (PIRC)

Independent Investment Adviser

While we have continued to “live in interesting times”, I am pleased to report that the past year, has proved to be another year of good investment returns for the Dyfed Pension Fund. Asset prices continued to recover through 2021, though many have corrected in 2022 to date, resulting in returns for our 2021-22 financial year, which are significantly ahead of that required by the actuarial valuation. So I’m happy to report, that the Fund remains in robust good health, and has also made further progress in its journey towards investing for a more sustainable future.

So let’s take a look back at the 2021-22 year.

It has very much been a “year of two halves”, the first, broadly up to the end of 2021, was characterised by rapid economic recovery as the COVID pandemic restrictions receded, and as the fiscal and monetary stimulus put in place during the pandemic took effect. The second half, which has continued through 2022 year to date, characterised by increased concern that inflation is NOT transitory, Central Banks tightening monetary policy (including increasing interest rates, increasing the risk of recession) and, of course, the terrible spectacle of the war in Ukraine, which has increased geopolitical risk for markets and the real economy alike.

2021 saw continued economic recovery from the effects of the pandemic, and GDP grew strongly, by some 5.5% in the US, and 6.6% in the UK. Consumers, particularly in the US, started to spend the significant savings built up during the pandemic through spending restrictions and Government support, while labour markets remained tight (i.e. low unemployment). The Emerging Markets were slightly less buoyant, as they faced the headwinds of a rising US dollar (making repayment of USD debts more expensive) and continued trade tensions (from US-China to Brexit). But as I flagged last year, the biggest change over the year was the increasing inflation expectations, as these supply restrictions met increased demand : where consensus expected inflation to peak below 5% at the beginning of the year, we have seen UK and US monthly inflation figures reach 9% and 8% respectively (although underlying “core” inflation is lower at around 6%). Markets also now expect inflation to be more persistent.

Central banks across the developed world started to tighten monetary policy in Q4 of 2021 (by stopping “quantitative easing” and/or increasing interest rates), resulting in 10 year bond rates rising to their highest levels in many years (nearly 2% in the UK and nearly 3% in US. Together with the Russian invasion of Ukraine and renewed COVID lock-downs in China (both of which add to the inflationary supply constraints, and slowing growth), this has had a negative impact on economies and markets. In Q1 2022, real growth slowed to just +0.3% in US and stagnated in the UK, while forecasts for global growth in 2022 have been trimmed to around 3%. While the current robust consumer balance sheets and low unemployment support continued economic growth, it is clear the risk of recession is increased, as central banks may have to raise interest rates further, in order to fight inflation.

So how has this impacted financial markets in the year to March 2022?

Global stock markets, nonetheless, had a decent year, returning 12.4%, with the UK this year doing slightly better at 13.0%, its higher yielding, cheaper, more cyclical mix of companies have performed better in 2022, than the high growth, US technology dominated winners of the last couple of years. Emerging Markets, on the other hand, had a difficult year, returning -6.6%, not least because of Russia being cut off from the world's financial markets following its invasion of Ukraine (your Fund has written off the value of its Russian holdings, but these represented less than 0.5% of assets before the invasion). Food inflation, a strengthening US dollar and the resurgence of COVID in China in Q1, also contributed to the woes of Emerging Markets, but they nonetheless give the Fund exposure to very different economies. Bond markets also suffered, as interest rates around the world started to rise in the second half of the year, with the UK corporate bond index falling -5.2%, although your index-linked bonds, which benefit from rising inflation, offset some of this, returning 4.9% over the year. UK property markets also had a very strong year, returning 23.1%, as they bounced back from the COVID restrictions. This variation underlines the importance of having an asset allocation, as your Fund does, which is well diversified geographically and across asset classes, especially when the economic outlook is uncertain.

Against this backdrop, I am pleased to say the Dyfed Pension Fund is expected to have maintained its strong funding position during the 2021-22 year. It produced an overall return of 6.2% during the year and has returned 8.2% p.a. over the 3 years since our March 2019 actuarial valuation. This is in line with its composite benchmark index, and comfortably ahead of the 4.1% p.a. required by the actuarial valuation. This means that the Fund is expected to be more than fully funded (i.e. sufficient assets to pay future pensions, given current contribution rates) at March 2022, which, as you may be aware, is the date for the new actuarial valuation, currently underway. This performance has been echoed over the long term, with your Fund returning 7.1% p.a. over the last 5 years and 9.4% over the last 10 years, putting it well ahead of the median LGPS Fund (8.8% p.a.) and indeed ranking it in the top quartile. This strong performance was largely driven by the Fund's significant allocation to equities, as well as its material allocation to property.

Your committee has been focussed on ensuring the Fund can deliver long term, sustainable returns, and I would like to highlight two areas, where it has made material changes from an investment perspective.

Managing overall investment risk exposure. The Fund's performance has been helped by its significant exposure to equities. The Committee decided to take some profits in its equity holdings, reallocating some of the assets to the UK property portfolio and increasing the allocation to the BlackRock SAIF. Both of these investments help to diversify (reduce) the market risk in equities, and both also offer a strong yield, contributing to the income available to meet the increasing cash demands of the Fund, as it matures.

Further progress in climate risk control. Managing exposure to climate risk in your portfolio is not only aligned with our objectives as a society, but also makes good investment sense. Your Committee has worked on a number of fronts during the year, to ensure the Fund's alignment:

Governance : As well as continuing to prepare for the Task Force for Climate-related Financial Disclosure (TCFD) reporting obligations, the Fund published its own responsible investment policy (as distinct from WPP's). It has also engaged directly with other climate stakeholders and publishes a quarterly news update on its website. Finally it has continued to ensure its managers engage actively with underlying investee companies, using its voting powers where necessary, and the WPP has signed the new UK Stewardship Code.

Investments : In addition to the transition described above, which reduced exposure to some of the more carbon intensive regional equity holdings, the WPP Global growth fund transitioned to the Baillie Gifford Global Alpha Paris-Aligned Fund in December 2021. This not only reduced the carbon-intensity of this part of the fund significantly, but also commits the manager to deliver ongoing reductions in carbon intensity, at least as great as the 7% p.a. required by the Paris Agreement.

Measurement : The Fund has committed to reducing its Carbon-intensity in line with the 7% p.a. required by the Paris Agreement. Together, the two asset allocation changes described above resulted in a reduction of the Fund's Equity holding's overall Carbon intensity of 7%, although the strong performance of some of the more carbon-intensive investments in the second half of the year means that the weighted average Carbon intensity of the Fund's equities changed little over the year. In addition, your Committee is investigating options for more robust and independent measuring service, with the aiming to include all the Fund's assets.

In conclusion, the Dyfed Pension Fund has maintained its strong position, with a solid funding level and an investment strategy which not only takes advantage of the good covenants of our employers, keeping employer contributions at today's reasonable levels, but also takes care to ensure the Fund invests in a sustainable manner, for the benefit of all stakeholders.

Adrian Brown, Independent Investment Advisor

Section 3 - Fund Administration Report

Introduction

The Pension Fund is governed by Regulations issued by the Department for Levelling Up, Housing and Communities (DLUHC). Under the provisions of the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulations 1995, the administering authority function was transferred to Carmarthenshire County Council. While employee contributions and benefits payable are set by Regulation, employer contributions are actuarially assessed at each valuation and areas of discretion are subject to local policies determined by each participating Fund Employer.

The scheme changed from being a final salary scheme to a Career Average Revalued Earnings (CARE) scheme on 1st April 2014. If you were an active member of the 2008 Scheme as at 31 March 2014, you will have automatically transferred to the LGPS 2014 on 1 April 2014.

The main provisions of the LGPS 2014 scheme are

- **Benefit Accrual** - From 1 April 2014, you will have a pension account per employment, which will be credited annually with the amount of pension that you have built up from 1 April to 31 March each year. This is based on your actual pensionable pay from 1 April to 31 March and a 1/49th accrual rate. Your pension account will then be re-valued each April in line with the Consumer Price Index (CPI). Your membership up to 31 March 2014 will be protected and continue to be calculated on a final salary basis when you retire with reference to your pensionable pay upon retirement and under the 2008 definition of pensionable pay.
- **Tax free Lump Sum** - individuals may convert an element of pension into an additional tax free cash lump sum, on the basis of £12 for each £1 of pension. Benefits accrued up to and including 31st March 2008 will automatically provide a Tax Free Cash Lump Sum at retirement.
- **50/50 Option** - you have the option to pay half your normal contribution, to receive half the level of pension in return during this period. However, you will retain full ill health and death cover during this time.
- **Normal Pension Age (NPA)** - your NPA will be linked to your State Pension Age (SPA), therefore any future changes in your SPA will impact on your NPA.
- **Enhanced pension** if you retire on the grounds of ill-health.
- **Death in Service** - a Tax Free Cash Lump Sum of three times the annual salary payable to the estate. In addition, Spouse's, Civil Partners and Dependent's benefits are payable.
- A cohabiting partner's pension may also be payable if certain conditions are met.
- **Death after retirement** - Spouse's Pension, Dependents Pensions and in certain circumstances a Lump Sum Death Grant.
- **Transfer of Pension Rights** to either a new employer's approved scheme or to an approved personal pension plan.
- Employees who leave with more than 2 years service (or less than 2 years service where a transfer payment has been received) are entitled to a Preserved Inflation Proofed Pension payable at Normal Retirement Age.
- Additional pension contributions may be paid to increase pension benefits.

Pensions Increase

Pensions are reviewed annually each April under the Pensions Increase Act as prescribed by Social Security legislation in line with the upgrading of various state benefits and is determined by the percentage increase in the Consumer Price Index (CPI) to the preceding September.

This year, pensions were increased by 3.1% from 11th April 2022 and represents the increase in the consumer price index for the 12 month period to the 30th September 2021. Pensions increase is normally applied to pensioners who are age 55 or over, or have retired at any age on ill-health grounds or are in receipt of a spouse's or child's pension. A pensioner who retired during the financial year will have a proportionate increase applied.

Local Government Pensioner pay dates for 2022/23 are as follows:

29 April 2022	31 May 2022	30 June 2022
29 July 2022	31 August 2022	30 September 2022
31 October 2022	30 November 2022	23 December 2022
31 January 2023	28 February 2023	31 March 2023

National Fraud Initiative

The Pension Fund continues to participate within the anti-fraud initiative organised by the Wales Audit Office where data provision includes Employee and Pensioner Payroll and Occupational Pension details. Such information is compared with other public body data which helps ensure:

- The best use of public funds
- No pension is paid to a person who has deceased, and
- Occupational Pension and employment income is declared by Housing Benefit, Universal Credit and Council Tax Reduction Scheme claimants.

Legislative update

Cohabiting Partners' benefits - Scheme regulations provide that a survivor's pension will automatically be payable to a cohabiting partner without the need for the scheme member to have completed a form nominating them to receive a survivor's pension. In order to qualify, the following regulatory conditions must apply to you and your partner:

- Individual A is able to marry, or form a civil partnership with B,
- A and B are living together as if they were husband and wife or as if they were civil partners,
- Neither A nor B is living with a third person as if they were husband or wife or as if they were civil partners, and
- Either B is financially dependent on A or A and B are financially inter-dependent.

Further information and qualifying criteria can be obtained by either contacting the pensions section or via the website. It is understood that the Government intend to make further changes to survivor benefits to ensure equality requirements are met.

Employee Contribution Rates

The LGPS2014 amended the method of assessing your contribution rate from 'full time equivalent' pensionable pay to your '**actual** pensionable pay'. Pensions contributions will now also be payable on overtime. Responsibility for determining a member's earnings and contribution rate, including notification requirements, falls on the Employer. Where a member holds more than one post with an Employer, a separate assessment will be undertaken for each post held.

The earnings bands and contribution rates applicable from April 2022 are as follows:

Contribution table 2022/23			
Band	Actual pensionable pay for an employment	Contribution rate for that employment	
		Main section	50/50 section
1	Up to £15,000	5.50%	2.75%
2	£15,001 to £23,600	5.80%	2.90%
3	£23,601 to £38,300	6.50%	3.25%
4	£38,301 to £48,500	6.80%	3.40%
5	£48,501 to £67,900	8.50%	4.25%
6	£67,901 to £96,200	9.90%	4.95%
7	£96,201 to £113,400	10.50%	5.25%
8	£113,401 to £170,100	11.40%	5.70%
9	£170,101 or more	12.50%	6.25%

Statutory Underpin protections

Protections are in place if you are nearing retirement to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2014. This protection is known as the 'underpin'.

The underpin applies to you if you were:

- paying into the Scheme on 31 March 2012 and,
- you were within 10 years of your Normal Pension Age on 1 April 2012,
- you haven't had a disqualifying break in service of more than 5 years,
- you've not drawn any benefits in the LGPS before Normal Pension Age and
- you leave with an immediate entitlement to benefits.

The Pensions Section will automatically carry out the underpin calculation when you leave the Scheme. Recalculation of pension benefits as a result of the 'McCloud' Judgement will be undertaken once regulations have been amended.

The Rule of 85

The rule of 85 protects some or all of your benefits from the normal early payment reduction. To have rule of 85 protection you must have been a member of the LGPS on 30 September 2006. The rule of 85 is satisfied if your age at the date when you draw your pension plus your Scheme membership (each in whole years) adds up to 85 years or more.

If you have rule of 85 protection this will continue to apply from April 2014. The only occasion where this protection does not automatically apply is if you choose to voluntarily draw your pension on or **after age 55 and before age 60 without** your employer's permission.

For a more detailed understanding of your own position you should log in to 'My Pension Online' or contact the pension section directly.

Tax Changes

From April 2021, the Lifetime Allowance (LTA) for tax-privileged pensions saving remained at £1,073,100 and will continue at this level until 2025/2026. This is the total value of all pension benefits you are able to build without triggering an excess benefits tax charge. Upon retirement you are required to declare all non LGPS pension benefits in payment, or due to come into payment, so that your LTA can be assessed. Further information on how these changes may impact upon you is detailed on the HMRC website. Please note that pensions staff cannot give financial or personal taxation advice.

You will recall from April 2014 the Annual Allowance limit reduced to £40,000 and this limit continues. To calculate the value of any annual increase in the LGPS you need to work out the difference in the total value of any accrued pension benefits between two 'pension input periods', usually April to March. This is done by multiplying the value of the increase in pension by 16 and adding the increased value of any lump sum and AVC fund. Your 2022 Annual Benefit Statement will contain further information regarding the impact of the annual allowance on your pension accrual in the LGPS. The outcome of this calculation must then be added to any increases in pension entitlement that may arise from any other pension arrangement an individual may have to ascertain whether the annual limit has been breached.

Councillor Pensions

The LGPS 2014 has not impacted on the provisions for elected member pensions as their arrangement continues:

- on a career average revalued earning basis
- with contribution rates at 6%
- benefits accruing on a 1/80ths basis for Pensions and a 3/80ths for tax free lump sum.

Publications

Communications Policy Statement

The Dyfed Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective manner possible, particularly in an ever changing pensions environment. There are 5 distinct groups with whom the fund needs to communicate:

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

The policy document sets out the mechanisms which are used to meet those communication needs and is subject to periodic review. The Dyfed Pension Fund aims to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one method of communication as considered appropriate and meet all regulatory requirements regarding provision of Scheme and related information. This has been further enhanced with the introduction of 'My Pension Online' for active, deferred and pensioner members of the scheme. This is an internet based application that enables members to securely access and update their pension information online via the Fund's website. By developing its e-communication, the Fund aims to improve its service delivery as well as reducing printing & postage costs and its carbon footprint.

Administration Strategy

In accordance with the Local Government Pension Scheme Regulations the Pension Fund has prepared an Administration Strategy. The objective of the strategy is to clearly define the roles and responsibilities of the Dyfed Pension Fund and the participating employers under the Regulations.

Scheme Administration Statistics

Number of Employers

A full schedule of employers (as at 31st March 2022) who either participate or have a relationship with the Dyfed Pension Fund is attached to the Statement of Accounts later in this report. The table below summaries the number of Scheduled and Admitted employers.

	Active	Ceased	Total
Scheduled	23	17	40
Admitted	31	25	56
Total	54	42	96

Scheme Membership

The table below illustrates the increase in scheme membership over the last 3 years.

Volume of members within the fund for last 3 years

	31/03/2020	31/03/2021	31/03/2022
Active	18,564	18,700	18,643
Deferred	15,900	15,881	16,214
Pensioner	14,059	14,626	15,342
Undecided Leaver	2,259	2,293	2,536
	50,782	51,500	52,735

The table below shows the fund has performed against its benchmark:

CIPFA Process	Benchmark	% Complete Within Legal Target
Deaths – Initial letter acknowledgement death	95%	100.00%
Deaths – Letter notifying amount of dependant's benefit	95%	96.40%
Deferment – calculate and notify deferred benefits	95%	96.30%
Divorce quote – Letter detailing cash equivalent value and other benefits	95%	100.00%
Divorce settlement – Letter detailing implementation of cash equivalent value and application of pension sharing order	95%	100.00%
Joiners – Send notification of joining the LGPS to scheme member	95%	98.90%
Refund – Process and pay a refund	95%	99.00%
Retirements – Letter notifying actual retirement benefits	95%	97.10%
Retirements – Letter notifying estimate of retirement benefits	95%	99.80%
Retirements – process and pay lump sum retirement grant	95%	99.40%
Transfers in – Letter detailing transfer in quote	95%	97.00%
Transfers out – Letter detailing transfer out quote	95%	96.20%

Analysis of leavers during 2021-2022

Category	2021-2022
Refund of contributions	388
Transfers to other schemes	44
Death in Service	15
Ill health Retirements	56
Early / Normal Retirement	243
Redundancy Efficiency Retirements	35
Flexible Retirements	14
Late Retirements	111
Opt outs	157
Preserved Benefits	884
Other leavers*	1,569
Number of deferred members re-entering the scheme	169
Total	3,685

*The majority of these cases are in respect of members deemed to be 'Next Day Transfers'.

Completed and Outstanding LGPS Cases	2021-2022
Number of Completed cases	23,662
Number of Outstanding cases	2,431

Data Quality Scores and Data Improvement Plan

The Fund's initial Data Quality review took place in December 2017 and a Data Improvement Plan was subsequently created. The improvement plan primarily aims to address the key issues identified in the Fund's Data Quality review and demonstrates the appropriate steps the Fund is taking to tackle the issues raised in the review and how it will improve the data held.

A Data Quality review is undertaken annually. The improvement plan has been revised and addresses the key issues identified in the Fund's Data Quality review which took place in December 2021.

The data quality review undertaken in December 2021 again split the assessment of data held between two data categories:

- Common Data
- Scheme Specific Data

Tests were undertaken on the data held by the Fund on its Scheme members to identify whether data is present and accurate.

The Common Data items are specific in the Pensions Regulators guidance however, the Scheme Specific data items are not prescriptive but is generally data key to running the Scheme and meeting legal obligations. The Pensions Regulator does not set the data items for the Scheme Specific data as it is deemed to be identifiable and relevant to each individual Pension Scheme. However, illustrative examples of the data required to running a Pension Scheme has been published by the Pensions Regulator and these examples were taken into consideration when identifying the Scheme Specific data to be checked. Below is a table with the LGPS Data Quality scores which are reported to the Pensions Regulator.

LGPS Data area	Common data	Scheme specific data	Aim
December 2021 data score	99.20%	99.20%	100%
December 2020 data score	99.10%	99.20%	100%
December 2019 data score	98.30%	98.10%	100%
December 2018 data score	96.50%	95.80%	100%
December 2017 data score	94.50%	85.30%	100%

Administration Cost per member (SF3 costs table)

The table below compares the administration cost per scheme member with that of the All Wales average from the SF3 return.

Year	Dyfed Pension Fund Cost per member	All Wales Average
2020-21	£27.62	£30.91
2019-20	£26.36	£32.04
2018-19	£25.14	£30.04
2017-18	£22.71	£27.46
2016-17	£20.73	£28.10
2015-16	£27.45	£28.28
2014-15	£21.66	£28.36
2013-14	£20.94	£30.20

The Administration Team

In addition to the primary role of administering the Local Government Scheme and its provisions, the Pension Section provides, by agreement, similar services to the Chief Constable and Chief Fire Officers administering the Police and Fire-fighter's Pension Schemes for Dyfed Powys Police, Mid & West Wales Fire and Rescue Service, North Wales Fire and Rescue Service respectively.

The pension's team has 33 permanent FTE staff to administer the above pension schemes. During the year to 31st March 2022, the following staff turnover occurred; 3 staff left the team and 2 staff joined the team.

The permanent members of staff dedicated to the LGPS is 22.2 FTE. As at 31st March 2022, there were 52,735 LGPS members of the Dyfed Pension Fund which equates to 2,375 scheme members per pensions administration team member. The average number of cases completed per team member during the year was 1,116.

Your Pension Section:

In addition to implementing legislative changes by set timescales. Your Pension Section additionally:

- Notified employers of their reassessed contribution rates applicable from 1st April 2021 as a result of the Actuarial Valuation exercise.
- Increased the number of registered 'My Pension On-line' users by actively encouraging scheme member take up during telephone calls. This internet based application enables you to securely access and update your own pension record(s). The initiative is designed to provide statutory information and improve service delivery whilst also reducing printing & postage costs and the funds carbon footprint.
- Ensured employers formulate, publish and keep under review a policy statement in respect of their discretions under the LGPS 2014.
- Continued with their internal staff training programme. Alongside its training for participating Fund Employers, this investment is viewed as key for the effective delivery of pension administration services in an ever changing regulation environment and increasing stakeholder expectations.
- Continued with the production and issue of Annual Benefit Statements (ABS) for Deferred (individuals who have left the Scheme with a future entitlement to pension benefits) and Active (contributing) Scheme members. The ABS production was undertaken on an all Wales Pension Funds basis, improving both cost and consistency with the Dyfed Pension Fund taking the lead.
- Continued with the 'Life Certificate' exercise aimed at pension payments paid by cheque in addition to also undertaking monthly mortality checks on UK based pensioners.
- Continued to utilise Western Union in order to undertake mortality checks on overseas pensioners.
- Continued with the production of a more detailed and personalised update for each pensioner outlining the increase in pensions arising from annual pension increase awards.
- Participated in the Audit Commission's - National Fraud Initiative exercise as outlined above.
- Continued to engage with colleague LGPS Fund authorities in Wales to examine available partnership opportunities and share best practice in Scheme administration.
- Ensured model fund data was received by the Government Actuary's Department.
- Through the IAS19 exercise ensured that each employer who had to comply with these pension accounting requirements received their results and disclosure needs by their required account closure timescales.
- Continued with the GMP Reconciliation exercise which had to be undertaken in respect of all scheme members to ensure HMRC do not have incorrect information on their records. However, HMRC continue to have outstanding data queries which have yet to be returned to the Dyfed Pension Fund.
- Implemented i-connect for additional employers to facilitate the direct transfer of data from employer payroll systems directly into the pensions system.

- Undertook a Data Quality exercise for the Local Government, Police and Firefighter Pension Scheme in accordance with The Pensions Regulator's Code of Practice 14 requirements and reported findings to both the Pension Committee and The Pensions Regulator. A Data Improvement Plan was created to address issues identified.

Looking Forward

The pensions section anticipates yet another busy year, as in addition to their core functions, your Pension Section intends to:

- Ensure that the scheme Actuary is provided with clean and accurate data by set timescales for the 2022 Fund Valuation.
- Increase the number of registered 'My Pension On-line' users by actively encouraging scheme member take up during telephone calls.
- Respond to consultations on scheme arrangements and implement changed structures as a result of amending legislation.
- Continue to liaise with all scheme employers to ensure appropriate processes and procedures are in place in order to comply with auto enrolment requirements.
- Continue to undertake data validation and integrity checks for data which is issued by HMRC in respect of the GMP Reconciliation exercise in order that the correct state benefits are recorded and paid.
- Continue to work with all scheme employers to ensure that clean and accurate data is consistently provided.
- Undertake a data quality exercise in accordance with The Pensions Regulator's Code of Practice 14 requirements and report findings to both the Pension Committee and The Pensions Regulator. Update and review the Data Improvement Plan.
- Implement i-connect for further employers which facilitates the direct transfer of data from employer payroll systems directly into the pensions system.
- Following the amendment of LGPS Regulations as a result of the 'McCloud' Judgement, commence work on recalculation of all benefits.

The inherent complexities and retrospective protections that apply to the Local Government, Police and Fire schemes remain and it is anticipated these will further increase due to the application of the McCloud Judgement.

I would like to take the opportunity to record my sincere thanks to all staff involved in Scheme Administration not only for the work done over the last year but also for their enthusiasm to embrace change and meet ever changing regulatory and stakeholder requirements.

My Pension On-line

What will My Pension On-line allow me to do?

Whether you're an active, deferred or pensioner member of the Scheme, you will be able to view and update your basic details, access relevant forms and receive all publications immediately, including your annual benefit statement, newsletters and factsheets. If you're an active member, you will be able to perform benefit calculations at your convenience, so that you can actively plan for your retirement.

If you're a pensioner, you will be able to view your pension details, submit any change of bank or building society account details or change of address, view your payment history and tax code, your payment dates, payment advice slips, P60 statements and pension increase statements.

How do I register for My Pension On-line?

It couldn't be easier, all you need to do is contact the Dyfed Pension Fund by either telephoning **01267 224909** or by e-mailing: **pensions@carmarthenshire.gov.uk**

to request an activation key. Your activation key will be emailed to you or it can also be sent to your home address and you will be required to log in to the 'My Pension Online' area via the Fund website:

www.dyfedpensionfund.org.uk

You will be asked to enter your surname, National Insurance number, date of birth and activation key and then prompted to set up your own username, password and security questions.

Section 4 - Actuarial Report

It only seems like a few sleeps ago that the LGPS finished its last round of valuations. Yet here we are again and the next three-yearly valuation of the Fund will be carried out with an effective date of 31 March 2022, with new contribution rates for major employers coming into effect from 1 April 2023.

Same old, same old you might say....

Well, this time more than ever, quite a bit has happened in the intervening period and in those rhetorical “few sleeps”, we approach the valuation under the following backdrop:

- The world dealing with the outbreak of global pandemic and adapting to control its longer term direct impacts on society
- The secondary pressures of the pandemic on the health service and the possible impacts on health from reduced business as usual services for a significant period
- The outbreak of conflict between Ukraine and Russia acting as the catalyst in exacerbating existing supply chain problems
- Squeeze on the labour market with seemingly more jobs in the economy than people
- Responsible Investment (RI) and Environmental, Social and Governance (ESG) moving higher up on the agenda for investors as society increasingly recognises the moral obligation to future generations
- Increased concerns over climate change and its impact across wider society, beyond investments
- Inflation at its highest rate for 40 years

When combined, all of the factors above impact on the LGPS benefit promises which are linked to inflation and salary inflation, the expected future real investment returns above inflation which impact the assets and life expectancy which determines how long the benefit payments will be paid for.

Previous recent valuations have been carried out under more benign conditions and this is certainly the most challenging backdrop I have seen in a good few valuation cycles.

It is still early days and the detailed valuation work has yet to be carried out in earnest. However, amongst the gloomy backdrop above, the early indications are that there is more positive news when it comes to funding levels and for the most part we are unlikely to see a need for material contribution increases. Although the combined impact of the factors above is highly dependent on an employer's profile and we may see a few exceptions to the rule, but the Fund will work closely with such employers.

The fact that the Fund is currently in such a robust position is testament to the Fund officers, who have always taken a prudent and long term view of funding to help manage volatility and investment managers who have helped generate returns on assets. This included an early recognition of McCloud costs at the 2019 valuation and careful management of material costs such as those arising on ill-health grounds. The Fund also continues to be at the vanguard of RI/ESG in its action to reduce investment in fossil fuels.

As part of the valuation, we will continue to work with the Administering Authority and officers to highlight the risks of defined benefit funding and consider life expectancy, inflation and climate change scenarios so that all stakeholders can continue to have an informed view on these matters. This will help all connected with the Fund continue to understand the triennial balancing act of managing the Fund's solvency whilst aiming for contribution affordability and stability.

Clive Lewis, Actuary, Mercer

Section 5 - Governance

Pension Board Annual Report

This report sets out the work carried out by the Dyfed Pension Board during the financial year 2021-22 to discharge its role, in support of Carmarthenshire County Council, in managing the Dyfed Pension Fund. As with all other activity across the country, the work of the Board during the year was affected by the Covid pandemic. As part of the arrangements introduced by Carmarthenshire County Council the Board could not meet in person, but did so virtually in an online format.

To recap the Board was set up with effect from April 2015 under new arrangements for the governance of Local Authority Pension Funds. The purpose of the Board to assist Carmarthenshire County Council (as the scheme manager) in the management of the Local Authority Pension Scheme (LGPS), and to provide oversight and challenge. The terms of reference for the Board are available on the Fund website.

The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair. This is in line with the regulations requiring equal employee and employer representation. Details of the members of the Board are shown in the Appendix to this report. The Board is not a decision making body and can only provide advice and comment on the management of the Dyfed Pension Fund. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way. In my capacity as Chair I have regular contact with officers at Carmarthenshire County Council to ensure that the Board addresses the issues necessary to discharge its responsibilities. Councillor Williams as Pension Committee Chair is also invited to attend each Pension Board meeting.

The year was notable for the continued impact of the Covid pandemic and the disruption this had on the life of everyone in the country. As a consequence, the Board held virtual meetings on 4 occasions during 2021-22: in April, July and November 2021 and in January 2022. In line with the arrangements put in place by Carmarthenshire County Council, these virtual online meetings were arranged so that the work of the Board and governance of the Fund could continue.

The cycle of Board meetings follows the timetable for the Pensions Committee and helps strengthen the overall governance of the Fund. The Board continues to focus on the key issues affecting the Fund and its beneficiaries and agrees a forward work plan at the start of the year to ensure that it is best placed to support the Council in the delivery of the LGPS in Dyfed. As part of its oversight and scrutiny role the Board has regular updates at each meeting on:

- a review of the budget and associated financial monitoring;
- to consider any breaches in service delivery;
- regular monitoring and review of the risk register;
- monitoring and review of the performance of the pensions administration service including examining workflow statistics;
- to consider a report from the Independent Adviser on investment performance and asset allocation issues;
- updates on the performance and developments in the Wales Pension Partnership (WPP);
- Review and discussion of the decisions of the Pensions Committee;

- a review of the training and development programme for Members of the Pension Committee and Pension Board.

There have been full agendas for each Board meeting. In addition to the agenda items considered at each meeting, the Board also discussed other issues during the year including:

- The development of an annual work plan for the Board;
- Review of the Pension Fund annual accounts and external audit report;
- Consideration of the Fund's Governance Policy and Compliance Statement;
- Consideration of the Fund's Investment Strategy and Funding Strategy Statements;
- Consideration of developments affecting the LGPS including progress with the Wales Pension Partnership;
- Consideration and discussion on the Fund's proposals for a Restructure of the Equity portfolio;
- Briefing and discussion on the Fund's Carbon Footprint and action proposed to reduce the impact in the future;
- Internal Audit and risk management issues affecting the Fund.

In this way the Board continues to discharge its oversight and scrutiny role.

There was one change in membership of the Board during the year with Gwyn Jones standing down from his position as Employee Representative. On behalf of the Board, I would like to thank Gwyn for his support and valuable contributions at our meetings particularly on budget and monitoring issues. Despite the disruption caused by the Covid pandemic the virtual meetings were well attended at 75%, compared with 93% in the previous year. Detailed attendance of Board Members is set out in the Appendix to this report.

At the end of March 2022, the Dyfed Pension Fund had total assets of £3.2 billion and a membership of 52,735 comprising pensioners, deferred pensioners and current contributors. Pension Fund investment and administration is becoming ever more complex so training and development for Members of the Pensions Committee and Board is an essential support to good governance.

In previous reports I have commented on the importance of a structured programme of training and development for individual members and the Board collectively to discharge their responsibilities. One consequence of the Covid pandemic has been the wider use of virtual online training sessions. These have certain advantages in being easier to access with no travel involved; can be distributed widely and cover a range of topical issues. The Wales Pension Partnership has continued to run regular online training sessions for all Committee and Board Members across the 8 Welsh funds. In my view this initiative should continue.

With this in mind, members of the Board have attended various training sessions over the past year. The training undertaken by Board members is recorded by Carmarthenshire County Council and presented at each Board meeting for review and consideration of future events. Examples from the past year included:

- Four training sessions on asset classes presented by Blackrock and Schroders who manage part of the Fund's investment portfolio;
- Several seminars attended by Board members on an individual basis with updates on current issues affecting the LGPS;

- Two training sessions run by the WPP.

Regular training sessions will continue to be arranged and incorporated as part of Board meetings. Training and development remains an area of attention for the Pensions Regulator as part of their role in promoting high standards of corporate governance in Pension Funds. Virtual meetings and training sessions have worked well over the past year, so this pattern of virtual and hybrid meetings should continue in the future.

Together with Pension Board Chairs from the other Welsh Funds, I represent the Board at a 6 monthly briefings on progress in the Wales Pension Partnership. Presentations from the host authority (Carmarthenshire County Council) and their partners Link and Russell Investments provides an opportunity for Board Chairs to ask questions and scrutinise progress on investment pooling in Wales. This new forum helps to build good working relationships between Boards and the host authority and Pool and strengthens overall governance of the Welsh pension funds.

The majority of the Fund's assets are now managed through the Wales Pension Partnership and BlackRock's jointly procured passive index funds and the Pension Board are updated on developments at each meeting. Out of total assets of £3.2bn, £2.5bn (76%) is now managed on this basis. Going forward this percentage will increase and more assets are transferred into the WPP. We will continue to monitor this process and work alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

Members of the Dyfed Pension Board 2021-22

- John Jones - Independent Chair
- Cllr Gareth Lloyd - Employer Member Representative
- Mike Rogers - Pensioner Member Representative
- Paul Ashley-Jones - Employer Member Representative
- Gwyn Jones - Employee Representative (to January 2022)
- Cllr Philip Hughes - Employer Representative
- Tommy Bowler - Trade Union Representative

Board Member Attendance 2021-22

	16 April 2021	20 July 2021	9 November 2021	25 January 2022
John Jones	✓	✓	✓	✓
Mike Rogers	x	✓	x	x
Cllr. Philip Hughes	✓	✓	✓	✓
Gwyn Jones	✓	x	✓	N/A
Tommy Bowler	✓	✓	✓	✓
Cllr. Gareth Lloyd	✓	✓	✓	✓
Paul Ashley-Jones	✓	x	✓	x

John Jones, Independent Chair of the Pension Board

Governance Policy Statement

Introduction

The Dyfed Pension Fund is administered by Carmarthenshire County Council (the administering authority). All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Governance Policy, under Regulation 73A of the LGPS 1997 Regulations. This regulation is superseded by Regulation 31 of the LGPS (Administration) Regulations 2008 and the 2013 Regulations. Additionally, one of the key requirements in the Public Service Pensions Act (PSPA) 2013 is for each Administering Authority in the LGPS to create a local Pension Board.

This policy has been prepared by the administering authority in consultation with appropriate interested persons.

Purpose of the Governance Policy

The regulations on governance policy requires an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

- whether it delegates its function, or part of its function, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority, if it does so:
 - the frequency of any committee or sub-committee meetings
 - the terms, structure and operational procedures of the delegation
 - whether such a committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members, and if so, whether those representatives have voting rights
- the extent to which a delegation, or absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying.

Governance of the Dyfed Pension Fund

Within Carmarthenshire County Council's constitution, a pension committee must be set up for the Dyfed Pension Fund to:

- decide on all the policy matters and strategic direction relating to the investments of the Pension Fund
- review and monitor the investment performance of the Fund
- review and determine on all Pension Fund Valuation matters of the fund
- determine on Administering Pension Fund Authority policy and strategic matters

Operational matters of both the Investments and Administration Functions are delegated to the Director of Corporate Services.

Powers delegated to the Head of Financial Services for Pensions Administration, in accordance with The Local Government Pension Scheme Regulations 1997 or subsequent amending legislation, are:

- to collect employee and employer contributions from participating employers
- to make payments in respect of scheme benefits
- to collect and make pension transfer payments as elected by scheme members

- to determine non policy related discretions as an Employing / Administering Pension Authority
- to undertake Stage 1 determinations on disputes arising from the Local Government Pensions Scheme or related legislation
- to update and maintain the Fund's website www.dyfedpensionfund.org.uk
- the maintenance and update of membership records
- the calculation and authorisation of benefit payments
- the provision of membership data for actuarial valuation purposes
- the preparation and maintenance of the Communication Policy Statement and the Pensions Administration Strategy Statement.

The Head of Financial Services will accept for admission into the Dyfed Pension Fund employees of authorities and bodies as prescribed in Regulations, subject to an approved Admission Agreement, and subject to any necessary indemnities as appropriate.

The Pension Committee

Terms of Reference

- To exercise the County Council's responsibility for the management of the Dyfed Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets
- To meet at least quarterly, or otherwise as necessary
- To produce an Annual Report by 30 September each year on the state of the Fund and on the investment activities during the year
- To have overall responsibility for investment policy and monitor overall performance
- To review governance arrangements and the effective use of its advisers to ensure good decision-making
- To receive regular reports on Scheme administration to ensure that best practice standards are satisfied and met and to satisfy itself that and justify to all stakeholders, including Fund Employers that the Fund is being run on an effective basis
- To appoint Investment Managers to discharge functions relating to the management of the Fund's investments
- To appoint the Fund's custodian, performance measurement adviser, actuary, independent adviser and AVC provider
- To approve a Funding Strategy Statement and Investment Strategy Statement

Membership

The Committee comprises of:

- three members (one acting as Chair) plus a nominated substitute to act in the absence of a member. Each member of the committee has voting rights and each committee member and the substitute are nominated by Carmarthenshire County Council, the Administering Authority, from its elected membership. At least three members must attend each committee meeting
- at least two Carmarthenshire County Council officers from the Director of Corporate Services, Head of Financial Services, Treasury and Pension Investments Manager and Pensions Manager.
- the independent investment adviser.

The Director of Corporate Services, as Treasurer of the Dyfed Pension Fund, will also maintain all necessary accounts and records in relation to the Fund.

The Treasury and Pension Investments Manager and officers in the Treasury and Pension Investments team support the Director of Corporate Services and Head of Financial Services in the responsibility for the monitoring and review of the investments of the Fund including:

- preparation and maintenance of the accounts of the Dyfed Pension Fund including preparation of the Dyfed Pension Fund Annual Report
- preparation and distribution of the annual Dyfed Pension Fund Newsletter
- servicing the Committee meetings
- regular dialogue with the Fund's advisers, investment managers and custodian
- monitoring and reconciliation of investment manager and custodian records
- preparation and maintenance of the Fund's Investment Strategy Statement, Funding Strategy Statement, Governance Policy and compliance with the Myners review
- monitoring the activity and performance of the Fund's investment managers including compliance with policy and performance objectives
- interpretation of new legislation and research in respect of the investments and accounts of the Fund
- monitoring the corporate governance activity of the Fund including attendance at the Local Authority Pension Fund Forum (LAPFF)
- arrangement and provision of appropriate training for committee members

Committee Meetings

The Pension Committee meets four times a year. All meetings are held in Carmarthenshire, or virtually using online facilities where appropriate.

An agenda, minutes from the previous meeting and written reports are sent to each Committee member by the Democratic Services Unit before each meeting. During the Committee meeting the Committee members receive reports presented by Officers of Carmarthenshire County Council, the Independent Investment Adviser and any other person the Committee invites to speak at the meeting. Committee decisions are formally minuted by the Democratic Services Unit.

During the year, meetings are held with the Directors of Finance of the three County Councils, where Fund performance and other items dealt with at the Committee meetings are discussed. Issues raised at this meeting that the Committee need to be made aware of are reported back to the following Committee meeting for discussion.

The Annual Consultative Meeting (ACM)

The Dyfed Pension Fund is committed to the widest inclusion of all stakeholders in respect of consultation and communication arrangements. Any major policy changes are put to consultation with all participating employers, Trade Union representatives and retired member representatives before a decision is made.

An Annual Consultative Meeting (ACM) is held in Carmarthenshire. The ACM is open to all participating employers, retired member representatives and Trade Union representatives. Interested bodies are notified of the ACM in advance. The Chair of the Pension Committee, the Director of Corporate Services, the Head of Financial Services, the Fund Advisers and Investment Managers attend the ACM.

Pension Board

The Board has an oversight/assisting role not a decision making role. It assists the Administering Authority (Carmarthenshire County Council) in securing compliance with regulations and requirements imposed by the Pensions Regulator and the Department for Levelling Up, Housing & Communities (DLUHC) and ensuring effective and efficient governance and administration of the Fund.

There must be equal numbers of scheme member representatives and employer representatives on the Board. The Dyfed Pension Fund Board has 3 scheme member and 3 employer representatives and an independent member who is also the Chair of the Board.

Governance Compliance Statement

DLUHC is committed to ensure that all LGPS committees operate consistently at best practice standards. Therefore, in addition to the regulatory requirement to produce this Governance Policy, the LGPS regulations 1997 were further amended on 30 June 2007 to require administering authorities to report the extent of compliance to a set of best practice principles to be published by DLUHC, and where an authority has chosen not to comply, to state the reasons why.

This Governance Policy will be reviewed at least triennially or more frequently if appropriate.

Governance Compliance Statement

The purpose of the guidance is:

- To provide best practice principles against which compliance can be measured
- To provide guidance on how the compliance statement should be completed

The guidance sets out the best practice principles in relation to the following governance areas:

- Structure
- Representation
- Selection
- Voting
- Training, facility time and expenses
- Meetings (frequency / quorum)
- Access
- Scope
- Publicity

Best Practice Principle A: Structure

The guidance acknowledges that not all administering authorities are structured in the same way. It is not the intention to level out these differences but to ensure that structures reflect the following principles:

- The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council
- Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioners and deferreds) are members of either the main or secondary committee (established to underpin the work of the main committee)
- Where a secondary committee or panel has been established the structure ensures effective communication across both levels
- Where a secondary committee or panel has been established at least one seat on the main committee is allocated for a member from the secondary committee or Committee

Compliance Statement: Not Fully Compliant

Justification:

The Dyfed Pension Fund Committee exists and meets four times a year. The Committee has three members and a substitute, officers (all from Carmarthenshire County Council) and an independent investment adviser. Other scheme employers, admitted bodies and scheme members do not attend Committee but they are all invited to the annual ACM where all Committee members and advisers report and are available to answer questions. Carmarthenshire County Council officers meet with officers of the other 2 major employers (Pembrokeshire County Council and Ceredigion County Council) during the year where Committee minutes are made available. This system is supported by all parties and has worked very well as evidenced by the fact that timely decisions are made, and investment performance is above the actuarial assumption over the long-term.

There is no secondary committee for the Dyfed Pension Fund.

Best Practice Principle B: Representation

The number of stakeholders affected by the local management of the pension scheme and governance of pension funds is vast and it is accepted that it would be impractical to expect individual committee structures to encompass every group or sector that has an interest in the decisions that fall to be made under the scheme's regulations.

- That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:
 - employing authorities (including non-scheme employers, e.g. admitted bodies as well as scheduled bodies)
 - scheme members (including deferred and pensioner scheme members)
 - independent professional observers and expert advisors (on an ad-hoc basis)
- That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights

Compliance Statement: Not Fully Compliant**Justification:**

The Committee has representatives from Carmarthenshire County Council and the independent investment adviser. Other scheme employers, admitted bodies and scheme members do not attend Committee but they are all invited to the annual ACM where all Committee members and advisers report and are available to answer questions. Carmarthenshire County Council officers meet with officers of the other 2 major employers (Pembrokeshire County Council and Ceredigion County Council) during the year where Committee minutes are made available. There is no secondary committee for the Dyfed Pension Fund.

Best Practice Principle C: Selection

It is important to emphasise that it is not part of the fund authority's remit to administer the selection process for lay members sitting on main or secondary committees or to ensure their attendance at meetings, unless they wish to do so. Their role is to determine what sectors or groups are to be invited to sit on LGPS committees or panels and to make places available.

Effective representation is a two way process involving the fund authorities providing the opportunity and the representative bodies initiating and taking forward the selection process under the general oversight of fund authority.

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

Compliance Statement: Fully Compliant

Justification:

The Dyfed Pension Fund's Governance Policy lists the delegated functions the Committee is to perform. If membership of the committee changes, the new member/members are informed of their status, role and function they are required to perform.

Best Practice Principle D: Voting

The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Compliance Statement: Fully Compliant

Justification:

All Committee members can vote. Carmarthenshire County Council is the Administering Authority and all functions are delegated to the Committee.

Best Practice Principle E: Training, facility time and expenses

In 2001, the Government accepted the ten investment principles recommended by Paul Myners in his report, "Institutional Investment in the UK". The first of those principles, "Effective Decision Making", called for decisions to be made only by persons or organisations with the skills, information and resources necessary to take them effectively. Furthermore, where trustees - or in the case of the LGPS, members of formal committees - take investment decisions, that they have sufficient expertise to be able to evaluate critically any advice they take.

- That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process
- That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum

Compliance Statement: Fully Compliant

Justification:

The Committee have regular training sessions run by the Fund Managers, the Actuary, the Consultant and officers. New Committee members attend intense training sessions on commencement of their committee duties, including the LGPC pension training session.

Best Practice Principle F: Meetings (frequency / quorum)

An administering authority's main committee or committees meet at least quarterly.

An administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.

Administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Compliance Statement: Fully Compliant**Justification:**

The Dyfed Pension Fund Committee meets quarterly. The Annual Consultative Meeting is held annually where other scheme employers, admitted bodies and scheme members are invited.

Best Practice Principle G: Access

That subject to any rules in the council's constitution, all members of main and secondary committee or committees have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

Compliance Statement: Fully Compliant**Justification:**

All papers are circulated in advance to all members of the Committee, including the Committee's independent investment adviser.

Best Practice Principle H: Scope

That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

Compliance Statement: Fully Compliant**Justification:**

The Committee receives and votes, on an ad-hoc basis, any major administration issues that affect the Fund. The officer managing the administration of the Fund provides regular training and updates for Committee members.

Best Practice Principle I: Publicity

That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Compliance Statement: Fully Compliant

Justification:

The Dyfed Pension Fund Governance Policy is reviewed annually. A Newsletter and Annual Report are produced annually. All published material (including the Governance Policy) are on the Dyfed Pension Fund website.

Summary

Best Practice Principle	Fully Compliant	Not Fully Compliant	Explanation for Non-Compliance
Structure		✓	The DPF structure is supported by all parties and has worked very well
Representation		✓	Regular meetings and discussion with other major stakeholders occur and an annual consultative meeting is held
Selection	✓		
Voting	✓		
Training, facility time and expenses	✓		
Meetings (frequency/quorum)	✓		
Access	✓		
Scope	✓		
Publicity	✓		

Section 6 - Statement of Accounts

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 2021-22. 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 2021-22 (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.

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; and
- 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; and
- Complied with the Code

Certification of Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Dyfed Pension Fund at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Chris Moore FCCA
Director of Corporate Services

Dated:

Audit Committee Approval

Approval of Dyfed Pension Fund Statement of Accounts post audit

Chair of Audit Committee

Dated:

Fund Account for the Year Ended 31 March 2022

2020-21 £'000		Note	2021-22 £'000
	Dealings with members, employers and others directly involved in the Fund		
	Contributions		
	Employer		
63,914	Normal		68,144
5,104	Augmentation		5,397
(6,563)	Past Service Deficit/(Surplus)		(7,373)
	Member		
21,339	Normal		22,519
260	Additional voluntary		328
3,196	Transfers in from other pension funds	6	4,196
87,250			93,211
	Benefits payable		
(75,109)	Pensions payable		(77,001)
	Commutation and lump sum retirement benefits		(14,174)
(11,727)	Lump sum death benefits		(1,227)
(2,947)	Payments to and on account of leavers	7	(3,534)
(3,595)			(95,936)
(93,378)			
(6,128)	Net Additions (Withdrawals) from dealings with Members		(2,725)
	Management Expenses	8	(14,411)
(15,186)			
(21,314)	Net Additions (Withdrawals) including fund management expenses		(17,136)
	Returns on Investments		
32,187	Investment Income	9	32,138
0	Other Income		0
(51)	Taxes on Income (Irrecoverable Withholding Tax)	10	(2)
	Changes in the market value of investments		
186,742	Unrealised	11.2	122,786
467,512	Realised	11.3	55,269
686,390	Net Return on Investments		210,191
	Net Increase (Decrease) in the net assets available for benefits during the year		193,055
665,076			
2,384,473	Opening Net Assets of Scheme		3,049,549
3,049,549	Closing Net Assets of Scheme		3,242,604

Net Assets Statement for the year ended 31 March 2022

31/03/21 £'000		<u>Note</u>	31/03/22 £'000
3,029,868	Investment Assets		3,211,708
11,376	Cash deposits		24,969
0	Investment liabilities		0
<hr/> 3,041,244		11.1	<hr/> 3,236,677
12,723	Current assets	15	9,323
(4,418)	Current liabilities	16	(3,396)
<hr/> 8,305	Net Current Assets/(Liabilities)		<hr/> 5,927
<hr/> 3,049,549	Total Net Assets		<hr/> 3,242,604

Reconciliation of the movement in Fund Net Assets

2020-21 £'000		2021-22 £'000
2,384,473	Opening Net Assets	3,049,549
10,822	Net New Money Invested	15,000
654,254	Profit and losses on disposal of investments and changes in the market value of investments	178,055
<hr/> 3,049,549	Closing Net Assets of Fund	<hr/> 3,242,604

Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2022

1 Description of the Fund

The Dyfed Pension Fund (the Fund) is part of the Local Government Pension Scheme and the administering authority (the Authority) is Carmarthenshire County Council.

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 benefit 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

Members of the LGPS are automatically enrolled and are free to choose whether to 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 70 employer organisations within the Dyfed Pension Fund as at 31 March 2022 and these are detailed in Note 20. The membership details of these organisations are summarised below:

31/03/21		31/03/22
18,700	Number of active contributors in the Fund	18,643
14,626	Number of pensioners	15,342
15,881	Number of deferred pensioners	16,214
2,293	Number of undecided leavers	2,536
51,500	Total membership	52,735
47	Number of employers with active members	49

These figures reflect the recorded position as at 31 March 2022 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 2022. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuation as at 31 March 2019. Currently, employer contribution rates range from 9.5% to 46.2% of pensionable pay as detailed in Note 20.

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 2021-2022 financial year and its position at year end as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021-2022 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 Authority 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 £0.26m in 2021-2022 (2020-2021: Fee was £0.66m).

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 2021-2022, no fees are based on such estimates (2020-2021: £0).

The costs of the Authority's pension investments team are charged direct to the fund and a proportion of the Authority's costs representing management time spent by officers on investment management is also charged to the fund. The Authority charged the Pension Fund an amount of £1.1m (£1.2m in 2020-21) in respect of administration and support during 2021-22.

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 17.

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 2022 was £46.3m (31st March 2021: £38.5m).

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 Authority 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 2022 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	The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.

	actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	
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.	The total Limited Partnership property investments are £46.3m. There is a risk that this investment may be under or overstated in the accounts.
Alternatives – Strategic Alternative Income Fund (SAIF)	The SAIF 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.	The total SAIF investment is £121m. There is a risk that this investment may be under or overstated in the accounts.

6 Transfers in from other pension funds

2020-21 £'000		2021-22 £'000
0	Group transfers in from other schemes and scheme mergers	0
3,196	Individual transfers in from other schemes	4,196
3,196		4,196

7 Payments to and on account of Leavers

2020-21 £'000		2021-22 £'000
(153)	Refunds to members leaving service	(203)
1	Payments for members joining state scheme	3
0	Group transfers	0
(3,443)	Individual transfers	(3,334)
(3,595)		(3,534)

8 Management Expenses

2020-21 £'000		2021-22 £'000
(1,354)	Administrative costs	(1,409)
(13,303)	Investment management expenses	(12,435)
(529)	Oversight and governance costs	(567)
<u>(15,186)</u>		<u>(14,411)</u>

2021-22 Audit fees of £31,465 are included within Oversight and governance costs. (2020-21 £28,266)

8.1 Investment Management Expenses

2021-22	£'000	£'000	£'000	£'000
	Total	Management Fees	Performance Related Fees	Transaction Costs
Pooled Investments	7,787	5,604	262	1,921
Pooled Property Investments	4,609	1,380	0	3,229
	12,396	6,984	262	5,150
Custody Fees	39			
Total	<u>12,435</u>			

2020-21	£'000	£'000	£'000	£'000
	Total	Management Fees	Performance Related Fees	Transaction Costs
Pooled Investments	8,958	4,477	660	3,821
Pooled Property Investments	4,297	1,456	0	2,841
	13,255	5,933	660	6,662
Custody Fees	48			
Total	<u>13,303</u>			

9 Investment Income

2020-21 £'000		2021-22 £'000
23,898	Income from pooled investments	20,076
8,265	Income from pooled property investments	12,076
24	Interest on cash deposits	(14)
<u>32,187</u>		<u>32,138</u>

10 Taxation

2020-21		2021-22
£'000		£'000
(51)	Withholding tax - equities	(2)
(51)		(2)

11 Investments

11.1 Net investment assets

Fair value 31/03/2021 £'000		Fair value 31/03/2022 £'000
	<u>Investment assets</u>	
	Pooled Investments	
518,289	UK Equities	570,137
962,408	Global Equities	987,519
15,352	Canadian Equities	0
79,420	European Equities	85,436
105,477	Japanese Equities	109,595
32,241	Pacific Basin Equities	0
267,934	Emerging Markets Equities	271,323
	ACS World Low Carbon Equity Tracker	
305,992	Fund	324,448
258,679	Fixed Income	247,621
61,172	Index Linked	31,515
84,314	Alternatives	120,559
2,691,278		2,748,153
	Other Investments	
338,043	Pooled Property Investments	461,700
338,043		461,700
11,376	Cash deposits	24,969
547	Investment income due	1,855
0	Amounts receivable for sales	0
11,923		26,824
3,041,244	Total investment assets	3,236,677
	<u>Investment liabilities</u>	
0	Amounts payable for purchases	0
0	Total investment liabilities	0
3,041,244	Net investment assets	3,236,677

11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £219m whilst sales totalled £151m. Purchase and sales costs are included in the purchase price and sales proceeds of the investment.

	Fair Value 31/03/2021 £'000	Purchases £'000	Sales £'000	Fees included in NAV £'000	Cash movement £'000	Change in unrealised gains/(losses) £'000	Fair Value 31/03/2022 £'000
Pooled investments	2,691,278	126,369	(122,483)	(6,474)	0	59,463	2,748,153
Pooled property investments	338,043	93,102	(28,818)	(3,950)	0	63,323	461,700
	3,029,321	219,471	(151,301)	(10,424)	0	122,786	3,209,853
Other investment balances							
Cash deposits	11,376	0	0	0	13,593	0	24,969
Amount receivable for sales investments	0	0	0	0	0	0	0
Investment income due	477	0	0	0	1,321	0	1,798
Tax reclaims due	70	0	0	0	(13)	0	57
Amounts payable for purchases investments	0	0	0	0	0	0	0
	3,041,244	219,471	(151,301)	(10,424)	14,901	122,786	3,236,677

	Fair value 31/03/2020 £'000	Purchases £'000	Sales £'000	Fees included in NAV £'000	Cash movement £'000	Change in unrealised gains/(losses) £'000	Fair value 31/03/2021 £'000
Pooled investments	2,045,678	1,625,482	(1,161,308)	(6,896)	0	188,322	2,691,278
Pooled property investments	319,669	38,558	(15,002)	(3,603)	0	(1,579)	338,043
	2,365,347	1,664,040	(1,176,310)	(10,499)	0	186,743	3,029,321
Other investment balances							
Cash deposits	12,215	0	0	0	(839)	0	11,376
Amount receivable for sales investments	0	0	0	0	0	0	0
Investment income due*	0	0	0	0	477	0	477
Tax reclaims due*	57	0	0	0	13	0	70
Amounts payable for purchase investments	0	0	0	0	0	0	0
	2,377,619	1,664,040	(1,176,310)	(10,499)	(349)	186,743	3,041,244

*2020-21 values restated to show the investment income and tax reclaims due separately

11.3 Realised gains and losses

2020-21		2021-22
£'000		£'000
465,490	Pooled investments	53,587
2,022	Pooled property investments	1,682
467,512		55,269

11.4 Geographical analysis of investments

Fair value		Fair value
31/03/21		31/03/22
£'000	Geographical analysis	£'000
1,122,806	UK	1,325,649
299,887	Europe (excl UK)	288,453
886,212	North America	964,677
182,072	Japan	180,612
78,773	Pacific Rim	45,484
342,427	Emerging Markets	318,344
51,981	International pooled funds	53,781
	EMEA (Europe, Middle East & Africa)	
77,086		59,677
3,041,244		3,236,677

11.5 Fund manager analysis

Market value				Market value
31/03/21				31/03/22
£'000	%	Fund manager analysis	%	£'000
Investments managed by the Wales Pension Partnership				
1,221,087	40.1	Wales Pension Partnership	38.2	1,235,140
1,221,087	40.1		38.2	1,235,140
Investments managed outside of the Wales Pension Partnership				
1,479,752	48.7	BlackRock	46.8	1,514,713
301,920	9.9	Schroders	13.6	440,490
38,485	1.3	Partners Group	1.4	46,334
1,820,157	59.9		61.8	2,001,537
3,041,244	100		100.0	3,236,677

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). The underlying manager fees for the Global Credit Fund are not included in this table. The underlying manager fees for the Global Credit Fund are not included in this table, these fees are disclosed in the Dyfed Pension Fund Annual Report. Further details on the WPP can be found in the Annual Report.

Wales Pension Partnership costs included in the Dyfed Pension Fund accounts for 2021-22 are below:

Wales Pension Partnership		
31/03/21		31/03/22
£'000		£'000
	WPP oversight and governance costs	
88	Running Costs	135
	WPP Investment Management expenses	
2,928	Fund Manager fees	3,926
281	Transaction costs	227
147	Custody Fees	184
3,444		4,472

12 **Concentration of Investments**

The following investments represent more than 5% of the Fund's total net assets as at 31st March 2021 and 31 March 2022:

	Value as at 31 March 2022 £'000	Proportion of Investment Portfolio %
Wales Pension Partnership Global Growth Fund	987,519	30.51
BlackRock Aquila Life UK Equity Index Fund	570,136	17.61
BlackRock ACS World Low Carbon Tracker Fund	324,448	10.02
BlackRock iShares Emerging Markets Index Fund	271,323	8.38
Wales Pension Partnership Global Credit Fund	247,621	7.65

	Value as at 31 March 2021 £'000	Proportion of Investment Portfolio %
Wales Pension Partnership Global Growth Fund	962,408	31.63
BlackRock Aquila Life UK Equity Index Fund	518,105	17.03
BlackRock ACS World Low Carbon Tracker Fund	305,992	10.06
Wales Pension Partnership Global Credit Fund	258,679	8.50
BlackRock iShares Emerging Markets Index Fund	252,653	8.30

13 Financial Instruments

13.1 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.

2020-21					2021-22			
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				
2,691,278	0	0	2,691,278	Pooled investments	2,748,153	0	0	2,748,153
338,043	0	0	338,043	Pooled property investments	461,700	0	0	461,700
0	20,174	0	20,174	Cash	0	29,447	0	29,447
547	0	0	547	Other investment balances	1,855	0	0	1,855
0	3,925	0	3,925	Debtors	0	4,845	0	4,845
3,029,868	24,099	0	3,053,967		3,211,708	34,292	0	3,246,000
				Financial liabilities				
0	0	0	0	Other investment balances	0	0	0	0
0	0	(4,418)	(4,418)	Creditors	0	0	(3,396)	(3,396)
0	0	(4,418)	(4,418)		0	0	(3,396)	(3,396)
3,029,868	24,099	(4,418)	3,049,549	Total	3,211,708	34,292	(3,396)	3,242,604

13.2 Net gains and losses on financial instruments

2020-21 £'000		2021-22 £'000
	Financial assets	
654,254	Fair value through profit and loss	178,055
654,254	Total financial assets	178,055
	Financial liabilities	
0	Total financial liabilities	0
654,254	Total	178,055

13.3 Fair value of financial instruments and liabilities

Carrying value 31/03/21 £'000	Fair value 31/03/21 £'000		Carrying value 31/03/22 £'000	Fair value 31/03/22 £'000
		Financial assets		
2,483,219	3,029,868	Fair value through profit and loss	2,552,697	3,211,708
24,099	24,099	Loans and receivables	34,292	34,292
2,507,318	3,053,967	Total financial assets	2,586,989	3,246,000
		Financial liabilities		
0	0	Fair value through profit and loss	0	0
(4,418)	(4,418)	Financial liabilities at amortised cost	(3,396)	(3,396)
(4,418)	(4,418)	Total financial liabilities	(3,396)	(3,396)
2,502,900	3,049,549	Total	2,583,593	3,242,604

13.4 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.

13.5 Fair value – Basis of valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Cash and Cash Equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Pooled property investments:	Level 1	Unit trust. Uses the bid market price on the final day of the accounting period.	Not required	Not required
Pooled investments: equity funds	Level 2	The 'NAV' (net asset value) calculation is based on the market value of the underlying assets	Evaluated price feeds	Not required
Pooled investments: fixed income funds	Level 2	The NAV calculation is based on the market value of the underlying fixed income securities	Evaluated price feeds	Not required
Pooled property funds	Level 3	Fair value is ascertained from periodic valuations provided by those controlling the partnership	Unobservable inputs-price depends on information not publicly available	Valuations could be affected by changes to expected cashflows or by differences between audited

				and unaudited accounts
Pooled investments: alternatives	Level 3	Fair value is ascertained from periodic valuations provided by asset's fund manager	Unobservable inputs-the fund is exposed to security and other assets that will not have readily assessable market values	Valuations may rely on internal and external pricing models. May also be affected by changes in accounting standard, policies or practices

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.

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Fair values at 31 March 2022				
Financial assets				
Financial assets at fair value through profit and loss	2,123	2,627,595	581,990	3,211,708
Loans and receivables	34,292	0	0	34,292
Total financial assets	36,415	2,627,595	581,990	3,246,000
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(3,396)	0	0	(3,396)
Total financial liabilities	(3,396)	0	0	(3,396)
Net financial assets	33,019	2,627,595	581,990	3,242,604

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Fair values at 31 March 2021				
Financial assets				
Financial assets at fair value through profit and loss	10,005	2,606,964	412,899	3,029,868
Loans and receivables	24,099	0	0	24,099
Total financial assets	34,104	2,606,964	412,899	3,053,967
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(4,418)	0	0	(4,418)
Total financial liabilities	(4,418)	0	0	(4,418)
Net financial assets	29,686	2,606,964	412,899	3,049,549

13.6 Reconciliation of fair value measurements within level 3

2021-22 Asset Type	Market Value 1 April 2021 £'000	Purchases £'000	Sales £'000	Unrealised Gains / (Losses) £'000	Realised Gains / (Losses) £'000	Market Value 31 March 2022 £'000
Alternatives	84,314	34,132	0	2,113	0	120,559
Property	328,585	93,102	(19,524)	57,097	2,171	461,431
Total	412,899	127,234	(19,524)	59,210	2,171	581,990

2020-21 Asset Type	Market Value 1 April 2020 £'000	Purchases £'000	Sales £'000	Unrealised Gains / (Losses) £'000	Realised Gains / (Losses) £'000	Market Value 31 March 2021 £'000
Alternatives	53,199	32,669	0	(1,554)	0	84,314
Property	319,402	22,095	(7,575)	(7,351)	2,015	328,585
Total	372,601	54,764	(7,575)	(8,905)	2,015	412,899

13.7 Transfers between levels 1 and 2

There were no transfers between levels 1 and 2 investments during 2021-22.

14 Nature and extent of risks arising from financial instruments

14.1 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.

14.2 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

14.3 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.

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.

14.4 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	14.40%
Bonds	6.50%
Alternatives	6.70%
Property	3.70%
Cash	1.10%

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 2022 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Cash	24,969	1.10%	25,244	24,694
Investment portfolio assets:				
UK Equities	570,137	14.40%	652,237	488,037
Overseas Equities	790,802	14.40%	904,677	676,926
Global Pooled Equities inc UK	987,519	14.40%	1,129,721	845,316
Alternatives	120,559	6.70%	128,636	112,481
Bonds	279,136	6.50%	297,280	260,992
Property	461,700	3.70%	478,782	444,617
Sales receivable	0	0.00%	0	0
Purchases payable	0	0.00%	0	0
Income receivables	1,855	0.00%	1,855	1,855
Total Assets	3,236,677		3,618,432	2,854,918

Asset Type	Value as at 31 March 2021 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Cash	11,376	0.80%	11,467	11,285
Investment portfolio assets:				
UK Equities	518,289	15.30%	597,587	438,991
Overseas Equities	806,416	15.30%	929,797	683,034
Global Pooled Equities inc UK	962,408	15.30%	1,109,657	815,160
Alternatives	84,314	3.80%	87,518	81,110
Bonds	319,851	6.30%	340,001	299,700
Property	338,043	2.20%	345,480	330,606
Sales receivable	0	0.00%	0	0
Purchases payable	0	0.00%	0	0
Income receivables	547	0.00%	547	547
Total Assets	3,041,244		3,422,054	2,660,433

14.4.1 Sensitivity of assets valued at level 3

Asset Type	Value as at 31 March 2022 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Alternatives	120,559	6.70%	128,637	112,482
Pooled Property	461,431	3.70%	478,504	444,358
Total Level 3 Assets	581,990		607,141	556,840

14.5 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 2021 and 31 March 2022 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

31/03/21	Asset type	31/03/22
£'000		£'000
11,376	Cash and cash equivalents	24,969
8,798	Cash held at CCC	4,478
319,851	Bonds	279,137
340,025	Total	308,584

14.6 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 31/03/22 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	24,969	250	(250)
Cash held at CCC	4,478	45	(45)
Bonds	279,137	2,791	(2,791)
Total change in available assets	308,584	3,086	(3,086)

Asset type	Value as at 31/03/21 £'000	Change in year in the net assets available to pay benefits	
		+1%	-1%
		£'000	£'000
Cash and cash equivalents	11,376	114	(114)
Cash held at CCC	8,798	88	(88)
Bonds	319,851	3,199	(3,199)
Total change in available assets	340,025	3,401	(3,401)

14.7 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.

14.8 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 2021 and as at 31 March 2022:

Fair value 31/03/21 £'000	Asset type	Fair value 31/03/22 £'000
1,878,163	Overseas pooled investments	1,876,457
40,276	Overseas pooled property investments	34,572
0	Cash	0
1,918,439	Total overseas assets	1,911,029

14.9 Currency risk sensitivity analysis

The aggregate currency risk within the Fund as at 31 March 2022 was 6.1% (2020-21: 6.8%).

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

A 6.1% 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 31/03/22 £'000	Change in year in the net assets available to pay benefits	
		+6.1% £'000	-6.1% £'000
Overseas pooled investments	1,876,457	114,464	(114,464)
Overseas pooled property investments	34,572	2,109	(2,109)
Cash	0	0	0
Total change in available assets	1,911,029	116,573	(116,573)

Asset type	Fair value 31/03/21 £'000	Change in year in the net assets available to pay benefits	
		+6.8% £'000	-6.8% £'000
Overseas pooled investments	1,878,163	127,715	(127,715)
Overseas pooled property investments	40,276	2,739	(2,739)
Cash	0	0	0
Total change in available assets	1,918,439	130,454	(130,454)

14.10 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.

14.11 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.

15 **Current assets**

31/03/21		31/03/22
£'000		£'000
	Contributions due from employer	
1,784	- Employer	2,291
1,771	- Employee	2,188
8,798	Cash Balances	4,478
370	Debtors	366
12,723		9,323

15.1 Analysis of Current Assets

31/03/21		31/03/22
£'000		£'000
11,462	Local authorities	7,796
1	NHS bodies	0
1,260	Other entities and individuals	1,527
12,723		9,323

16 **Current liabilities**

31/03/21		31/03/22
£'000		£'000
(2,975)	Unpaid benefits	(1,493)
(1,443)	Creditors	(1,903)
(4,418)		(3,396)

16.1 Analysis of Current liabilities

31/03/21		31/03/22
£'000		£'000
(680)	HMRC	(763)
(367)	Public corporations and trading funds	(336)
(3,371)	Other entities and individuals	(2,297)
<u>(4,418)</u>		<u>(3,396)</u>

17 **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 31/03/21 £ '000	Contributions £ '000	Expenditure £ '000	Change in Market Value £ '000	Value as at 31/03/22 £ '000
Prudential*	6,276	0	0	0	6,276
UTMOST	431	5	(15)	14	435
Standard Life	3,007	406	(615)	151	2,949
Total	9,714	411	(630)	165	9,660

* The Fund has not received Prudential's statement of accounts for either 2020-21 or 2021-22. £6,276k was the value as at 31 March 2020.

18 **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 2019.

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

19 **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. In addition, the Authority's Governance and Audit Committee is responsible for the approval of the Fund's Annual Report and Accounts.

The Authority incurred costs of £1.145 million (2020-2021: £1.154 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 £37.524 million to the Fund in 2021-2022 (2020-2021: £36.295 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 2022, the Fund had an average investment balance of £14.93 million (2020-2021: £26.18 million) earning interest of £11,261 (2020-2021: £47,300).

19.1 Governance

Pension Committee

There are three members and one substitute member of the Pension Committee. During 2021-22 these were Councillor Elwyn Williams (active member), Councillor Deryk Cundy (active member), 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

19.2 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:

31/03/21		31/03/22
£'000		£'000
15	Short-term benefits	15
4	Post-employment benefits	4
19		19

20 Employing bodies contribution rates, contributions receivable and benefits payable

2020-21				2021-22				
Contri- bution rate %	Deficit/ (Surplus) Contri- bution £'000	Contri- butions £'000	Benefits payable £'000		Contri- bution rate %	Deficit/ (Surplus) Contri- bution £'000	Contri- butions £'000	Benefits payable £'000
Scheduled bodies								
19.9	(2,594)	38,888	38,134	Carmarthenshire County Council	19.9	(2,695)	40,217	40,757
19.8	(1,988)	21,868	19,803	Pembrokeshire County Council	19.8	(2,066)	23,604	19,311
20.1	(2,149)	13,838	12,884	Ceredigion County Council	20.1	(2,232)	14,605	12,802
17.8	(6)	6,287	3,116	Office for the Police & Crime Commissioner for Dyfed-Powys	17.8	(7)	6,681	3,405
18.1	(188)	1,667	1,511	Mid & West Wales Fire Authority	18.1	(195)	1,752	2,005
16.2	0	276	291	Coleg Ceredigion	19.7	0	311	400
16.1	122	1,619	1,143	Coleg Sir Gar	20.0	0	2,020	1,214
15.8	(90)	717	879	Pembrokeshire Coast National Park Authority	19.9	(287)	876	826
15.0	90	1,208	385	Pembrokeshire College	18.6	28	1,529	460
	(6,803)	86,368	78,146			(7,454)	91,595	81,180
Designated (Resolution) bodies								
23.0	0	13	13	Aberystwyth Town Council	25.6	(4)	15	17
0.0	0	0	0	Aberaeron Town Council	0.0	0	0	0
17.9	18	69	112	Carmarthen Town Council	22.4	(25)	97	96
21.6	0	37	0	Cwmamman Town Council	20.9	1	45	0
21.7	0	16	0	Llanedi Community Council	24.1	0	21	0
24.0	1	6	4	Gorslas Community Council	28.8	(0)	7	4
-	0	12	43	Haverfordwest Town Council	-	0	12	37
27.6	10	15	12	Kidwelly Town Council	27.6	8	19	12
20.7	0	2	1	Llanbadarn Fawr Community Council	25.9	0	3	1
0.0	0	0	1	Llanarthne Community Council	19.4	0	1	1
15.9	6	219	241	Llanelli Rural Council	19.9	(53)	269	250
19.1	8	64	111	Llanelli Town Council	20.3	15	75	100
15.9	0	8	0	Llangennech Community Council	22.9	3	15	0
19.5	5	54	17	Llannon Community Council	25.8	6	41	30
19.6	(2)	68	66	Pembrey & Burry Port Town Council	17.3	(12)	59	19
16.3	(2)	11	12	Tenby Town Council	22.5	(6)	14	11
16.6	1	14	0	Pembroke Town Council	19.6	2	17	0
13.5	1	11	0	Pembroke Dock Town Council	22.7	2	16	0
	46	619	633			(63)	726	578

2020-21				2021-22				
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	12	46	31	Ceredigion Association of Voluntary Org.	21.1	8	46	31
15.1	(22)	992	1,177	Careers Wales	19.9	0	1,209	1,292
17.0	11	31	35	Carmarthenshire Association of Voluntary Services	22.9	3	42	36
27.6	0	2	14	Carmarthenshire Federation of Young Farmers Clubs	0.0	0	2	14
15.9	2	12	42	Iaith Cyf	20.2	0	15	42
23.3	5	3	16	Leonard Cheshire Disability	26.9	2	3	16
0.0	0	0	39	Llanelli Burial Board	0.0	0	0	39
11.7	11	68	11	Menter Bro Dinefwr	16.7	13	88	38
10.5	31	32	33	Menter Cwm Gwendraeth	17.6	14	47	62
10.8	1	62	0	Menter Gorllewin Sir Gar	13.3	2	79	0
7.4	(2)	12	10	Menter Iaith Castell-Nedd Port Talbot	9.5	0	15	10
19.3	0	1	10	Narberth & District Community & Sports Association	22.8	0	5	10
20.1	1	58	100	Pembrokeshire Association of Voluntary Services	22.7	0	62	62
13.7	5	93	68	PLANED	19.2	0	101	34
15.8	(6)	402	188	Tai Ceredigion/Barcud	21.4	0	316	280
18.4	77	540	587	University of Wales-Trinity St David	22.0	0	622	559
22.3	90	11	229	Aberystwyth University	25.1	92	8	210
14.7	(25)	368	473	Books Council of Wales	19.7	0	414	453
14.8	6	25	61	West Wales Action for Mental Health	21.2	0	24	44
15.8	(4)	19	75	Valuation Tribunal Wales	15.3	0	17	58
14.2	1	1	0	Swim Narberth	0.0	0	0	0
	194	2,778	3,199			134	3,115	3,290
				Transferee Admission Body (TAB)				
19.3	0	18	64	Pobl Group	22.8	0	18	46
0.0	0	0	14	DANFO	0.0	0	0	14
15.3	0	627	24	Llesiant Delta Wellbeing	17.3	10	822	198
0.0	0	3	77	Human Support Group (HSG)	0.0	0	0	78
23.6	0	26	5	Compass Contract Services Ltd	0.0	0	0	1
22.2	0	9	0	Burry Port Marina Ltd	22.2	0	12	0
0.0	0	0	0	Adapt Business Services	46.2	0	9	0
23.4	0	5	0	Visit Pembrokeshire	23.4	0	16	0
	0	688	184			10	877	337

				Bodies with no pensionable employees				
0.0	0	6	7	DVLA	0.0	0	6	7
0.0	0	24	13	Cardigan Swimming Pool	0.0	0	0	13
0.0	0	64	110	PRISM	0.0	0	0	74
0.0	0	53	325	Dyfed Powys Magistrates Courts	0.0	0	53	325
0.0	0	1	7	Carmarthen Family Centre	0.0	0	1	7
0.0	0	2	4	Milford Haven Town Council	0.0	0	2	4
0.0	0	0	2	Mencap	0.0	0	0	2
0.0	0	0	7,112	Dyfed County Council	0.0	0	0	6,530
0.0	0	0	2	Dyfed AVS	0.0	0	0	2
0.0	0	7	8	NHS	0.0	0	7	8
0.0	0	4	16	Welsh Water	0.0	0	4	16
0.0	0	0	7	Cwm Environmental	0.0	0	0	8
0.0	0	0	6	Cartrefi Cymru	0.0	0	0	19
0.0	0	2	2	Rent Officer Service	0.0	0	2	2
	0	163	7,621			0	75	7,017
(6,563)	90,616	89,783	Total		(7,373)	96,388	92,402	

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.

Assets (£m)	2,576
Liabilities (£m)	2,444
Surplus (£m)	132
Funding Level (%)	105

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 may be appropriate to offset some of 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 the last actuarial valuation the average recovery period adopted was 14 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) was 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 has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

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 have been 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 as at the last valuation (and also within the whole Fund average Secondary rate of £3 million per annum offset shown above).

Impact of Covid 19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2019. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which will

need to be kept under review and will be considered further as part of the 2022 valuations currently ongoing. 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. Contributions will be reviewed and updated as part of the 2022 valuation. In addition the Administering Authority has the power to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will 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 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	3.3% per annum
Rate of pay increases	4.2% per annum	4.8% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.8% per annum	3.4% per annum

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI 2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1% p.a.). This on its own would have led to a significantly lower value placed on the liabilities but it was predominately offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3% p.a.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £4,155 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£87 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£93 million (this includes any

increase in liabilities arising as a result of early retirements/augmentations). There was also a decrease in liabilities of £101 million due to “actuarial gains” (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed).

The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2022 is therefore £4,234 million. This is the liability figure on the prescribed IAS26 basis only and is not used for funding purposes nor for the setting of contribution rates.

GMP Indexation

The public service schemes were previously 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 has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to, a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Clive Lewis

Fellow of the Institute and
Faculty of Actuaries

Laura Evans

Fellow of the Institute and
Faculty of Actuaries

Mercer Limited

July 2022

Independent Auditor's Report

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

Opinion on financial statements

I have audited the financial statements of Dyfed Pension Fund for the year ended 31 March 2022 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

In my opinion the financial statements:

- give a true and fair view of the financial position of Dyfed Pension Fund as at 31 March 2022 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year; and
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021-22.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements. The Responsible Financial Officer is responsible for the other information contained within the annual statement of accounts. 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. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

Matters on which I report by exception

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

Responsibilities

Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 61-62, the responsible financial officer is responsible for the preparation of the statement of accounts, 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 statements of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the statement of accounts, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- enquiring of management, the pension fund's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Dyfed Pension Fund's policies and procedures concerned with:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or noncompliance with laws and regulations.
- considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the posting of unusual journals.
- obtaining an understanding of Dyfed Pension Fund's framework of authority as well as other legal and regulatory frameworks that Dyfed Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Dyfed Pension Fund.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Governance and Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the pension committee; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of Dyfed Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

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.

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.

Adrian Crompton
Auditor General for Wales
Date

24 Cathedral Road
Cardiff
CF11 9LJ

The maintenance and integrity of Dyfed Pension Fund website is their responsibility; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Section 7 - Funding Strategy Statement

The full Funding Strategy Statement including the appendices can be found on the [website](#).

Introduction

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively, “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Dyfed Pension Fund the Administering Authority will prepare and publish its funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose; and
 - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

Benefits

The benefits provided by the Dyfed Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Dyfed Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. 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.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the Fund Actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

Primary Rate

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

Secondary Rate

The “Secondary rate” is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

Purpose of the FSS in Policy Terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Fund Actuary.

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to “secure the solvency” of the pension fund and the “long term cost efficiency”,
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

Aims and Purpose of the Fund

The aims of the fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources (i.e. liquid assets) are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations.

Responsibilities of the key parties

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS

The Administering Authority should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund Actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and

- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer
- pay all contributions, including their own as determined by the Fund Actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.
- Understand the pension impacts of any changes to their organisational structure and service delivery model
- Understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer higher contributions than otherwise would be the case if the data was high of quality

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

The **Fund's Investment Manager(s)** should:

- invest funds given in accordance with the ISS and the Investment Management Agreement (IMA)
- meet investment performance targets and risk constraints, and
- comply with all the legislative, commercial and mandate requirements.

Solvency Funding Target

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

Solvency and Long-Term Efficiency

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

Determination of the Solvency Funding Target and Deficit Recovery Plan

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix A. The Employer Deficit Recovery Plans are set out in Appendix B.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful

potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

Individual employer contributions will be expressed and certified as two separate elements:

- the **Primary** rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the **Secondary** rate: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.

Recovery Plan

It is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall deficit contributions payable. The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering deficit recovery are as follows:

- The Fund does not believe it appropriate for monetary contribution reductions to apply compared to the existing funding plan (allowing for indexation of deficit contributions where applicable) where deficits remain unless there is a compelling reason to do so.
- Certain employers may follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.
- As a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a

recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Recovery Plan in Appendix B). Application of these principles has resulted in the target recovery period of 11 years being adopted across Fund employers.

- Subject to affordability and other considerations, the end point of individual employer recovery plans is expected to be maintained at this valuation, which means that recovery periods will normally be three years shorter than at the 2016 actuarial valuation. The target recovery period for employers at this valuation is therefore 11 years (3 years less than the corresponding target of 14 years from the previous valuation). In practice, individual employer circumstances could cause their recovery period to be different from this.
- Over and above this, the Fund is now giving more recognition to the potential liabilities in the event that an employer will exit the Fund at some point. With this in mind, closed employers will normally have their contributions underpinned at existing levels. In addition, any employer in surplus on the ongoing actuarial valuation assumptions will not normally be allowed to use that surplus to offset its future contribution requirements to the Fund. These restrictions will not apply if the body has a surplus on its termination basis: in this event a surplus on the termination basis may be used to offset future contribution requirements.
- In order to allow employers time to adjust their budgets, contributions for 2020/21 will normally be maintained at their existing levels, other than for the major scheduled bodies, before moving to the new rates in 2021/22. Where there is a material increase in contributions required at this valuation, in certain circumstances the Fund may agree to the increase being phased in over the period to 2022/23. Employers should be aware that any stepping or deferral of increases may affect the contribution requirements arising at future valuations.

Ceasing Participation in the Fund

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment.

The policy for employers who have a **guarantor** participating in the Fund is as follows:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

Otherwise, in the event of a deficit, the Fund will seek to recover this from the exiting employer in the first instance. However, if this is not possible, then to maintain a consistent approach between treatment of surplus and deficit, the Fund will then seek to recover the deficit from the guarantor via an additional cash payment, unless otherwise agreed with the Administering Authority. In the event of a surplus the Administering Authority will have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount of any exit credit payable, and any such amount determined will be paid to the exiting employer within 6 months of cessation or such longer period as may be agreed in the individual case.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

The policy for employers who **do not** have a **guarantor** participating in the Fund is:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of cessation or such longer period as may be agreed in the individual case).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.
- The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. The termination policy is set out in Appendix C.

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

At the discretion of the Administering Authority, repayment plans over an agreed period or a Deferred Debt Agreement may be agreed subject to the Fund's policy in relation to flexibilities in recovering exit payments.

Further detail is available in the Termination Policy in Appendix C.

Funding for Non-ill Health Early Retirement Costs

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in certain circumstances by agreement with the Fund, through instalments over a period not exceeding 3 years or if less the remaining period of the body's membership of the Fund.

Funding for Ill Health Early Retirement Costs

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer. The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment. Because the cost of an individual ill-health retirement can be substantial in relation to an employer's contribution requirements, the Fund has introduced a "captive" whereby the costs of ill health retirements (other than for the five major scheduled employers) will be spread across a wider employer base. The treatment of any ill-health retirement strain cost emerging will therefore vary depending on the type of employer:

- For those employers who participate in the ill-health captive, any ill-health retirement strain cost emerging will be met by a contribution from the captive fund as part of the subsequent actuarial valuation (or termination assessment if sooner). No additional contributions will be due immediately from the employer although an adjustment to the "premium" payable may emerge following the subsequent actuarial valuation, depending on the overall experience of the captive fund.
- For those employers who do not participate in the ill-health captive, the "primary rate" payable over 2020/23 will include an allowance for ill-health retirement costs (alongside any allowance made for voluntary early retirements). Where ill-health retirement strain costs exceed an employer's allowance over the inter-valuation period (or should an employer not have an allowance within their "primary rate"), the excess strain costs will be included in the employer's deficit (and subsequent deficit contributions) at the 2022 valuation.

Link to Investment Policy and the Investment Strategy Statement (ISS)

The results of the 2019 valuation show the liabilities to be 105% covered by the current assets (104% if the estimated effects of the McCloud judgment were to be allowed for), so there is a small surplus of existing assets over the past service liabilities.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is normally possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would typically, in normal circumstances, consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance nor any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of negative 0.9% per

annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 65%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is shown below:

	Benchmark (%)	Range (%)
US Equities	8.0	3.0 - 13.0
Japanese Equities	4.0	0.0 - 9.0
Other Regional Equities	33.0	28.0 - 38.0
Global Equities	20.0	15.0 - 25.0
Fixed Income	10.0	5.0 - 15.0
Pan European Property	15.0	10.0 - 20.0
Infrastructure	5.0	3.5 - 6.5
Alternatives	5.0	3.5 - 6.5
Total	100.0	

Based on the investment strategy in the ISS and the Actuary's assessment of the return expectations for each asset class, the overall best estimate average expected return is 2.7% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations, and this is expected under the Regulations and guidance.

Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of some of the major risk factors.

Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the All-Wales pool.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

Demographic

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. As described above, for smaller employers the Fund has also implemented an internal "captive" approach to spreading the cost of ill-health retirements across a wider employer base. Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements.** Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

Insurance of Certain Benefits

The contributions for any employer may be varied as agreed by the Fund Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes to senior Fund Officers and the Panel membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

Monitoring and Review

The Administering Authority has taken advice from the Fund Actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits e.g. resolution of the McCloud remedy
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

Review of Contributions

In line with the Regulations, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them.

Consideration will be given to any risk sharing arrangements (e.g. cap and collar arrangements) when reviewing contribution rates. Further information is set out within the policy in Appendix E.

The McCloud Judgement

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold

due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and included within the contribution requirements quoted as part of the 2019 actuarial valuation for individual employers. For whole fund reporting purposes, in line with guidance issued by the LGPS Scheme Advisory Board, the McCloud costs have not been included within the disclosed funding level or primary contribution rate. The effects have, however, been separately quantified and are set out in the actuarial valuation report.

Section 8 - Investment Strategy Statement

This is the Investment Strategy Statement (the “Statement”) of Dyfed Pension Fund (the “Fund”) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Regulations”).

The regulations require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The ISS is an important governance tool for the Fund. The document sets out the current investment strategy of the Fund, provides transparency in relation to how the Fund’s investments are managed, acts as a high level risk register, and has been designed to be informative for all stakeholders. This document replaces the Fund’s Statement of Investment Principles.

In preparing this Statement, the Fund has consulted with such persons as it considers appropriate and the document will be updated based on any factors that the Fund considers material to its liabilities, finances or attitude to risk.

This statement will be reviewed at least triennially or more frequently if appropriate.

Investment Objectives and Beliefs

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time.

The investment objective is therefore to maximise returns subject to an acceptable level of risk (including climate and other ESG risks) whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this statement.

The Fund’s investment beliefs which help to inform the investment strategy are as follows:

- Funding, investment strategy and contribution rates are linked
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund’s investments
- Effective governance structures, which promote decisiveness, efficiency and accountability, can add value to the Fund
- Investing over the long term provides opportunities to improve returns and allows the Fund to take some risks (eg. volatility, illiquidity) which might not otherwise be acceptable
- Diversification across and within asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources
- Managing risk is a multi-dimensional and complex task but the overriding principle is to take the appropriate level of risk, to achieve the Fund’s objectives

- Environmental, Social and Governance are important factors for the sustainability of investment returns and risks over the long term. Climate change (UN SDG 13), in particular, has the potential materially to impact the returns and risk profile of various assets. The committee believes that adjusting its investment allocations and engagement with investee companies can both help to achieve its responsible investment goals
- Stewardship is an important responsibility and one which can be delegated. Engaging with investee companies is an important part of this, and is likely to be more effective than divestment in improving desired outcomes
- Value for money from investments is important, not just absolute costs. Asset pooling will help reduce costs whilst providing more choice of investments and will therefore be additive to Fund returns
- Active management can add value to returns over the long term

Investment Strategy

Asset Classes

Translating the Fund's investment and funding objectives into a single suitable investment strategy is challenging. The key objectives often conflict. For example, minimising the long term cost of the scheme is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Additionally, the employers in the Fund have different underlying characteristics and long term funding objectives.

It is the Pension Committee's (the "Committee") policy to regularly monitor, in consultation with the actuary, the likely position regarding the solvency ratio in order that the risk of deterioration of the solvency ratio below 100% is minimised. The Committee may consider amending the Investment Strategy should they be advised at some future stage that this would be the only acceptable route to avoid under funding.

The Committee, following an asset liability study, has set a benchmark mix of asset types and ranges within which the investment managers may operate with discretion. This is shown in Appendix A. The Committee believes that this mix of assets will fulfil the assumptions within the valuation undertaken as at 31 March 2019, as well as taking account of the liability profile of the Fund. This mix will also help to control the risks outlined below.

A review of the strategic asset allocation is undertaken every three years following the actuarial valuation and provides the assurance that the investment strategy is aligned to the long term funding plan. This review utilises both qualitative and quantitative analysis, and covers;

- The required level of return that will mean the Fund can meet its future benefit obligations as they fall due
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level
- An analysis of the order of magnitude of the various risks facing the Fund is established in order that a priority order for mitigation can be determined
- The desire for diversification across asset class, region, sector, and type of security

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

Risk Measurement and Management

The Fund assesses risks both qualitatively and quantitatively, with the starting point being the investment strategy review which is undertaken every three years. The Fund's approach to risk is informed by the Committee, its professional advisors and officers of the Fund.

The key risks that the Fund is exposed to can be grouped under the following headings: asset; funding; operational and governance. These risks are identified, measured, monitored and managed on an active basis with the responsibility for oversight from the Treasury & Pension Investments Manager.

These risks are summarised as follows:

Asset Risks

- Concentration – The risk that significant allocation to any single asset class and its underperformance relative to expectation would result in difficulties in achieving funding objectives. Concentration may be mitigated by holding different strategies within an asset class.
- Illiquidity – The risk that the Fund cannot meet its liabilities because it has insufficient liquid assets.
- Manager underperformance – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

To manage asset risks the Committee provides a practical constraint on fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committee's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

Funding Risks

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities and the risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics – The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial “contagion”, resulting in an increase in the cost of meeting Fund liabilities.
- Legislation/regulatory - changes in legislation or regulations governing the treatment of pension fund liabilities can have a material impact on funding ratio.

The Committee measures and manages financial mismatch in two ways. It has set a strategic asset allocation benchmark for the Fund and assesses risk relative to that benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The asset allocation is rebalanced on a regular basis to ensure that it does not stray outside the ranges for any sustained period.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise.

Operational Risks

- Transition risk – The risk of incurring unexpected costs in relation to the transition of assets among managers. The Committee takes professional advice in relation to the monitoring and oversight of any transitions.
- Custody risk – The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default – The possibility of default of a counterparty in meeting its obligations.
- Physical climate change risk – the risk that the operations of the Fund or its sponsor entities may be impacted by flood, fire or temperature events.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Governance Risk

Good governance is an essential part of the Fund’s investment strategy and the Fund therefore identifies poor governance as a potential risk that can have a detrimental effect on the funding level and the deficit/surplus. The Fund ensures that its decision making process is robust and transparent and this is documented in the Governance Compliance Statement which is published on the Fund’s website.

Environmental, Social and Governance Risks

The Fund's investment strategy includes its own approach on Responsible Investment. Non-compliance would expose the Fund to financial and reputational risk. The Fund believes that effective management of financially material Responsible Investment risks should support the Fund's requirement to protect returns over the long term. The Fund will seek to further integrate Responsible Investment factors into the investment process across all relevant asset classes.

Approach to Asset Pooling

The Fund joined the Wales Pension Partnership (WPP) in 2016 with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to a more diverse range of asset classes. The implementation of the Fund's investment strategy by an FCA regulated provider leads to improved governance, transparency and reporting giving the Fund assurance that its investment strategy is being implemented effectively.

The key criteria for assessment of the WPP solutions is as follows:

- That the WPP enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a clear financial benefit to the Fund in investing in the solution offered by the WPP, should a change of provider be necessary.

To date WPP has launched the following sub-funds which the Fund is invested in:

- Global Equities – Global Growth Fund.
- Fixed Income – Global Credit Fund.

At the time of preparing this statement the Fund had also jointly procured a single passive equity manager for the Wales funds as set out below. These funds currently sit outside of the WPP however the monitoring arrangements will still be carried out collectively on behalf of the WPP.

Asset class	Manager	% of Fund assets	Benchmark and performance objective
Passive Equity including Low Carbon Fund	BlackRock	35-40	FTSE All-Share and FTSE All-World Indices Benchmark Return MSCI World Low Carbon Target Reduced Fossil Fuel Select Index

The Fund intends to invest the majority of its remaining assets into the WPP once opportunities arise but will maintain some cash balances at the Fund. Investment strategy will be retained by the Fund with advice from all relevant professional advisors.

Structure and governance arrangements of the WPP

The WPP has appointed a third party operator authorised by the FCA (Link Fund Solutions) to provide a series of investment sub-funds in which the assets of the participating funds will be invested.

A Joint Governance Committee (JGC) has been formally established to oversee the operator. The JGC comprises of the eight Chairs of the committees of the participating funds. This arrangement provides accountability for the operator back to individual administering authorities.

It operates on the basis of 'One Fund, One Vote', though the intention is that any decisions are reached by consensus wherever possible.

The JGC is in regular discussions with the operator as to the specific sub-funds which should be set up within the WPP, both at the outset and on an ongoing basis.

Officers from each constituent authority attend JGC meetings (in a non-voting capacity). The officers advise the JGC on the establishment and monitoring of the various sub-funds as well as liaison directly with the operator on any day-to-day investment matters. The members of the JGC report back to their respective individual funds' pension committees who are responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC.

The Pension Board seeks reassurance on aspects of the management of the Fund's investments and external scrutiny. Formal due diligence of the operator and depositary is carried out by the FCA in their role as regulator.

The operator is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as depositary asset servicer as necessary. Listed bonds and equities are invested through the UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle. It may be that alternative vehicles are more appropriate for some other asset classes. As well as considering the options with the operator, we also take external advice on the final proposed approach from a tax efficiency and legal compliance basis.

Under the structure the depositary holds legal title to the assets of the WPP. The operator is responsible for managing and operating the investments of the WPP, including entering into the legal contracts with the investment managers.

The operator provides and operates a range of investment vehicles to allow collective investment by the participating funds. The operator is responsible for selecting and contracting with investment managers for the management of the underlying assets. They are also responsible for the administration of the vehicles in terms of unit pricing, valuation, handling cash flows in and out of the various sub-funds, trade processing and reporting on performance. They are also responsible for due diligence from an audit, legal and tax perspective for the respective sub-funds and for electing a depositary to the WPP.

WPP have appointed Hymans Robertson as oversight adviser, Burges Salmon as legal adviser and Robeco UK as voting and engagement provider.

Responsible Investment and the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments

The Fund is a long term investor aiming to deliver a sustainable pension fund for all stakeholders.

Carmarthenshire County Council as the administering authority of the Fund has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members.

Responsible Investment (RI) is a fundamental part of the Fund's overarching investment strategy as set out in this Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

The Fund's core principles of responsible investment are:

1. We will apply long-term thinking to deliver long-term sustainable returns. from well-governed assets.
2. We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles.
3. We will consider the costs of RI decisions consistent with our fiduciary duties.

To date, the Fund's approach to social investments has largely been to delegate this to their underlying investment managers, and WPP in particular as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

The Committee recognises that the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Climate Change

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers, and all of the holdings in the Fund's investment portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders. To this end, the Fund is committed to transition its investments towards net zero GHG emissions over the medium term. The Pension Fund will regularly report on progress, including establishing intermediate targets.
- Engagement is the best approach to enabling the change required to address the Climate Emergency. However selective risk-based divestment is appropriate to facilitate the move to a low carbon economy.
- As well as creating risk, it also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy and energy efficiency products and services.

The Fund also takes account of WPP's Responsible Investment and Climate Risk policies.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f).

Stewardship

The Committee has agreed in principle that the Fund becomes a signatory to the Stewardship Code as published by the Financial Reporting Council. They also expect both the WPP and any directly appointed fund managers to also comply with the Stewardship Code.

The Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

Myners Principles

Although not specifically referenced in the Regulations, the Fund continues to assess its own compliance with the Myners Principles of Good Investment Governance. A statement that sets out an assessment of compliance is presented at Appendix B.

Advice taken

In creating this statement, the Fund has taken advice from its Officers, its Independent Investment Advisor and its Actuary.

	Benchmark (%)	Range (%)
Equities	65.0	55.0 – 75.0
Fixed Income	10.0	5.0 – 15.0
Property	15.0	10.0 – 20.0
Infrastructure	5.0	3.5 – 6.5
Alternatives	5.0	3.5 – 6.5
Total	100.0	

Myners 6 Principles and Compliance Checklist

1 Effective Decision-Making

Define who takes investment decisions.

Consider whether members have sufficient skills.

Determine whether appropriate training is being provided.

Assess whether in-house staffing support is sufficient.

Establish an investment committee with suitable terms of reference.

Draw up a business plan.

Priority is given to strategic asset allocation decisions

All asset classes permitted within the regulations have been considered.

Asset allocation is compatible with liabilities and diversification requirement.

Separate contracts in place for actuarial services and investment advice.

Terms of reference specified.

Specify role of S151 officer in relation to advisers.

Tender procedures followed without cost constraint factor.

Overall Principle 1

Included in ISS

Training - LGC members seminar, LAPFF and PLSA conferences, investment manager and WPP training days, Employer Organisation training days. Training plan in place.

Training - LGC members seminar, LAPFF and PLSA conferences, investment manager and WPP training days, Employer Organisation training days. Training plan in place.

Suitably qualified and trained staff. Training plan in place.

Pension Committee established with terms of reference agreed

A business plan is published annually. An Actuarial Valuation Report, Investment Strategy Review, Funding Strategy Statement and Investment Strategy Statement are updated and produced every three years.

Asset / liability study undertaken to determine asset allocation after full discussions.

All major asset classes have been considered and managers appointed accordingly. Other alternative asset classes continue to be considered.

Asset / liability study undertaken to determine asset allocation after full discussions.

Separate contracts currently in place.

Clear specifications issued.

Section 151 officer role clear in constitution.

Tendering for third party service providers will follow local procurement rules.

Fully compliant

2 Clear Objectives

Set overall investment objective specific only to the Fund's liabilities.

Customised benchmark following asset - liability study.

Determine parameters for employer contributions.

Clear objectives outlined in ISS

Specify attitude to risk and limits.

Clearly outlined in ISS

Identify performance expectations and timing of evaluation.

Clearly outlined in ISS

Peer group benchmark in use for comparison purposes only.

In Place.

Written mandate included in management contract containing elements specified.

Contract has been updated, ISS is clear on these issues

Constraints on the types of investment are in line with regulations.

In Place.

Reasons stated if soft commissions permitted.

None used.

Overall Principle 2

Fully compliant

3 Risk & Liabilities

In setting and reviewing the investment strategy account should be taken of the form and structure of liabilities.

Full asset liability study is undertaken following the triennial valuation and prior to setting and reviewing the investment strategy.

The implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk should also be taken into account.

Included in asset liability study and investment strategy.

Overall Principle 3

Fully compliant

4 Performance Assessment

Consider whether index benchmarks selected are appropriate.

Consideration given, and performance measured against both benchmark and market indices

Limits on divergence from index are relevant.

Fully considered and in ISS.

Active or passive management considered

Fully considered and in ISS.

Targets and risk controls reflect performance expectations

Fully considered and in ISS.

Formal structure for regular monitoring in operation

Fund returns regularly reported by independent organisation

Arrangements in place to assess procedures and decisions of members.

Audit and valuation reports. Best Value regime.

Similar arrangements established for advisers and managers.

Overall Principle 4

Regular monitoring/review undertaken by Committee and officers of managers and advisers.

Fully compliant

5 Responsible Ownership

Incorporate US Principles on activism into mandates.

Engage external voting agencies if appropriate

Review manager strategies

Establish means to measure effectiveness.

Overall Principle 5

Custodian reports on corporate actions taken.

Strong Corporate Governance policy in place through investment manager.

Own policy is in operation.

Regular reporting in place.

Fully compliant

6 Transparency and Reporting

ISS updated as specified.

Consultation undertaken on amendments.

Changes notified to stakeholders.

Publish changes to ISS and its availability.

Identify monitoring information to report.

Inform scheme members of key monitoring data & compliance with principles.

Overall Principle 6

In place and included in the Annual Report.

In place and consultation each year.

In place and included in the Annual Report.

In place and included in the Annual Report.

In place, included in ISS and reports presented at prescribed intervals.

In place and included in ISS.

Fully compliant

Section 9 – Responsible Investment Policy

Introduction

Carmarthenshire County Council is the Administering Authority for the Dyfed Pension Fund (the Fund). The Fund administers the Local Government Pension Scheme (LGPS) on behalf of around 51,500 members and 69 employers.

The Pension Committee is the decision-making body for the Fund, advised by Fund officers in their role as scheme administrators and the Independent Investment Adviser.

The day-to-day management of the Fund's investments are delegated to Investment Managers. Regular meetings are held with these Managers, where performance and governance issues including responsible investment topics are discussed.

Responsible Investment

The Fund is a long-term investor aiming to deliver a sustainable pension fund for all stakeholders and has a fiduciary duty to act in the best, long-term, interests of the Fund's employers and scheme members.

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in the Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers and minimising the long-term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund's approach aims to ensure that consideration of ESG factors is embedded in the investment process, utilising the various tools available to manage ESG risks and to harness opportunities presented by ESG factors.

The Fund's core principles of responsible investment are:

1. To apply long-term thinking to deliver long-term sustainable returns. from well-governed assets.
2. To use an evidence-based long term investment appraisal to inform decision-making in the implementation of Responsible Investment principles.
3. To consider the costs of Responsible Investment decisions consistent with our fiduciary duties.

To date, the Fund's approach to Responsible Investment has largely been to delegate this to its underlying investment managers and WPP, in particular, as part of their overall ESG duties.

Investment Beliefs

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The investment objective is therefore to maximise returns subject to an acceptable level of risk (including climate and other ESG risks) whilst increasing certainty of cost for employers and minimising the long term cost of the scheme. Having a thorough understanding of the risks facing the Fund is crucial and these are covered later in this Policy.

The Fund's investment beliefs which help to inform the investment strategy are as follows:

- Funding, investment strategy and contribution rates are linked
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments
- Effective governance structures, which promote decisiveness, efficiency and accountability, can add value to the Fund.
- Investing over the long term provides opportunities to improve returns and allows the Fund to take some risks (e.g. volatility, illiquidity) which might not otherwise be acceptable.
- Diversification across and within asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to take the appropriate level of risk, to achieve the Fund's objectives
- ESG factors are important drivers of investment returns and risks over the long term. Climate change (UN SDG 13), in particular, has the potential materially to impact the returns and risk profile of various assets. The committee believes that both adjusting its investment allocations and engagement with investee companies can help to achieve its responsible investment goals.
- Stewardship is an important responsibility and one which can be delegated. Engaging with investee companies is an important part of this and is likely to be more effective than divestment in improving desired outcomes.
- Value for money from investments is important, not just absolute costs. Asset pooling can help reduce costs whilst providing more choice of investments and will therefore be additive to Fund returns
- Active management can add value to returns over the long term.

Environmental, Social and Governance Risks

The Fund's investment strategy includes its own approach on Responsible Investment. Non-compliance would expose the Fund to financial and reputational risk. The Fund believes that effective management of financially material Responsible Investment risks should support the Fund's requirement to protect returns over the long term. The Fund will seek to further integrate Responsible Investment factors into the investment process across all relevant asset classes.

Role of the Pension Board

The Local Pension Board ('the Board') is established in accordance with the Public Service Pensions Act 2013.

The role and purpose of the Board is to:

- Secure compliance with the regulations, and other legislation relating to the governance and administration of the Scheme as prescribed by the Pensions Regulator and Department for Levelling Up, Housing and Communities (DLUHC)
- Ensure effective and efficient governance and administration of the Scheme.

The Board provides oversight of compliance and governance matters, including Responsible Investment, and can make recommendations to the Pension Committee accordingly. The members of the Board do not have the right to vote on Fund decisions but can input positively and support improvements in overall service delivery.

Stock Lending

The Committee believes that stock lending can be an effective way to generate additional revenue in accordance with its investment strategy. However, the Committee also recognises that stock lending should not be used to the detriment of being a responsible investor. It is recognised that stock lending may inhibit the full application of a voting policy as votes may not be cast on stock on loan and so there is a balance to be achieved as a result.

The Committee has agreed to stock lending activity being undertaken on the WPP's actively managed pooled fund investments. However, within the WPP's stock lending policy is an explicit requirement not to lend 100% of holdings in any single stock so that the WPP, in collaboration with its Constituent Authorities and advisors, can express views and take a policy stance on any topic it deems worthy through its right to vote.

The Committee, via the WPP, will continue to monitor the impact of this policy stance and revise its stance if required. The Fund, via the WPP, also retains the right to recall stock, if required, as part of its stock lending arrangements.

Engagement

The Committee believes that engagement with investee companies can help to achieve its responsible investment goals. Additionally, the Committee encourages the Fund's asset managers to engage with the companies they invest in, where they believe that value can be added, or risk can be reduced.

The Wales Pension Partnership is a signatory to the UK Stewardship Code 2020 and is an affiliate member of Pensions for Purpose. It has appointed Robeco as its voting and engagement manager, to ensure a proactive approach to engagement with WPP's investee companies, as well as effective use of its voting power as a shareholder.

In addition, the Fund believes in collective engagement and is a member of the LAPFF, through which it exercises a voice across a range of ESG topics.

The Fund also engages with groups such as Divest Dyfed and Friends of the Earth Wales on a regular basis where there is an exchange of views and informed discussions take place.

In addition, the Fund engages with its members via the annual newsletter, Annual Consultative Meeting and a dedicated website.

Climate Change

The Fund recognises the importance in addressing the financial risks associated with climate change through its Investment Strategy Statement, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers, and all of the holdings in the Fund's investment portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund but is also consistent with the long-term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders. To this end, the Fund is committed to transition its investments towards net zero GHG emissions over the medium term. The Fund will regularly report on progress, including establishing intermediate targets, one of which is reducing the carbon intensity of the Fund's equities by at least the Paris aligned target of 7% per annum.
- Engagement is the best approach to enabling the change required to address the Climate Emergency. However selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy.
- As well as creating risk, it also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy and energy efficiency products and services.

The Fund also takes account of WPP's Responsible Investment and Climate Risk Policies.

Human Rights

Societal expectations of companies with regard to human rights are increasing, as are legal and regulatory obligations. There is an increasing expectation on companies to ensure that they protect human rights in line with international, legal and regulatory obligations on a global scale. The Committee recognises its role in supporting this principle and to urge improvement in company practice through its Voting & Engagement activity where this is warranted.

The Committee recognises that it has an obligation to respect human rights as outlined within the UN Guiding Principles on Business and Humans Rights (UNGP's) and to encourage good practice which protects against violation and exploitation. This extends to expecting compliance with normative standards and relevant legislation.

Stewardship activity around human rights is pursued both through the Fund's membership of LAPFF and via the engagement activity undertaken by WPP's Voting and Engagement provider, where the latter has specific focus on engagement themes tied to human rights issues over a three-year time horizon.

The Committee expects these efforts to result in greater transparency in order to drive real world improvements.

Section 10 - Communications Policy Statement

The Dyfed Pension Fund strives to provide a high quality and consistent service to our customers in the most efficient and effective manner possible in an ever changing pensions environment.

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

It ensures that all regulatory requirements concerning the provision of Scheme information is continuously met and assessed.

There are **5 distinct groups** with whom the Fund needs to communicate.

Scheme Members

Fund Website

The Fund has established an extensive website which sets out Scheme provisions in a simple and concise manner. Information updates and news items are quickly added to notify members of any Scheme developments. Electronic copies of Fund literature, policies and reports are also readily available to download.

My Pension Online (MPO)

An integrated web portal via the Dyfed Pension Fund website, which allows members to view and update their pension details securely online. Members are able to perform accurate benefit calculations, update their death grant expression of wish and contact details, as well as view their annual benefit statement.

Annual Report and Accounts

An electronic copy of the Fund's Annual Report and Accounts is available to all Scheme members via the My Pension Online service and the website. Hard copies are also available upon request.

Annual Newsletter(s)

The Fund issues an annual newsletter to all active members, covering current pension topics within the Local Government Pension Scheme (LGPS) and the pensions industry in general. The newsletter is also issued to all pensioners, providing notification on pension matters and other matters of interest. Specific single topic newsletters are also published and distributed to members on an ad hoc basis.

Annual Benefit Statements (ABS)

Statements are uploaded automatically to a member's My Pension Online account, or sent directly to their home address if they have chosen not to register and have a hard copy request by 31st August. The active statement sets out the current value of benefits (as at 31st March), a projection to Normal Pension Age, the current value of death benefits. The deferred statement on the other hand shows the up rated value of benefits. Supplementary notes of guidance are provided with each statement.

Bilingual Scheme Literature

An extensive range of Scheme literature is produced by the Dyfed Pension Fund and is supplied to employing bodies and Scheme members directly. This Scheme literature forms part of the data held on the Fund's website.

Statutory Notification

In compliance with Scheme Regulations, members are notified when any change occurs to their pension record, thereby affecting their pension benefits.

Online Seminars

Frequently held to raise member awareness and understanding towards general Scheme provisions. These sessions are currently delivered online (via Teams or Zoom) because of COVID-19 restrictions.

General Presentations & Courses

The Fund can deliver standard or tailored presentations on a wide range of LGPS related subjects. These sessions are currently delivered online (via Teams or Zoom) because of COVID-19 restrictions.

Pension Surgeries

Pension surgeries are available for groups of Scheme members by request, or for individual members on a surgery basis. Meetings can be arranged with the dedicated Communication & Training Officer and held online (via Teams or Zoom) because of COVID-19 restrictions.

Pre-Retirement Courses

The Fund's dedicated Communication & Training Officer is available to deliver online pre-retirement courses during the COVID-19 period to inform members who are near retirement about their entitlement and Local Government procedures.

Correspondence

The Fund utilises both surface mail and e-mail to receive and send correspondence. Response will be made in the individuals preferred language of choice. The My Pension Online service also acts as another electronic medium.

Payment Advice / P60

Pensioners are issued with payment advice slips every April and thereafter when a variance of £5 or more occurs, unless they have chosen to utilise the My Pension Online service. P60 notifications are also issued annually in May, providing a breakdown of the annual amounts paid.

Pension Increase Statements

An annual statement is issued to all pensioners pending any increase in the appropriate cost of living index. These are issued electronically to those that have registered to the My Pension Online service.

Existence Validation (Life Certificate Exercise)

The Fund undertakes an annual exercise to establish the continued existence of pensioners in receipt of monthly pension payments via cheque and those living overseas.

Prospective Scheme Members

Scheme Booklet

All prospective Scheme members are provided with a Scheme booklet upon appointment.

Corporate Induction Seminars

The dedicated Communication & Training Officer will deliver a segment at any online employer corporate induction seminar, in order to present to prospective Scheme members the benefits of joining the Scheme. A one-to-one online meeting will also be offered to resolve any individual queries.

Non-Joiner Campaigns

The Fund will request formal notification of non-joiners from Scheme employers. The information will be used to market the Scheme to specific groups, with dedicated literature and campaigns being formulated in conjunction with Scheme employers from time to time.

Online Seminars

As well as being a valuable aid for pensioners and current scheme members, online seminars are used to target specific non-members. This ensures that members receive the information required to make an informed choice towards their pension provision.

Website

The Fund's website contains a specific section for [non-joiners](#). It highlights the benefits of planning for retirement and what's provided by the Scheme so again an informed choice can be made.

Trade Unions

The Fund will endeavour to work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Scheme Employers

Annual Consultative Meeting (ACM)

A meeting is held annually for all Scheme employers, at which detailed investment, financial and administrative reports are presented by Officers and Fund Managers. Other speakers may also be invited to discuss certain issues connected to the Pensions Industry.

Periodic Meetings

Periodically meetings are arranged for employers. Specifically this has been used as a means of communicating major strategic issues, significant legislation changes and end of year / triennial valuation matters. These meetings are currently held online because of COVID-19 restrictions.

Email Updates

Regulatory and administrative updates are frequently issued to all employers via email.

Training

Bespoke sessions can be delivered by the dedicated Communication & Training Officer to resolve any administrative training issues identified by the employer, or the Fund. These sessions are currently held online (via Teams or Zoom) because of COVID-19 restrictions.

Website

The Fund website has a dedicated [Employer section](#) that provides all employers with the guidance needed to effectively discharge their administrative responsibilities. Various publications are also available to download.

Online Submission of Data

Each employer is encouraged to submit a monthly data return via the i-Connect administration portal, with the relevant training and support being provided by the Fund's administration team.

Access to Pensions Administration System

Each employer has the opportunity to access the pension records of their current members to cross reference and check data.

Administration Strategy

Published in compliance with Scheme Regulations, the [Administration Strategy](#) defines the responsibilities of both the Fund and all Scheme employers in the administration of the Scheme. The strategy clearly sets out the level of performance expected from the Dyfed Pension Fund and all employers, as well as the consequence of not meeting statutory deadlines.

Fund Staff

Induction

All new members of staff undergo an induction program and are issued with an induction schedule. A periodic appraisal programme is also exercised to review and monitor employee performance and development.

Meetings

Departmental and Section meetings are held on a regular basis. Items arising from such meetings are escalated through to Senior Managers and Chief Officers. Any relevant matters are cascaded to all staff.

Training & Support

The Fund seeks to continually improve the capacity of staff to communicate effectively and to understand the importance of high-quality communication. Both general and pensions specific training is provided by the dedicated Communications & Training Officer and by the Local Government Pensions Committee (LGPC) as part of the Fund's commitment to continual improvement. Staff are also encouraged to undertake relevant professional qualifications (as provided by the Chartered Institute of Payroll Professionals (CIPP)).

Seminars

Fund Officers regularly attend seminars and conferences held by associated bodies to obtain regulatory information and to further their knowledge and understanding. This information is later cascaded to all staff so that service delivery is improved.

Other Bodies

Other Pension Funds

The Fund works continuously to engage with other Pension Funds in Wales to evaluate specific partnership arrangements. The Fund is currently the lead authority within the All Wales Pension Funds Communication Working Group and also forms part of the Welsh Pension Funds Pensions Officer Group and [Wales Pension Partnership](#).

Trade Unions

Details of the Local Government Pension Scheme (LGPS) are brought to the attention of their members by local representatives. They also assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Scheme.

National Information Forum

These meetings provide an opportunity to discuss issues of common interest and share best practice. The Department for Levelling Up, Housing & Communities (DLUHC) and the Local Government Pensions Committee (LGPC) are represented at each meeting.

Seminars

Fund Officers regularly participate at seminars and conferences held by LGPS related bodies.

Section 11 - Glossary

Active Management – A mark through either Asset Allocation, Market Timing or Stock Selection (or a combination of these). Directly contrasted with Passive Management.

Actuary – An independent consultant who advises on the viability of the Fund. Every three years the actuary reviews the assets and liabilities of the Fund and reports to the County Council as administering authority on the financial position and the recommended employers' contribution rates. This is known as the actuarial valuation.

Asset Class – A specific area/type of investment e.g. UK Equities, overseas Equities, Fixed Income, Cash.

Benchmark Return – The benchmark return is the return that would be achieved if the Fund Manager had not deviated from the weightings of each asset class given to them by the Pension Committee and had achieved returns in each of these asset classes consistent with the average return of all Local Authority Funds for that class. The Benchmark weightings of asset classes is outlined within the Investment Strategy Statement.

Corporate Governance – Issues relating to the way in which a company ensures that it is attaching maximum importance to the interests of its shareholders and how shareholders can influence management.

Equities – Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and are normally entitled to vote at shareholders' meetings.

Fixed Interest Securities – Investments in mainly government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a stated future date, but which can be traded on the Stock Exchange in the meantime.

Fund Manager – A person or company to whom the Investment of the whole or part of the assets of a fund is delegated by the Trustees.

Investment – An asset acquired for the purpose of producing income and Capital Gain for its owner.

Independent Investment Adviser – A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial Investment advice to companies, pension funds or individuals, for a stated fee.

Market Indicators – (i) The movement in stock market are monitored continuously by means of an Index made up of the current prices of a representative sample of stock. (ii) Change in the rates at which currencies can be exchanged.

Market Value – The price at which an investment can be sold at a given date.

Out performance/Under performance – The difference in Returns gained by a particular fund against an 'Average' Fund or an Index over a specified time period i.e. a Target for a fund may be out performance of a Benchmark over a 3-year period.

Passive Management – (also called Indexation/Index Tracking) A style of Investment Management which aims to construct a Portfolio in such a way as to provide the same Return as that of a chosen Index i.e. Stocks are purchased to be as representative as possible of the makeup of the Index. Contrasts with Active Management.

Performance – A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the ‘Average’ Fund or a particular Benchmark.

Performance Measurement – A service designed to help investors evaluate the performance of their investments. This usually involves the comparison of a fund’s performance with a selected Benchmark and/or with a Universe of similar funds. The main Performance Measurement Companies are Northern Trust, which the Dyfed Pension Fund uses, and PIRC.

Portfolio – A collective term for all the investments held in a fund, market or sector.

Preserved Benefits – The pension benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment or opting out of the Pension scheme before normal retirement age.

Return – The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Risk – Generally taken to mean the Variability of Returns. Investments with greater risk must usually promise higher returns than more ‘stable’ investments before investors will buy them.

Transfer Value – Payments made between funds when contributors leave service with one employer and decide to take the value of their contributions to their new fund.

Unrealised Increase/(Decrease) in Market Value – The increase/(decrease) in market value, since the purchase date, of those investments held at the year end.

Contacting the Fund

Chris Moore

Director of Corporate Services

CMoore@carmarthenshire.gov.uk

Fund Investments

Anthony Parnell

Treasury & Pension Investments Manager

AParnell@carmarthenshire.gov.uk

Martin Owens

Pension Investment Officer

MSOwens@carmarthenshire.gov.uk

Jason Williams

Assistant Accountant

JasWilliams@carmarthenshire.gov.uk

Tina Leigh

Accounting Technician

TLeigh@carmarthenshire.gov.uk

Fund Administration

Kevin Gerard

Pensions Manager

KGerard@carmarthenshire.gov.uk

Martin Morgan

Deputy Pensions Manager

MMorgan@carmarthenshire.gov.uk

Alternatively, for any queries regarding **Member Benefits**, please email pensions@carmarthenshire.gov.uk or telephone:

Surname A – G 01267 224937

Surname H – O 01267 224687

Surname P – Z 01267 224048