

**DYFED PENSION FUND DRAFT STATEMENT OF ACCOUNTS
2020-2021
PUBLISHED SUBJECT TO AUDIT**

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 2020-21. 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 2020-21 (the "Code"), which is based upon International Financial Reporting Standards (IFRS), as amended for the public sector. Reference is also made to the Financial Reports of Pension Schemes – A Statement of Recommended Practice published by the Pensions Research Accountants Group (PRAG) where it is felt that these disclosures provide more sufficient detail.

For readers with a more detailed or specialist interest of the operation of the Dyfed Pension Fund during 2020-2021, reference should be made to the Annual Report and Accounts 2020-21 (when published).

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

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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

The Director of Corporate Services' Responsibilities

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

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

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

Certification of Accounts

I certify that the Statement of Accounts on pages 3 to 36 gives a true and fair view of the financial position of the Dyfed Pension Fund at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Chris Moore FCCA
Director of Corporate Services

Dated: 28 July 2021

Fund Account for the Year Ended 31 March 2021

2019-20 £'000		<u>Note</u>	2020-21 £'000
Restated*	Dealings with members, employers and others directly involved in the Fund		
	Contributions		
	Employer		
48,008	Normal		63,914
7,881	Augmentation		5,104
4,349	Past Service Deficit/(Surplus)		(6,563)
	Member		
19,961	Normal		21,339
221	Additional voluntary		260
6,851	Transfers in from other pension funds	6	3,196
87,271			87,251
	Benefits payable		
(72,859)	Pensions payable		(75,109)
(14,708)	Commutation and lump sum retirement benefits		(11,727)
(2,200)	Lump sum death benefits		(2,947)
(3,597)	Payments to and on account of leavers	7	(3,595)
(93,364)			(93,378)
(6,093)	Net Additions (Withdrawals) from dealings with Members		(6,127)
(11,864) *	Management Expenses	8	(15,186)
(17,957)	Net Additions (Withdrawals) including fund management expenses		(21,313)
	Returns on Investments		
13,913 *	Investment Income	9	32,187
0	Other Income		0
0	Taxes on Income (Irrecoverable Withholding Tax)	10	(51)
	Changes in the market value of investments		
(217,439)	Unrealised	11.2	186,742
30,270	Realised	11.3	467,512
(173,256)	Net Return on Investments		686,390
(191,213)	Net Increase (Decrease) in the net assets available for benefits during the year		665,077
2,575,686	Opening Net Assets of Scheme		2,384,473
2,384,473	Closing Net Assets of Scheme		3,049,550

*2019-20 figures have been restated to include management fees for the UK SAIF investment which were previously netted off against investment income.

Net Assets Statement for the year ended 31 March 2021

31/03/20 £'000		<u>Note</u>	31/03/21 £'000
2,365,404	Investment Assets		3,029,868
12,215	Cash deposits		11,376
0	Investment liabilities		0
<hr/> 2,377,619		11.1	<hr/> 3,041,244
10,386	Current assets	15	12,723
(3,532)	Current liabilities	16	(4,418)
<hr/> 6,854	Net Current Assets/(Liabilities)		<hr/> 8,305
<hr/> 2,384,473	Total Net Assets		<hr/> 3,049,550

Reconciliation of the movement in Fund Net Assets

2019-20 £'000		2020-21 £'000
2,575,686	Opening Net Assets	2,384,473
(4,044)	Net New Money Invested	10,823
(187,169)	Profit and losses on disposal of investments and changes in the market value of investments	654,254
<hr/> 2,384,473	Closing Net Assets of Fund	<hr/> 3,049,550

Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2021

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.

The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report and Accounts 2020-2021 (when published) and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

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

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

1.2 Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Dyfed Pension Fund include:

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

There are 69 employer organisations within the Dyfed Pension Fund as at 31 March 2021 and these are detailed in Note 20. The membership details of these organisations are summarised below:

31/03/20		31/03/21
18,564	Number of active contributors in the Fund	18,700
14,059	Number of pensioners	13,996
<u>15,900</u>	Number of deferred pensioners	<u>15,881</u>
<u>48,523</u>	Total membership	<u>48,577</u>
46	Number of employers with active members	47

These figures reflect the recorded position as at 31 March 2021 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 2021. 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 7.4% to 27.6% 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 2020-2021 financial year and its position at year end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-2021 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed in the Statement by the Consulting Actuary.

3 Summary of significant accounting policies

Fund Account – revenue recognition

3.1 Contributions

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

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

3.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

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

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

3.3 Investment income

3.3.1 Interest income

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

Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

3.3.2 Dividend income

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

3.3.3 Distributions from pooled funds

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

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

3.4 Benefits payable

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

3.5 Taxation

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

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

3.6 Management Expenses

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

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

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

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

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

An element of one of the Investment Managers' fees is performance related. The performance related fee was £0.66m in 2020-2021 (2019-2020: Fee was £0.76m).

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 2020-2021, no fees are based on such estimates (2019-2020: £0).

The costs of the council's pension investments team are charged direct to the fund and a proportion of the council's costs representing management time spent by officers on investment management is also charged to the fund. The Council charged the Pension Fund an amount of £1.2m (£1.1m in 2019-20) in respect of administration and support during 2020-21.

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 21. 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 2021 was £38.5m (31st March 2020: £36.0m).

5 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31st March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
Property – Limited Partnership investments	The Limited Partnership property investments are valued in line with widely used industry guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Limited Partnership property investments are £38.5m. 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 £84m. There is a risk that this investment may be under or overstated in the accounts.

6 Transfers in from other pension funds

2019-20		2020-21
£'000		£'000
0	Group transfers in from other schemes and scheme mergers	0
6,851	Individual transfers in from other schemes	3,196
<u>6,851</u>		<u>3,196</u>

7 Payments to and on account of Leavers

2019-20		2020-21
£'000		£'000
(196)	Refunds to members leaving service	(153)
20	Payments for members joining state scheme	1
0	Group transfers	0
(3,421)	Individual transfers	(3,444)
<u>(3,597)</u>		<u>(3,595)</u>

8 Management Expenses

2019-20		2020-21
£'000		£'000
Restated*		
(1,274)	Administrative costs	(1,354)
(9,972) *	Investment management expenses	(13,303)
(618)	Oversight and governance costs	(529)
<u>(11,864)</u>		<u>(15,186)</u>

*2019-20 figures have been restated to include management fees for the UK SAIF investment which were previously netted off against investment income.

2020-21 Audit fees of £28,266 included within Oversight and governance costs. (2019-20 £28,280)

8.1 Investment Management Expenses

2020-21	£'000	£'000	£'000	£'000
	Total	Management Fees	Performance Related Fees	Transaction Costs
Pooled Investments	8,959	4,478	660	3,821
Pooled Property Investments	4,297	1,456	0	2,841
	13,255	5,933	660	6,662
Custody Fees	48			
Total	13,303			

2019-20	£'000	£'000	£'000	£'000
	Total	Management Fees	Performance Related Fees	Transaction Costs
Pooled Investments *	6,674	3,948	763	1,963
Pooled Property Investments	3,268	1,561	0	1,707
	9,942	5,509	763	3,670
Custody Fees	30			
Total	9,972			

*2019-20 figures have been restated to include management fees for the UK SAIF investment which were previously netted off against investment income.

9 Investment Income

2019-20		2020-21
£'000		£'000
Restated*		
2,752 *	Income from pooled investments	23,898
11,057	Income from pooled property investments	8,265
104	Interest on cash deposits	24
13,913		32,187

*2019-20 figures have been restated to include management fees for the UK SAIF investment which were previously netted off against investment income.

In 2020-21, distributions paid in respect of the WPP funds were automatically reinvested to increase the market value of our holdings.

10 Taxation

2019-20		2020-21
£'000		£'000
0	Withholding tax -Pooled	(51)
0		(51)

11 Investments

11.1 Net investment assets

Fair value 31/03/2020 £'000		Fair value 31/03/2021 £'000
	<u>Investment assets</u>	
	Pooled Investments *	
424,726	UK Equities	518,289
545,586	Global Equities	962,408
269,630	US Equities	0
9,879	Canadian Equities	15,352
62,469	European Equities	79,420
83,166	Japanese Equities	105,477
22,600	Pacific Basin Equities	32,241
194,260	Emerging Markets Equities	267,934
0	ACS World Low Carbon Equity Tracker Fund	305,992
272,772	Fixed Income	258,679
107,390	Index Linked	61,172
53,198	Alternatives	84,314
2,045,676		2,691,278
	Other Investments **	
319,670	Pooled Property Investments	338,043
319,670		338,043
12,215	Cash deposits	11,376
57	Investment income due	547
0	Amounts receivable for sales	0
12,272		11,923
2,377,619	Total investment assets	3,041,244
	<u>Investment liabilities</u>	
0	Amounts payable for purchases	0
0	Total investment liabilities	0
2,377,619	Net investment assets	3,041,244

*2019-20 Equities, Fixed Income, Index Linked and Alternatives restated as now classified under Pooled Investments

**2019-20 Property restated as now classified under Pooled Property Investments

11.2 Reconciliation of movements in investments

During the year, investments purchased totalled £1,664m whilst sales totalled £1,176m. Acquisition costs are included in the purchase price of the investment.

	Fair value 31/03/2020	Purchases	Sales	Fees included in NAV	Cash movement	Change in unrealised gains/(losses)	Fair value 31/03/2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled investments	2,045,678	1,625,483	(1,161,309)	(6,896)	0	188,322	2,691,277
Pooled property investments	319,669	38,558	(15,001)	(3,604)	0	(1,579)	338,042
	2,365,347	1,664,041	(1,176,311)	(10,500)	0	186,742	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	0	0	0
Tax reclaims due	57	0	0	0	490	0	547
Amounts payable for purchases investments	0	0	0	0	0	0	0
	2,377,619	1,664,041	(1,176,311)	(10,500)	(349)	186,742	3,041,244

	Fair value 31/03/2019	Purchases	Sales	Fees included in NAV	Cash movement	Change in unrealised gains/(losses)	Fair value 31/03/2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled investments *	2,235,913	75,151	(53,890)	(4,493)	0	(207,003)	2,045,678
Pooled property investments **	326,987	16,155	(11,221)	(2,505)	0	(9,747)	319,669
	2,562,900	91,306	(65,111)	(6,998)	0	(216,750)	2,365,347
Other investment balances							
Cash deposits	7,052	0	0	0	5,163	(0)	12,215
Amount receivable for sales investments	0	0	0	0	0	0	0
Investment income due	689	0	0	0	0	(689)	0
Tax reclaims due	207	0	0	0	(150)	0	57
Amounts payable for purchases investments	0	0	0	0	0	0	0
	2,570,848	91,306	(65,111)	(6,998)	5,013	(217,439)	2,377,619

*2019-20 Equities, Fixed Income, Index Linked and Alternatives restated as now classified under Pooled Investments

**2019-20 Property restated as now classified under Pooled Property Investments

11.3 Realised gains and losses

2019-20		2020-21
£'000		£'000
29,725	Pooled investments	465,490
545	Pooled property investments	2,022
<u>30,270</u>		<u>467,512</u>

11.4 Geographical analysis of investments

Fair value	Geographical analysis	Fair value
31/03/20		31/03/21
£'000		£'000
1,208,494	UK	1,122,805
179,147	Europe (excl UK)	299,887
573,598	North America	886,212
120,750	Japan	182,072
45,218	Pacific Rim	78,773
234,714	Emerging Markets	342,427
15,698	International pooled funds	51,981
0	EMEA (Europe, Middle East & Africa)	77,086
<u>2,377,619</u>		<u>3,041,244</u>

11.5 Fund manager analysis

Market value	Fund manager analysis	Market value
31/03/20		31/03/21
Investments managed by the Wales Pension Partnership		
£'000	%	£'000
545,586	22.9	Wales Pension Partnership
40.1		1,221,087
<u>545,586</u>	<u>22.9</u>	<u>40.1 1,221,087</u>
Investments managed outside of the Wales Pension Partnership		
£'000	%	£'000
1,500,135	63.1	BlackRock
48.7		1,479,752
296,395	12.5	Schroders
9.9		301,920
35,503	1.5	Partners Group
1.3		38,485
<u>1,832,033</u>	<u>77.1</u>	<u>59.9 1,820,157</u>
<u>2,377,619</u>	<u>100.0</u>	<u>100.0 3,041,244</u>

11.6 Wales Pension Partnership (WPP)

Included in Management Expenses (Table 8) is the cost of our involvement in the Wales Pension Partnership (WPP) collective Investment Pooling arrangement. The Oversight and Governance costs are the annual running costs of the pool which includes the Host Authority costs and other External Advisor costs. These costs are funded equally by all eight of the local authority Pension Funds in Wales. The Investment Management Expenses are fees payable to Link Fund Solutions (the WPP operator) and include fund manager fees (which also includes the operator fee and other associated costs), transaction costs and custody fees. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). 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 2020-21 are below:

Wales Pension Partnership		
31/03/20		31/03/21
£'000		£'000
	WPP oversight and governance costs	
70	Running Costs	88
	WPP Investment Management expenses	
2,437	Fund Manager fees	2,928
199	Transaction costs	281
93	Custody Fees	147
2,799		3,445

12 Concentration of Investments

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

	Value as at 31/03/2021 £'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.

2019-20				2020-21				
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								
2,045,679	0	0	2,045,677	2,691,278	0	0	2,691,278	
319,669	0	0	319,669	338,043	0	0	338,043	
0	17,164	0	17,164	0	20,174	0	20,174	
57	0	0	57	547	0	0	547	
0	5,437	0	5,437	0	3,925	0	3,925	
2,365,405	22,601	0	2,388,005	3,029,868	24,099	0	3,053,967	
Financial liabilities								
0	0	0	0	0	0	0	0	
0	0	(3,532)	(3,532)	0	0	(4,418)	(4,418)	
0	0	(3,532)	(3,532)	0	0	(4,418)	(4,418)	
2,365,405	22,601	(3,532)	2,384,473	3,029,868	24,099	(4,418)	3,049,550	

*2019-20 Equities, Fixed Income, Index Linked and Alternatives restated as now classified under Pooled Investments

**2019-20 Property restated as now classified under Pooled Property Investments

13.2 Net gains and losses on financial instruments

2019-20 £'000	2020-21 £'000
Financial assets	
(187,169)	654,254
(187,169)	654,254
0 Total Financial liabilities	
(187,169)	654,254

13.3 Fair value of financial instruments and liabilities

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

Carrying value	Fair value		Carrying value	Fair value
31/03/20	31/03/20		31/03/21	31/03/21
£'000	£'000		£'000	£'000
Financial assets				
1,994,998	2,365,404	Fair value through profit and loss	2,483,219	3,029,868
22,601	22,601	Loans and receivables	24,099	24,099
2,017,599	2,388,005	Total financial assets	2,507,318	3,053,967
Financial liabilities				
0	0	Fair value through profit and loss	0	0
(3,532)	(3,532)	Financial liabilities at amortised cost	(4,418)	(4,418)
(3,532)	(3,532)	Total financial liabilities	(4,418)	(4,418)
2,014,067	2,384,473	Total	2,502,900	3,049,550

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

13.5 (continued from previous page)

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	Using observable inputs	With significant unobservable inputs	
Fair values at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
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	29,687	2,606,964	412,899	3,049,550

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Fair values at 31 March 2020 *	Level 1 * £'000	Level 2 * £'000	Level 3 * £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	325	1,992,478	372,601	2,365,405
Loans and receivables	22,601	0	0	22,601
Total financial assets	22,926	1,992,478	372,601	2,388,005
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Financial liabilities at amortised cost	(3,532)	0	0	(3,532)
Total financial liabilities	(3,532)	0	0	(3,532)
Net financial assets	19,394	1,992,478	372,601	2,384,473

*2019-20 restated due to movement of assets between levels

13.6 Reconciliation of fair value measurements within level 3

2020-21

Asset Type	Market Value 01 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
Pooled property investments	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

*Alternatives were moved to Level 3 in 2020-21 therefore 2019-20 has been restated

13.7 Transfers between levels 1 and 2

There were transfers between levels 1 and 2 investments in 2020-21. Subject to a review, all BlackRock equity pooled investment funds were moved to Level 2

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	15.30%
Bonds	6.30%
Alternatives	3.80%
Property	2.20%
Cash	0.80%

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	Change	Value on	Value on
	31 March		Increase	Decrease
	2021			
	£'000	%	£'000	£'000
Cash	11,376	0.80%	11,467	11,285
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	2,660,432

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

14.4.1 Sensitivity of assets valued at level 3

Asset Type	Value as at	Change	Value on	Value on
	31 March		Increase	Decrease
	2021			
	£'000	%	£'000	£'000
Alternatives	84,314	3.80%	87,518	81,110
Pooled Investment Property	328,585	2.20%	335,814	321,356
Total Level 3 Assets	412,899		423,332	402,466

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 2020 and 31 March 2021 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

31/03/20 Asset type	31/03/21
£'000	£'000
12,215 Cash and cash equivalents	11,376
4,949 Cash held at CCC	8,798
380,162 Bonds	319,851
<u>397,326 Total</u>	<u>340,025</u>

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 31/03/21 £'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	<u>340,025</u>	<u>3,400</u>	<u>(3,400)</u>

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

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 2020 and as at 31 March 2021:

Fair value 31/03/20 £'000	Asset type	Fair value 31/03/21 £'000
1,143,481	Overseas pooled investments	1,890,280
25,578	Overseas pooled property investments	40,276
66	Cash	0
<u>1,169,125</u>	Total overseas assets	<u>1,930,556</u>

14.9 Currency risk sensitivity analysis

The aggregate currency risk within the Fund as at 31 March 2021 was 6.80% (2019-20: 7.40%).

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

A 6.80% 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 31/03/21 £'000	Change in year in the net assets available to pay benefits	
		+6.80% £'000	-6.80% £'000
Overseas pooled investments	1,890,280	128,539	(128,539)
Overseas pooled property investments	40,276	2,739	(2,739)
Cash	0	0	0
Total change in available assets	<u>1,930,556</u>	<u>131,278</u>	<u>(131,278)</u>

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

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

31/03/20		31/03/21
£'000		£'000
	Contributions due from employer	
2,428	- Employer	1,784
1,696	- Employee	1,771
4,949	Cash Balances	8,798
1,313	Debtors	370
<u>10,386</u>		<u>12,723</u>

15.1 Analysis of Current assets

31/03/20		31/03/21
£'000		£'000
3	HMRC	0
8,021	Local authorities	11,462
1	NHS bodies	1
1,117	Public corporations and trading funds	0
1,244	Other entities and individuals	1,260
<u>10,386</u>		<u>12,723</u>

16 Current liabilities

31/03/20		31/03/21
£'000		£'000
(1,884)	Unpaid benefits	(2,975)
(1,648)	Creditors	(1,443)
<u>(3,532)</u>		<u>(4,418)</u>

16.1 Analysis of Current liabilities

31/03/20		31/03/21
£'000		£'000
(689)	HMRC	(680)
(35)	Local authorities	0
(606)	Public corporations and trading funds	(367)
(2,202)	Other entities and individuals	(3,371)
<u>(3,532)</u>		<u>(4,418)</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	Contributions Expenditure		Change in	Value as
	at 31/03/20	£ '000	£ '000	Market Value	at 31/03/21
	Restated			£ '000	£ '000
Prudential**	6,276	0	0	0	6,276
UTMOST*	497	7	(105)	32	431
Standard Life	2,797	340	(382)	252	3,008
Total	9,570	348	(487)	284	9,715

* UTMOST Value as at 31/03/20 restated.

** Prudential 2020-21 figures not yet available

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 and the Annual Report and Accounts 2020-21.

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.

The Authority incurred costs of £1.154 million (2019-2020: £1.108 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 £36.295 million to the Fund in 2020-2021 (2019-2020: £35.015 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 2021, the Fund had an average investment balance of £26.18 million (2019-2020: £18.64 million) earning interest of £47,300 (2019-2020: £140,466).

19.1 Governance

Pension Committee

There are three members and one substitute member of the Pension Committee. During 2020-21 these were Councillor Elwyn Williams, Councillor Deryk Cundy (active member), Councillor Jim Jones and the substitute was Councillor Dai Thomas (active member).

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

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

Pension Board

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

For more details, and to view the Governance Policy, please refer to the Fund's website – www.dyfedpensionfund.org.uk and the Annual Report and Accounts 2020-21.

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:

31/03/20		31/03/21
£'000		£'000
14	Short-term benefits	15
<u>3</u>	Post-employment benefits	<u>4</u>
<u>17</u>		<u>19</u>

20 Employing bodies contribution rates, contributions receivable and benefits payable

Contri- bution rate %	2019-20				2020-21			
	Deficit/ (Surplus)				Deficit/ (Surplus)			
	Contri- bution £'000	Contri- butions £'000	Benefits payable £'000		Contri- bution rate %	Contri- bution £'000	Contri- butions £'000	Benefits payable £'000
Scheduled bodies								
15.1	2,720	32,295	37,661	Carmarthenshire County Council	19.9	(2,594)	38,888	38,134
15.6	889	18,210	19,553	Pembrokeshire County Council	19.8	(1,988)	21,868	19,803
15.3	241	11,799	13,417	Ceredigion County Council	20.1	(2,149)	13,838	12,884
				Office for the Police & Crime				
13.5	93	4,875	3,100	Commissioner for Dyfed-Powys	17.8	(6)	6,287	3,116
14.1	76	1,346	1,194	Mid & West Wales Fire Authority	18.1	(188)	1,667	1,511
16.2	0	402	509	Coleg Ceredigion	16.2	0	276	291
16.1	117	1,628	1,005	Coleg Sir Gar	16.1	122	1,619	1,143
				Pembrokeshire Coast National Park				
15.8	(87)	667	910	Authority	15.8	(90)	717	879
15.0	87	1,129	551	Pembrokeshire College	15.0	90	1,208	385
	4,136	72,351	77,900			(6,803)	86,368	78,146
Designated (Resolution) bodies								
23.0	0	16	13	Aberystwyth Town Council	23.0	0	13	13
24.9	0	0	0	Aberaeron Town Council	0.0	0	0	0
17.9	18	80	99	Carmarthen Town Council	17.9	18	70	112
21.6	0	33	0	Cwmamman Town Council	21.6	0	37	0
21.7	0	14	0	Llanedi Community Council	21.7	0	16	0
24.0	1	6	4	Gorslas Community Council	24.0	1	6	4
-	0	12	32	Haverfordwest Town Council	-	0	12	43
27.6	10	15	12	Kidwelly Town Council	27.6	10	15	12
20.7	0	2	1	Llanbadarn Fawr Community Council	20.7	0	2	1
24.9	0	0	1	Llanarthne Community Council	0.0	0	0	1
15.9	6	213	214	Llanelli Rural Council	15.9	6	219	241
19.1	7	62	104	Llanelli Town Council	19.1	8	64	111
15.9	0	9	0	Llangennech Community Council	15.9	0	8	0
19.5	5	34	12	Llannon Community Council	19.5	5	54	17
19.6	(2)	53	42	Pembrey & Burry Port Town Council	19.6	(2)	68	66
16.3	(2)	10	19	Tenby Town Council	16.3	(2)	11	12
16.6	1	14	0	Pembroke Town Council	16.6	1	14	0
13.5	1	10	0	Pembroke Dock Town Council	13.5	1	11	0
	45	583	553			46	621	633

(continued overleaf)

(continued from previous page)

2019-20				2020-21				
Contri- bution rate %	Deficit/ (Surplus)		Benefits payable £'000	Contri- bution rate %	Deficit/ (Surplus)		Benefits payable £'000	
	Contri- bution £'000	Contri- butions £'000			Contri- bution £'000	Contri- butions £'000		
Admission bodies								
Community Admission Body (CAB)								
17.9	12	46	24	Ceredigion Association of Voluntary Org.	17.9	12	46	31
15.1	(21)	932	1,126	Careers Wales	15.1	(22)	992	1,177
17.0	10	29	35	Carmarthenshire Assoc. of Voluntary Services	17.0	11	31	35
27.6	(9)	13	118	Carmarthenshire Federation of Young Farmers	27.6	0	2	14
15.9	2	13	41	Iaith Cyf	15.9	2	12	42
23.3	5	3	16	Leonard Cheshire Disability	23.3	5	3	16
0.0	0	0	38	Llanelli Burial Board	0.0	0	0	39
11.7	11	72	11	Menter Bro Dinefwr	11.7	11	68	11
10.5	30	36	32	Menter Cwm Gwendraeth	10.5	31	32	33
10.8	1	55	0	Menter Gorllewin Sir Gar	10.8	1	62	0
7.4	(2)	12	10	Menter Iaith Castell-Nedd Port Talbot	7.4	(2)	12	10
19.3	(3)	4	10	Narberth & District Community & Sports Assoc.	19.3	0	1	10
20.1	1	61	56	Pembrokeshire Assoc. of Voluntary Services	20.1	1	58	100
13.7	5	82	27	PLANED	13.7	5	93	68
15.8	(6)	253	220	Tai Ceredigion/Barcud	15.8	(6)	402	188
18.4	74	659	669	University of Wales-Trinity St David	18.4	77	540	587
22.3	86	11	214	Aberystwyth University	22.3	90	11	229
14.7	(24)	236	413	Books Council of Wales	14.7	(25)	368	473
14.8	5	31	41	West Wales Action for Mental Health	14.8	6	25	61
15.8	(3)	29	75	Valuation Tribunal Wales	15.8	(4)	19	75
14.2	1	6	0	Swim Narberth	14.2	1	1	0
	175	2,583	3,176			193	2,778	3,199
Transferee Admission Body (TAB)								
19.3	0	17	38	Pobl Group	19.3	0	18	64
26.6	0	0	14	DANFO	0.0	0	0	14
15.3	0	398	4	Llesiant Delta Wellbeing	15.3	0	627	24
21.2	(7)	65	122	Human Support Group (HSG)	0.0	0	3	77
0.0	0	0	0	Compass Contract Services Ltd	23.6	0	26	5
0.0	0	0	0	Burry Port Marina Ltd	22.2	0	9	0
0.0	0	0	0	Visit Pembrokeshire	23.4	0	5	0
	(7)	480	178			0	688	184

(continued overleaf)

(continued from previous page)

Contri- bution rate %	Deficit/ (Surplus)			Benefits payable £'000		Contri- bution rate %	Deficit/ (Surplus)		
	Contri- bution £'000	Contri- butions £'000	Contri- butions £'000				Contri- bution £'000	Contri- butions £'000	Benefits payable £'000
Bodies with no pensionable employees									
0.0	0	6	7	DVLA	0.0	0	6	7	
0.0	0	0	13	Cardigan Swimming Pool	0.0	0	24	13	
0.0	0	0	41	PRISM	0.0	0	64	110	
0.0	0	52	320	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	7,527	Dyfed County Council	0.0	0	0	7,112	
0.0	0	0	2	Dyfed AVS	0.0	0	0	2	
0.0	0	7	7	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	7	
0.0	0	0	5	Cartrefi Cymru	0.0	0	0	6	
0.0	0	2	2	Rent Officer Service	0.0	0	2	2	
	0	74	7,960			0	163	7,621	
	4,349	76,071	89,767	Total		(6,563)	90,619	89,783	

20.1 Bodies with No Pensionable Employees where pension increase is recharged

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

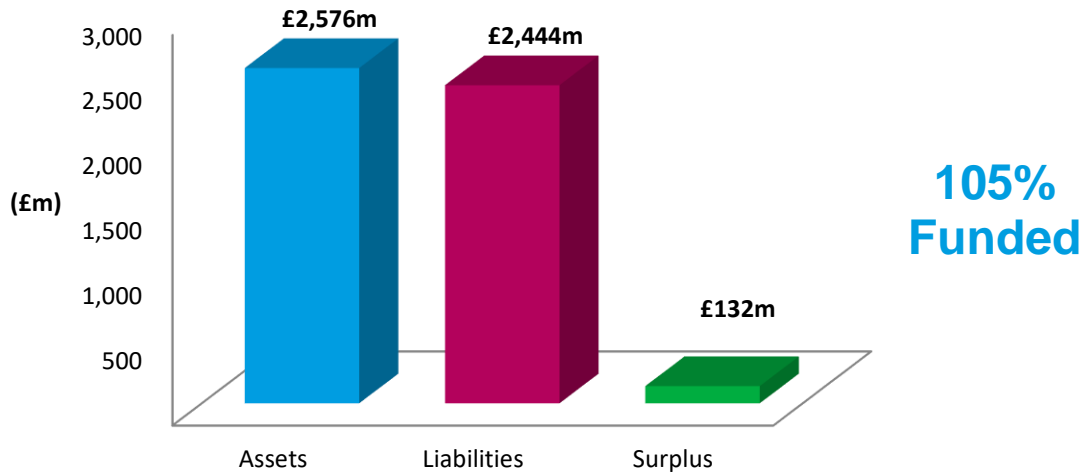
	Proportion to be recharged %
DVLA	100
Milford Haven Town Council	100
National Health Service	100
Carmarthen Family Centre	100
Dwr Cymru Welsh Water	50

21 Actuarial Statement

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

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

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



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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government 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 be an increase in past service liabilities of broadly £28 million and an increase in the Primary Contribution rate of 1.1% of Pensionable Pay per annum. Provision for these costs has been included within the secondary rate for all employers (and also within the whole Fund average Secondary rate of £3 million per annum offset shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited as a general rule but the Administering Authority has consulted on updates to the Funding Strategy Statement which will allow the Fund 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 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases*	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

The demographic assumptions are the same as those used for funding purposes. 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 decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a.). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £3,447 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£82 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£53 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £573 million due to "actuarial losses" (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 2021 pension increase award was less 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 2021 is therefore £4,155 million.

GMP Indexation

The public service schemes are 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 2021