



DYFED PENSION FUND

Annual Report & Accounts 2020-2021

Administered by:



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Chairman's Foreword

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

This is my fourth year as Chair of the Fund and probably the most important one in respect of the Fund's "low carbon agenda". This year's report therefore focuses on this topic.

The Fund started its journey on lowering its carbon footprint in 2018 when we began investing in the BlackRock UK Strategic Alternative Income Fund (SAIF). The SAIF includes investments in renewable power projects some of which are based in the Dyfed area. Following the completion of Strategic Asset Allocation review, which I mentioned in last year's report, the Fund moved 10% of its assets into the BlackRock ACS Low Carbon Equity Tracker Fund and increased its allocation to the Wales Pension Partnership (WPP) Global Growth Fund (GGF) by 5% in March 2021. The investment managers in the GGF have reduced their carbon exposure and are forecast to reduce it further in 2021-22.

We work closely with our Independent Adviser, Adrian Brown, on this issue and we have calculated that our CO2 intensity has fallen by 13% during the year and will fall further in 2021-22.

The Dyfed Pension Fund's investments are structured quite differently from the average LGPS fund. The key difference is the relatively high level of equities (75%) and low investment in alternatives (3%). In 2020-21 these differences yielded excellent results and drove the Fund's outperformance. The investment return for the 12 months was 28.4% with our equity portfolios returning an unprecedented 39% and the Fund's value overshooting the £3bn mark for the first time.

The Fund has increased its allocation to investments managed by the WPP investment pool from 58% to 82%. The Fund's corporate bonds (10% of the Fund) were transitioned, as expected, into the WPP Global Credit Fund in August 2020. During the year the pool produced a Climate Risk Policy which sets out WPP's approach to addressing the requirements of the Welsh Constituent Authorities, including ourselves, with regards to climate related risks. This also supports the Dyfed Pension Fund in its lower carbon journey. I attended various online training events hosted by the WPP during the year and I must say they are very professionally run and extremely informative.

Your Pensions Administration team continued to work diligently in challenging circumstances as a result of the continuing implications of the pandemic. The team rose to the challenge and ensured that telephone calls were diverted to softphones, correspondence continued to be issued and all pensioners continued to be paid each month. This was in addition to embracing further regulatory changes during the year. They also increased the number of registered 'My Pension On-line' users by actively encouraging scheme member take up during telephone calls and created a Data Improvement Plan to address issues identified during a data quality exercise.

Membership of the Dyfed Pension Fund has continued to increase and stood at 51,500 on 31 March 2021 with active contributors making up only 36%. In light of this membership profile cashflow management continues to be a critical component in the management of the Fund.

There has been stability in the membership of the pension committee during the year and I would like to extend my heartfelt thanks to them and in particular to Councillor Jim Jones who has been suffering from ill health but is making a good recovery.

I would also like to thank again this year the senior managers and officers in the Administration and Investment teams for their professionalism and dedication in delivering a high-quality service during what has been a particularly challenging 12 months. The balance of working from home, attending online meetings and training events and working effectively as a team must not be underestimated and has not gone unnoticed by myself and colleagues.

Councillor Elwyn Williams

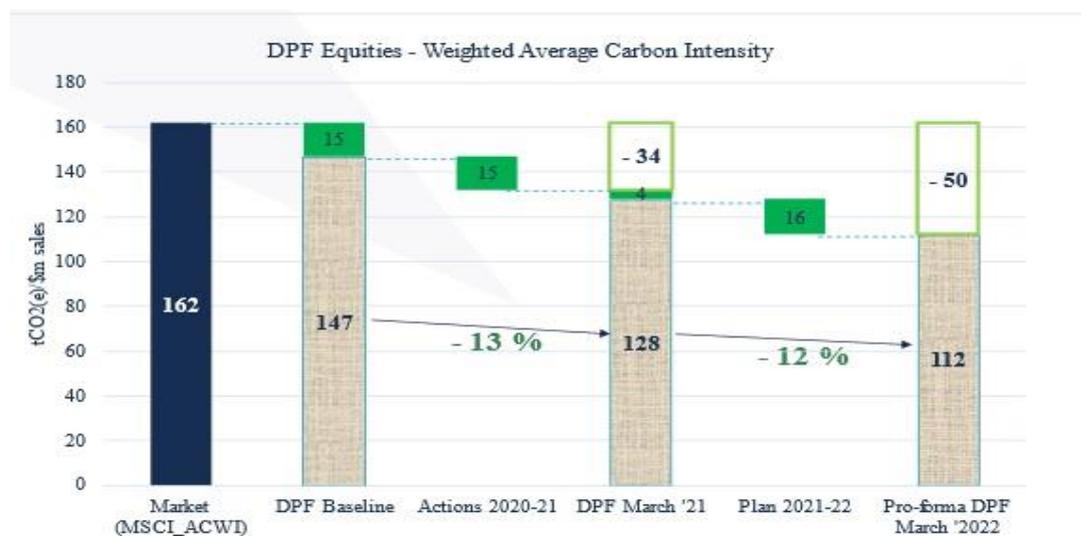
Chair of the Dyfed Pension Fund Committee

Introduction

This year has been unique and challenging where, due to Covid 19, members, officers, investment managers and consultants have seen significant changes in working practices, which I do believe we have all adopted to in a very positive manner. As the Chair has highlighted the performance of the Fund has been unprecedented with a return of 28.4% for the year, this is pleasing to note after a very nervous start when the market reacted to the pandemic.

As Treasurer/Section 151 officer of the Dyfed Pension Fund my principal responsibilities are investing and managing the Fund's assets, setting employer contribution rates, collecting employer and employee contributions and paying pension benefits as they fall due. I must not lose sight of these when I engage with all stakeholders on our climate agenda. All decisions made by the pension committee on carbon reduction must be made after considering the impact and consequences of their decisions on these responsibilities.

The pension committee, officers and Independent Adviser continue to work diligently with our investment managers on our carbon footprint and as the Chair has mentioned in his foreword we are making great strides in its reduction now and over the next 12 months as illustrated by the graph below:



These annual reductions of 13% and 12% exceed the "Paris Aligned" target of -7% per annum. I will keep you updated on future annual reductions in subsequent annual reports.

The Wales Pension Partnership ('WPP') is going from strength to strength. The total value of the funds managed by the pool is now just shy of £15bn with the Dyfed Pension Fund making up circa £2bn of that figure. The WPP appointed Robeco as its Voting and Engagement provider in April 2020 following the completion of a comprehensive procurement exercise. Robeco's contract will run for an initial period of 3 years with the potential for a 2-year extension.

Robeco assists the WPP in formulating and maintaining a Voting Policy and Engagement Principles that are in keeping with the Welsh Constituent Authorities' membership of the Local Authority Pension Fund Forum ('LAPFF').

They are tasked with helping WPP formulate its Voting Policy and will take responsibility for implementing the Voting Policy across WPP's portfolios, reporting to WPP and the underlying Funds.

Additionally, Robeco assists the WPP in framing its Engagement Principles and undertakes engagement activity on behalf of the WPP in accordance with the agreed principles. Within its remit Robeco embraces WPP's track record of collaborating with likeminded partners, policy makers and regulators to ensure that WPP achieves the most effective engagement outcomes.

During the year they engaged with companies across the Environmental, Social and Governance spectrum.

It is with great pleasure that I can also announce that the WPP won the Innovation Award in the LAPF Investment Awards in December 2020 which was held as a virtual event for the first time.



The unique structure of the investment sub funds, managed by Russell Investments and hosted by Link Fund Solutions, within the pool has produced meaningful cost savings over and above the manager fee savings already achieved and improved governance without impacting manager performance.

It only seems like yesterday that we undertook the last fund valuation, but my team and I are already preparing for our next triennial valuation!!! The Fund's funding level continues to look healthy and if markets continue to perform as they have done this year our deliberations with the actuary will again be positive.

I would like to take this opportunity to thank Mercer for all their hard work again this year and particularly in meeting the tight timeline on the IAS19 exercise. I'm sure our employers value the work they do and the significance of these annual accounting figures.

Finally, I would like to echo the Chair's comments and thank all the staff who manage the Dyfed Pension Fund on your behalf. Covid 19 has presented many challenges to the whole team and I am very proud of them as they have continued to work and attend meetings virtually with conflicting priorities whether from particular family circumstances or as a sole home worker. I am sure though that we will get back to some type of normality during 2021-22 with a balance of working virtually and in the office.

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 2020-21 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:

Virtual meeting attendance and training events	Cllr Elwyn Williams	Cllr Deryk Cundy	Cllr Jim Jones	Cllr Dai Thomas
2020-21				
Voting rights	✓	✓	✓	
2020-21 Virtual meeting attendance:				
Committee Meeting 24 June 2020	✓	✓		✓
Committee Meeting 16 October 2020	✓	✓		✓
ACM 6 November 2020	✓	✓		✓
Committee Meeting 11 January 2021	✓	✓		✓
Committee Meeting 25 March 2021	✓	✓		✓
2020-21 Virtual training events:				
Briefing Session (BlackRock & Baillie Gifford) June 2020	✓	✓		✓
ESG Issues & AGM (LAPFF) July 2020	✓			
Briefing Session (Strategic Asset Review) October 2020	✓	✓		✓
Briefing Session (Future Equity Strategy) January 2021	✓	✓		✓
LAPFF Annual Conference January 2021				✓
Investment Summit (LGC) March 2021		✓		✓
Briefing Session (BlackRock) March 2021	✓	✓		✓

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 (previously Equitable Life)
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 2020-21 against budget:

	Actual 2019-20 £'000	Budget 2020-21 £'000	Actual 2020-21 £'000	Variance 2020-21 £'000
Income				
Employee Contributions	20,182	21,148	21,599	451
Employer Contributions	60,238	64,596	62,455	(2,141)
Transfers In	6,851	1,500	3,196	1,696
Investment Income	13,913	16,634	32,187	15,553
Total Income	101,184	103,878	119,437	15,559
Expenditure				
Benefits Payable	(89,767)	(89,869)	(89,783)	86
Transfers Out	(3,597)	(2,620)	(3,595)	(975)
Management Expenses	(1,892)	(1,908)	(1,883)	25
Investment Management Expenses	(9,972)	(9,481)	(13,303)	(3,822)
Total Expenditure	(105,228)	(103,878)	(108,564)	(4,686)
Changes in the Market Value of Investments	(187,169)	-	654,254	-
Net Increase/(Decrease) in the fund	(191,213)	-	665,127	-

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:

<https://www.dyfedpensionfund.org.uk/local-government-pension-scheme/investments-fund-information/investment-strategy/>

Responsible Investment (RI) Policy

The Fund has a paramount fiduciary duty to obtain the best possible financial return on its investments against a suitable degree of risk. It also considers a company's good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of the company and improve investment returns to its shareholders.

The investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund. In the execution of this, the Committee have considered and found it appropriate to adopt the investment managers' socially responsible investment policies. These policies will be reviewed with the investment managers regularly both by officers and the Committee.

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 were two major transitions:

- The Corporate Bond portfolio was transitioned from BlackRock to Wales Pension Partnership's Global Credit Fund. The value of this transition was £260m.
- The Fund also divested its BlackRock US active (£335m) and UK passive (£112m) portfolios, transitioning these investments to BlackRock's ACS World Low Carbon Equity Tracker Fund (£293m) and Wales Pension Partnership's Global Growth Fund (£154m).

Asset Allocation

Mandate	Approach	Manager	Benchmark (%)	Actual (%)
Equities		Allocation	65.00	75.20
Global	Active	Wales Pension Partnership		31.65
Japanese	Active	BlackRock		3.47
Other Regional	Passive	BlackRock		30.02
ACS Low Carbon	Passive	BlackRock		10.06
Fixed Interest		Allocation	10.00	10.52
Index Linked Bonds	Passive	BlackRock		2.01
Global Credit	Active	Wales Pension Partnership		8.51
Property		Allocation	15.00	11.12
Property	Active	Schroders		9.85
Property	Active	Partners Group		1.27
Infrastructure		Allocation	5.00	0.00
Infrastructure				0.00
Alternatives		Allocation	5.00	2.77
SAIF	Active	BlackRock		2.77
Cash		Allocation	0.00	0.39
Cash	Active	Various		0.39
Total			100.00	100.00

The table above shows that the Fund's allocation of equities is more than the benchmark. This excess is derived from the very strong performance of equities during 2020-21, resulting in an increase in the overall size of the Fund and reduced allocations of other asset classes such as property. The Pension Committee are reviewing the allocations with a view of rebalancing the investments in line with the benchmarks.

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 28% from 2019-20 to 2020-21:

	Value as at 31/03/20 £'000	Value as at 31/03/21 £'000
Equities	1,612,317	2,287,113
Fixed Income	272,772	258,679
Index Linked	107,390	61,172
Pooled Property Investments	319,669	338,043
Alternatives	53,199	84,314
Cash	12,215	11,376
Accrued Income	57	547
Total	2,377,619	3,041,244

Investment Performance

Total Fund performance was above the LA Universe average over the one, three, five and ten year periods.

Periods to 31/03/21	Return (%)	LA Universe (%)	Out/(Under) Performance (%)	Ranking (Percentile)
1 year	28.40	22.70	5.70	21st
3 years*	8.30	7.60	0.70	39th
5 years*	10.50	9.50	1.00	16th
10 years*	9.10	8.30	0.80	10th

*Annualised Returns

Individual Managers' Performance

The following tables show the performance of each manager for the year ending 31 March 2021.

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 6.3%. 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 2021. The valuation of the property portfolio is above the original cost of investment:

Portfolio investments

Committed	£96.40m
Commitment level - directs	20.48%
Commitment level - secondaries	31.83%
Commitment level - primaries	47.07%
Invested	£73.39m
Investment level	76.13%

Partners Group Red Dragon, L.P.

Commitments	£97.00m
Capital contributions	£64.06m
Capital contributions (in % of commitments)	66.04%
Unfunded commitments	£32.94m
Distributions	£42.00m
Net asset value	£38.48m

Schroders

Over the one and three year periods the manager underperformed the benchmark by -0.70% and -0.40% respectively. Over the 5 year period the manager outperformed the benchmark by 0.10%.

Performance to 31/03/21	Return (%)	Benchmark (%)	Out/(Under) Performance
1 year	1.80	2.50	(0.70)
3 years*	2.00	2.40	(0.40)
5 years*	4.20	4.10	0.10

*Annualised Returns

BlackRock

The manager outperformed the benchmark over the one, three and five year periods by 3.34%, 1.44% and 1.28% respectively.

Performance to 31/03/21	Return (%)	Benchmark (%)	Out/(Under) Performance
1 year	28.34	25.00	3.34
3 years*	8.40	6.96	1.44
5 years*	11.13	9.85	1.28

*Annualised Returns

Wales Pension Partnership

Global Growth Fund

The Fund outperformed the benchmark over the one year period by 10.01%. The Fund has also outperformed the benchmark since its inception in February 2019 by 2.96%.

Performance to 31/03/21	Net Return (%)	Benchmark (%)	Out/(Under) Performance
1 year	48.95	38.94	10.01
Inception to Date	17.14	14.18	2.96

Global Credit Fund

The Fund has outperformed the benchmark since its inception in August 2020 by 1.12%.

Performance to 31/03/21	Net Return (%)	Benchmark (%)	Out/(Under) Performance
Inception to Date	(0.09)	(1.21)	1.12

BlackRock

Market Returns 1 April 2020 to 31 March 2021 (GBP)

Returns %	12 Months to 31-Mar-21	
	Account (%)	Index (%)
Aquila UK Equity Index Fund*	27.02	26.71
Aquila Life European Equity Index Fund ex UK	35.00	34.79
Aquila Life Canadian Equity Fund	43.76	42.94
Ascent Life US Equity Fund	42.26	42.72
Ascent Life Japanese Equity Fund	28.12	26.01
Ascent Life Pacific Rim Equity Fund	50.37	50.49
Aquila Emerging Markets Fund	43.38	44.13
iShares Emerging Market Index Sub Fund	42.37	42.34
ACS World Low Carbon Equity Tracker Fund	-	-
Total Fund	28.34	25.00
Index Linked Gilt Portfolio	2.63	2.60
Total Fund including UK Index Linked Gilts	30.38	-

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Source: BlackRock 2021

BlackRock Performance

Over the last year, Dyfed Pension Fund's Main Portfolio returned 28.34% for the period compared to a composite index return of 25.00%, thereby outperforming the index by 3.34%¹.

The passively managed funds tracked the indices they are managed against. For the active funds, Japanese Equities outperformed the benchmark by 2.11% and the US Equities underperformed by 0.46%.

Results do not reflect the deduction of management/advisory fees and other expenses; management / advisory fees and other expenses will reduce a client's return.

Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Strategic Alternative Income Fund (SAIF)

The past 12 months have been unprecedented in both financial markets and modern history owing to the Covid-19 pandemic. Through this same period the Strategic Alternative Income Fund ("SAIF", "the Fund") has continued to perform, proving resilient and successfully weathering the pandemic, whilst continuing to provide investors with strong risk-adjusted returns. SAIF's flexible, multi-asset approach, supported by BlackRock's broad and differentiated access across secure income markets, has enabled us to be nimble and adjust our portfolio as markets shifted.

It has been a year of heightened volatility, owing to both the pandemic and in anticipation of the final Brexit deal. With economic performance proving more resilient as UK businesses came into the second and third lockdowns better prepared to operate in that environment. The Bank of England ("BOE") expects the economic impact of Covid to dissipate in 2021, with a full recovery expected in early 2022. During Q1'21, we saw a sharp increase in government bond yields, particularly for longer-term maturities. While they continue to remain low relative to history, this recent spike was driven by the anticipation that monetary policy may need to tighten in the future when faced with the prospect of higher inflation.

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 also being more aptly suited to partially absorb the impact of higher rates and inflation, should they materialise.

SAIF's trailing twelve month distributed net yield experienced by second close investors (including Dyfed) for the 2020 calendar year was 3.4%.

¹ Performance figures are gross of fees.

The Fund's cash flows continue to have an estimated weighted average life² in excess of 11 years and a tenor³ of approximately 15 years. Approximately 84% of investments are based in the UK and c.42% 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 and offer attractive risk-adjusted returns. As at 31 December 2020, SAIF has made 162 investments on a look-through basis.

During the course of 2020 SAIF made 17 investments. Examples include Project Chiltern, an investment in a supermarket located in London's commuter belt on a long lease to an investment grade operator. This opportunity demonstrates our sourcing capabilities and flexibility; we were able to transact at a time which other real estate investors were constrained by material uncertainty clauses, agreed the investment off-market with the counterparty, and were able to execute at better pricing than could have been achieved pre-pandemic. Another is Project York, a senior secured infrastructure debt loan to a UK-registered social housing provider that owns and manages c.18k homes. This investment illustrates both SAIF's commitment to supporting communities and also the benefit of our multi-alternative approach, whereby we were able to achieve a better risk-adjusted return by accessing social housing through infrastructure debt rather than real estate. Finally, Project Idaho, a senior secured loan to a UK-headquartered company managing the end-to-end procurement of physical marketing materials on behalf of large corporate customers, to support their growth strategy. This investment is an example of our focus on defensive sectors that have been unaffected by the pandemic and where BlackRock was able to incorporate downside protection into the loan agreement through covenants.

As of April 2021, Dyfed are 83% deployed. Investment activity remains strong with the Fund committing c.£62 million to investments in Q1'21 and a strong pipeline of investment opportunities being considered for the rest of the year.

Climate Change

Covid-19 has acted as a powerful accelerator of structural trends, including an increased focus on sustainability, and heightened attention on underappreciated sustainability-related risks and supply chain resilience. Despite a temporary but sharp drop to absolute global emissions as the global economy came to a sudden halt, over 2020 people continued to witness the mounting physical toll of climate change in fires, droughts, flooding, and hurricanes. Additionally, the direct financial impact as energy companies take billions in climate-related write-downs on stranded assets and regulators focus on climate risk in the global financial system. We have seen a landmark year in the policy response to climate change. In 2020, the EU, China, Japan, and South Korea all made historic commitments to achieve net zero emissions. With the U.S. commitment to re-join the Paris Agreement, 127 governments – responsible for more than 60% of global emissions – are considering or already implementing commitments to net zero. From a holistic sustainable perspective, over the course of 2020,

² The weighted average life (WAL) is the average length of time that each pound of unpaid principal on an investment remains outstanding

³ Tenor refers to the length of time remaining before a financial contract expires, for equity investments this is equivalent to the base case holding period

Fund WAL and Tenor are calculated on a current value weighted-average basis

we have seen how purposeful companies, with better environmental, social, and governance (ESG) profiles, have outperformed their peers. This is true even within industries - from automobiles to banks to oil and gas companies – we are seeing another divergence: companies with better ESG profiles are performing better than their peers, enjoying a “sustainability premium.” It is clear that being connected to stakeholders – establishing trust with them and acting with purpose – enables a company to understand and respond to the changes happening in the world.

With that backdrop in mind, BlackRock’s view is that sustainability risk and climate risk is investment risk and that we are on the cusp of a transformational change towards sustainability. Companies, investors, and governments must prepare for a significant reallocation of capital. In 2021, we see the restart as the dominant driver of returns –and supporting assets exposed to today’s dominant energy sources. Yet this does not change our confidence in sustainability as a key driver of long-term returns. Sustainability will drive returns over time and beyond the restart, as the energy transition progresses, the economy restructures and capital is reallocated. We also believe sustainable exposures add potential resilience to portfolios, with sustainable characteristics ranging from carbon efficiency to job satisfaction of employees and the effectiveness of a company’s board adding to the resilience properties.

Low Carbon Investments

BlackRock believes that the low-carbon economy is coming, with a global energy shift to zero and low carbon energy sources underway. There are four key factors which are driving this low-carbon transition. Firstly, physical climate risks are becoming more apparent and more common. For example, natural disasters caused a record \$210bn in global damage in 2020. Secondly, there is an increasing shift in energy mix, with renewables expected to capture 64% of the global energy mix by 2050. Thirdly, there is much tighter environmental regulation, ranging from the local to intra-national level, with measures such as carbon taxes and emissions trading schemes covering a growing cumulative share of CO2 emissions. Finally, technological innovation is encouraging adoption of cheaper low-carbon technologies. As an example, battery storage costs are forecasted to decline an additional 73% by 2030.

This global momentum towards a net zero economy continues to drive demand for sustainable investment strategies. As the low-carbon transition continues to transform market return expectations, investors will be required to embrace new strategies that are designed to mitigate exposure to climate risks, as well as capture opportunities arising from the transition to a lower-carbon economy.

Companies face two key climate risks, which can be directly translated into investment risks – physical risk and transition risk. As policymakers, regulators, and consumers accelerate the transition to a net zero economy, companies that are not prepared for this transition – i.e., companies that will remain dependent on producing or consuming fossil fuels for too long – risk being left behind by their consumers and shareholders.

Renewables

In 2020, electricity demand was curtailed as a result of the pandemic reducing demand from industrial and commercial consumers. This was partially offset by an increase in residential demand, as regional lockdowns saw people increasingly confined to their homes. In aggregate, global electricity consumption is expected to have fallen by 2% in 2020, although a rebound is anticipated in 2021-2025. Lower demand for power means that technologies with lower short-run marginal costs, such as renewables, have increasingly made up a larger share of the power mix. The stop-start recovery associated with the pandemic has decreased demand and prices, threatening the economic viability of oil and associated gas production.

The renewables industry, while not immune to the impacts of the pandemic and lockdown measures, did adapt well to the challenges of the crisis. Supply chain disruptions and construction delays did slow down the process of projects at the beginning of the year, but construction and manufacturing activity ramped up in the second half of the year once logistical challenges had been resolved and travel restrictions eased.⁴

Crucially, the past year has highlighted the importance of identifying areas of relative value globally and avoiding pockets of overheating when investing in renewables. A single country or region approach results in reduced return potential and elevated risks as it constrains optionality and diversification by weather patterns, regulatory regimes, and capital market conditions. Global diversification of wind and solar investment naturally (and significantly) reduces portfolio-level energy production volatility both in the short and long term.

Despite the looming economic uncertainty caused by the pandemic, investor appetite for renewables remained strong throughout 2020. Investors sought out the resilient cash flows, diversification benefits and positive impact an investment into renewable power can provide. According to Bloomberg NEF, governments, companies and households invested \$303.5bn in renewable energy capacity globally, a 2% increase from 2019.⁵

Ultimately, the fundamentals of renewable energy expansion have not changed because of Covid-19. Investors understand that portfolio resilience is more than income and diversification. It's making sure the portfolio is well positioned for structural themes. The shift toward sustainability is poised to give renewables a potential return advantage for years to come. Cost reductions and sustained policy support from governments, such as President Biden's American Jobs Plan, an all-encompassing US\$2.2 trillion infrastructure plan, is expected to drive strong renewables growth in 2021 and beyond.

Gavin Lewis

Managing Director

Schroders

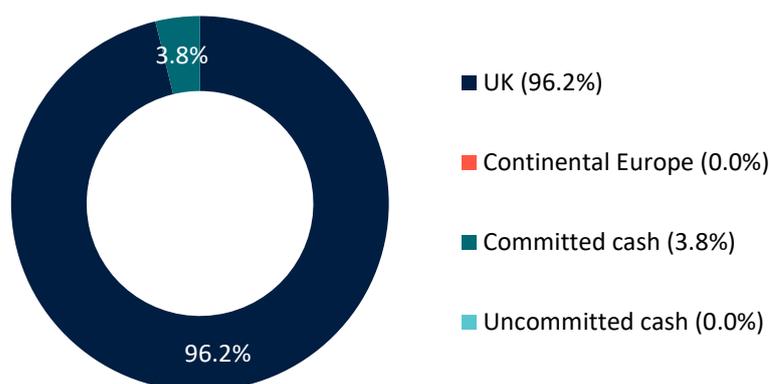
Background

Schroders was appointed to manage a pan-European portfolio of indirect investments in March 2010. An initial allocation of £88 million was committed at inception, with a further £32 million committed in July 2013. In early 2018 a further circa £122 million was allocated to the portfolio.

Progress

As at 31st March 2021 the value of the property portfolio stood at circa £309 million. At the financial year end, 96.2% by value was invested in the UK and 3.8% 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.

Portfolio value by region



Source: Schroders. Chart includes cash held with client.

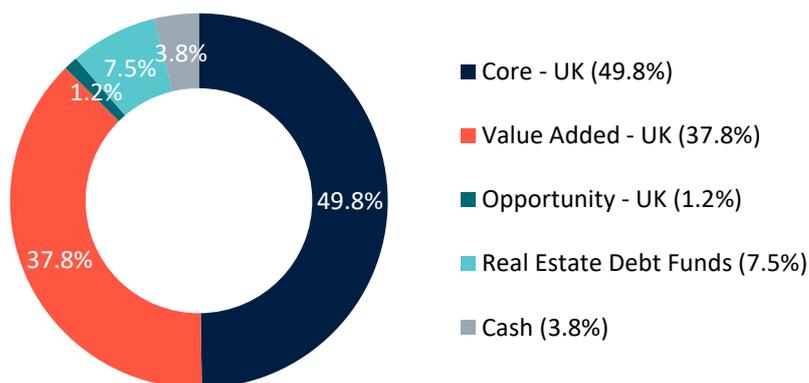
The portfolio strategy has evolved over the last 11 years, from largely investing in balanced real estate funds (i.e. funds that invest in retail, office and industrial properties) to increasingly investing in discrete sector specialist vehicles. This gives Dyfed access to best-in class specialist managers, enables a more effective implementation of the Schroders House View and has also 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 sectors. The main divergence is Dyfed's underweight to central London offices. Although the House View is more positive about central London offices, there will be increased polarisation in performance as a result of the structural changes presented by the changes in working practices. We have earmarked uncommitted cash to two new strategies; a new real estate debt fund and a Special Situations Fund, which is being established to take advantage of any mis-priced buying opportunities as a result of the pandemic.

By fund style, approximately 49.8% of the portfolio by value is invested in UK core style strategies. Core funds are typically un-gearred and open-ended in structure. 37.8% by portfolio value is invested in value-add funds, these are typically sector focussed funds, may have a moderate exposure to leverage and are generally closed-ended. 7.5% of the portfolio is invested in real estate debt and 1.2% in opportunistic funds.

Portfolio value by fund style



Source: Schroders. Chart includes cash held with client.

Net Carbon Zero Commitment

Schroder Real Estate has committed to Net Zero Carbon by 2050 as we believe it is our responsibility to address the carbon impact of our portfolios. The Paris Agreement in effect conferred two key conditions: a limit on total allowable additional greenhouse gas emissions ('carbon budget') and net zero carbon by 2050. Therefore, in addition to our net zero carbon ambitions, we must align our portfolios with short, medium and longer term carbon budgets to support the Paris Agreement.

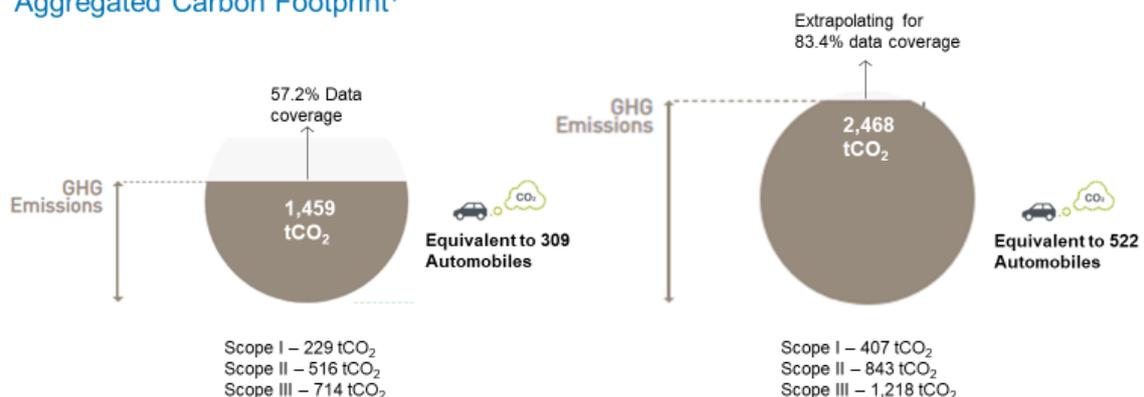
Sustainability is integral to our investment process and we continually seek to improve the sustainability credentials of our assets. We will establish carbon pathways for our directly managed real estate. We will also engage and seek to influence managers of funds in which we invest. Schroders' ambition, as a founding signatory of the Net Zero Asset Managers Initiative, is to reach net zero emissions by 2050 or sooner across all assets under management.

Carbon Footprint

In 2021 we presented some proprietary analysis, estimating the Dyfed portfolio's carbon footprint using data collated from our 2020 SRECaP sustainability questionnaire and the 2020 Global Real Estate Sustainability Benchmark (GRESB). The chart below presents an updated carbon footprint based on Dyfed's portfolio composition as at end March 2021. 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 managers of the underlying holdings to provide increased transparency in the reporting of carbon which will help us to develop this proprietary analysis. Going forward we intend to report how the carbon footprint of the portfolio changes over time, but also benchmark the data to give our clients an indication of their carbon footprint relative to other portfolios.

Dyfed Pension Fund Aggregated Carbon Footprint¹



¹tCO₂ calculations are formulated on a value basis by taking the value of each holding within the portfolio and dividing this by the GAV of the fund, multiplying this percentage by the tCO₂ output for each holding. 16.6% of the portfolio data is omitted (Local Retail Fund, Multi-Let Industrial Fund, Social Supported Housing Fund and UK Retirement Living Fund). 57.2% of the portfolio's AUM has reported GHG data, by extrapolating this data we can project the portfolio to 83.4% coverage (excluding the 16.6% omissions). Cash holdings have been excluded from the analysis.

Source: GRESB, Schroders, April 2021.

Performance

The Covid-19 pandemic has had a profound impact on the UK real estate market, with retail and hospitality focused sectors in particular experiencing a severely disrupted trading environment. This has led to heightened volatility and inconsistency in the performance of the underlying real estate funds in the Dyfed Pension Fund's real estate portfolio.

Returns (net of all fees) were marginally below benchmark over the three months to end March 2021 (-0.1%). Performance is below benchmark over twelve months (-0.7%), largely driven by the holding in the Leisure Fund. The portfolio has underperformed the benchmark over three years (-0.4% per annum) and is in-line with benchmark over five and ten years. The UK portfolio remains ahead of benchmark over three months, five years and ten years and is in-line with benchmark over three years. The UK portfolio has underperformed the benchmark over twelve months.

UK Property Outlook

Schroders forecasts that the UK economy will grow by 5% in 2021 and return to its pre-virus level in the second half of 2022. The main driver will be consumer spending as lockdown measures are lifted. Consumers have accumulated an extra £150 billion in savings, although spending is likely to be tempered by worries about job losses once the furlough scheme ends in September. In addition, this year should see a recovery in business investment and the Chancellor has postponed raising taxes until 2022.

Although the phased re-opening of non-essential shops, pubs and restaurants is welcome, the non-food retail sector will still be under pressure. The shift to online retailing during the pandemic means that in-store sales will not immediately return to pre-virus levels. Even next year, assuming no further lockdowns, in-store non-food sales are likely to be around 10% lower than in 2019. At the same time, retailer insolvencies and the closure of stores by John Lewis, banks and restaurant chains have reduced the attractiveness of many retail destinations. A total of 15% of retail units were empty at the end of 2020 and vacancy in many less affluent towns was over 20%, reflecting fewer independent retailers and the fact that house prices and commercial values are too low to make re-development viable. We expect shop and shopping centre rental values to fall by a further 20% over the next three years. Bulky goods retail park rental values should be more resilient, thanks to lower vacancy and demand for out-of-town units from discount retailers (e.g. Aldi, B&M, Home Bargains, Lidl).

At present there is little consensus about the relative merits of being in the office and working from home. While some occupiers (e.g. BP, British Airways, HSBC) have decided to cut their office space, others (e.g. BT, Goldman Sachs, Google, major law firms) have either signed new leases, or re-affirmed their commitment to their existing offices. In the short-term we expect demand will remain subdued and that office rents will fall by 2-4% in most cities in 2021, as more sub-let space comes onto the market. However, we think demand is polarising and that rents on modern offices in city centres and close to leading universities which have good air conditioning, energy efficiency and connectivity will recover from 2022 onwards. The key driver will be an increase in employment in IT, life sciences, media and professional services. The low volume of new office building will also be supportive. By contrast, rents on older offices and back-office space could continue to decline.

Last year saw record demand for warehouses, driven by the jump in online sales during the pandemic and, to a lesser extent, stockpiling ahead of a possible no-deal Brexit. While the latter will now unwind, demand from Amazon, traditional retailers and parcels companies has so far stayed strong in 2021. This year should see a recovery in demand from manufacturers as the economy improves and the government's announcement of eight new free ports could attract more inward investment over the long term. We expect industrial rental growth to average 2% p.a. over the next three years, with multi-let industrial estates seeing faster growth than big distribution sheds, because of more constraints on new development.

Despite the national lockdown, the investment market has remained active, although some of the properties which traded in the first quarter of 2021 had previously been marketed in 2020. The most liquid parts of the market are industrials, prime offices, supermarkets and residential. We anticipate that strong investor demand will lead to a further fall in industrial yields this year. London office yields could also decline, as international investors re-enter the market, partly as a result of the Brexit trade deal and greater certainty around sterling. London office yields are around 0.75% higher than in Paris, which is unusual and the relatively fast rollout of vaccines in the UK suggests the economy will recover before the EU. Conversely, most shops and shopping centres are illiquid and yields will probably continue to rise until there are forced sales which help establish prices. Yields on retail parks appear to have reached a ceiling, reflecting their stronger occupier fundamentals compared with shopping centres.

We forecast UK all property total returns of around 5% in 2021. Industrial is again likely to be the best performing of the three main sectors and retail the weakest. However, next year could see office catch up, or even overtake industrial, if office rents start to recover and investors become reluctant to continue bidding down yields on industrials. We also see good opportunities in certain niche types, including self-storage, social supported housing, retirement villages and possibly hotels, where we expect to see some distressed sales.

Patrick Bone

Fund Manager

Partners Group

As the coronavirus health crisis spread across the globe throughout 2020, lockdown measures and social distancing took a drastic toll on economic activity. Economic output across most of the advanced world underwent unprecedentedly sudden peak-to-trough declines of 15-20%, double or triple the contraction experienced during the 2008 Global Financial Crisis. On a positive note, economic indicators suggest that the trough in output was reached in the second quarter in most parts of Europe and the US.

During the second quarter of 2020, Partners Group Red Dragon saw the impact of the pandemic priced into the valuations of portfolio assets held in fund partnerships based on the latest investment partner reports. Meanwhile, valuations of direct investments were updated based on third-party appraisals and risk assessments conducted to ensure that they are in line with the market. These external appraisals have shown a slight uptick in the second quarter compared to the valuation adjustments for the first quarter of 2020. Given the positive movements observed in capital markets during the second quarter, adjustments applied to the latest available NAVs for portfolio properties held in fund partnerships to bridge the reporting time gap were mostly positive.

Despite the challenging economic environment in 2020, capital markets finished the year on a strong note. US equities (S&P 500 index) rose by 11.7% in the fourth quarter of 2020. For the full-year 2020, the S&P 500 was up 16.3%, buoyed by an impressive 42% rally in returns for the information technology sector.

In January 2021, Partners Group Partners Group acquired a portfolio of 27 properties in the UK, with a total leasable area of approximately 3.6 million sq. ft. Furthermore, Partners Group signed an agreement to acquire a value-add residential portfolio comprising eleven private rented sector (PRS) standing assets located across Italy.

As the global economy continued its recovery from the adverse impact of the pandemic throughout the first quarter of 2021, regional differences became more evident. In Europe, prolonged lockdowns and slow vaccine rollout weighed on growth in select service sectors. Meanwhile, growth in the US was boosted by the approval of the USD 1.9 trillion fiscal stimulus package, with a potential USD 2 trillion infrastructure package in the works. During the first quarter of 2021, global real estate transaction volume slowed down to USD 275.4 billion, representing a year-on-year decline of 17%, as the year-ago period had yet to feel the impact of the pandemic. Deal activity in the previous year period included several completed deals, which were negotiated a couple of months prior. Global transaction volume also declined across property types during the quarter, except for residential, which posted a 6% increase year over year and accounted for 20% of the total deal volume. The industrial sector accounted for 15% of the total deal activity during the quarter; however, the transaction volume declined by 23% year on year due to a large entity-level deal which inflated the total tally in the prior-year period. The office and retail sectors recorded the biggest declines at 41% and 40%, respectively. While the first quarter figures were far from impressive, the market outlook remains generally positive on the back of accelerated

vaccination programs in many countries, as well as businesses and individuals gaining access to economic stimulus.

As of 31 March 2021, the portfolio of Partners Group Red Dragon comprised eight direct investments, 15 secondary transactions and 16 primary commitments. During the first quarter, six new investments were added to the portfolio, further underpinning the positive shift in investment activity and Partners Group's continued pipeline development.

Following these investments, the commitment level of Partners Group Red Dragon increased to 105.7%. Partners Group will continue to selectively build up the portfolio based on our thematic sourcing and relative value approach across different property types and geographies.

Throughout 2020-2021, Partners Group remained disciplined in its relative value approach, focusing on select growth cities in the office, industrial and residential sectors. Partners Group will continue to capitalize on existing relationships in its GP and operator network to source for proprietary investment opportunities. The investment pipeline is expected to remain strong. Meanwhile, Partners Group's prudent underwriting has helped to maintain value in its portfolio investments despite the challenges posted by the COVID-19 pandemic. Partners Group will continue to support value preservation and rent collectability for its existing assets, while evaluating divestment opportunities for investments that are ripe for realization.

Courtney Bensen

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 the WPP's three active equity sub-funds in 2019-20, five fixed income sub-funds in 2020-21, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 68% of assets.

As at 31 March 2021, WPP has total assets worth £21.6bn, £14.7bn of which sits within the pool, see breakdown below:

Asset Class	Managed by	Launch Date	31 March 2021 £000	%
Global Growth Equity Fund	Link Fund Solutions	February 2019	3,061,322	14.2
Global Opportunities Equity Fund	Russell Investments	February 2019	2,624,492	12.2
UK Opportunities Equity Fund	Russell Investments	September 2019	674,460	3.1
Global Credit Fund	Russell Investments	July 2020	791,481	3.7
Global Government Bond Fund	Russell Investments	July 2020	526,763	2.4
UK Credit Fund	Link Fund Solutions	July 2020	550,986	2.6
Multi-Asset Credit Fund	Russell Investments	July 2020	714,418	3.3
Absolute Return Bond Fund	Russell Investments	September 2020	456,255	2.1
Passive Investments	BlackRock	March 2016	5,232,789	24.2
Investments not yet pooled			6,938,068	32.2
Total Investments across all 8 Pension Funds			21,571,038	100

The Dyfed Pension Fund's investment assets included in the WPP values above are detailed below:

	31 March 2021 £000	%
Global Growth Fund	962,408	31.6
Global Credit Fund	258,679	8.5
Passive Equities	1,219,228	40.1
Investments not yet pooled	600,929	19.8
Total Investment Assets	3,041,244	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 2021 was £88k. In addition to the running costs, there are also transition costs associated with the transition of assets into the pool. During the year the Fund transitioned assets from the Corporate Bond Fund to the Global Credit Fund (£260m). Details of the costs incurred are shown below:

2019-20 £000	WPP pooling costs	2020-21 £000
19	Host Authority Costs *	19
51	External Advisor Costs *	69
0	Transition Costs **	1,312
70	Total	1,400

* Host Authority and External Advisor costs are recharged directly to the fund

** Transition Costs are shared as a proportion of total AUM.

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	107	2,788	2,895	12	2,648	763	3,411	57	6,306	69
Asset pool shared costs	0	88	88	1	0	0	0	0	88	1
Transaction costs	0	281	281	1	0	6,381	6,381	106	6,662	107
Custody	0	147	147	1	48	0	48	1	195	2
Other	0	140	140	1	0	0	0	0	140	1
Total £000	107	3,444	3,551	16	2,696	7,144	9,840	164	13,391	180

Asset Allocation and Performance

Asset Category	Opening Value		Closing Value		Performance (1 year)	Index
	£000s	%	£000s	%	%	%
Pooled Assets						
UK Passive	424,727	17.9	518,289	17.0	27.11	26.71
Canadian Passive	9,879	0.4	15,352	0.5	43.76	43.67
European Passive	62,469	2.6	79,420	2.6	35.01	35.00
Pacific Basin Passive	22,600	1.0	32,241	1.1	50.35	50.62
EM Passive	194,260	8.2	267,934	8.8	42.44	42.74
ACS World Low Carbon*	0	0	305,992	10.0	N/A	N/A
Equities Active	545,586	22.9	962,408	31.6	48.30	38.94
Fixed Income Active*	0	0	258,679	8.5	N/A	N/A
Total						
Assets not yet pooled						
Property	319,669	13.5	338,043	11.0	1.64	2.46
Alternatives	53,198	2.2	84,314	3.0	-0.44	-
Active Equities	352,797	14.8	105,477	3.5	28.13	26.27
Cash	12,272	0.5	11,923	0.4	N/A	N/A
Fixed Income Active**	272,772	11.5	0	0	N/A	N/A
Index Linked	107,390	4.5	61,172	2.0	2.60	2.60
Total	2,377,619	100	3,041,244	100		

* 1 year returns not available as investment was made in these assets during 2020-21

** The Fund disinvested its non-pooled Corporate Bonds portfolio during 2020-21 with these investments being placed in Wales Pension Partnership's Global Credit Fund

Objectives 2021-22

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 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 focus has been on pooling the most liquid assets, namely equities and fixed income. The next step is to formulate an approach to pooling and managing illiquid assets such as Private Equity, Private Debt/Credit and Infrastructure. This will involve reviewing a variety of structures and platforms available and assessing these to identify the best fit to meet with the Fund's current and future requirements.

In terms of other, non-investment objectives, the WPP hopes to continue to establish its approach as a responsible investor during 2021-22 which will involve oversight and monitoring of its voting policy, the establishment of an engagement framework, Environmental, Social and Governance (ESG) metrics monitoring and reporting output in accordance with the requirements for opt up to UK Stewardship Code and the Taskforce on Climate-Related Financial disclosure (TCFD).

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 2020/21 was £742,416 (gross) / £631,084 (net) with £469,064,784 out on loan as at 31 March 2021.

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

PIRC

2020-21 LGPS Average Returns (%)

- After the sharp fall in global markets in the Quarter to March 2020, returns bounced back almost immediately despite the ongoing challenges of the COVID pandemic which has been larger and longer lasting than predicted.
- Funds returned an average of 22.7% for the year, but the range of results was far wider than usual.
- Performance was dominated by extremely strong equity returns, enhanced for many by active manager outperformance.
- Defensive assets performed more modestly with property being the most disappointing of the major assets, only just delivering a positive result.

2020-21 LGPS Asset Allocation (%)

% Average Allocation	End March		
	2020	2021	Change
Equities	51	55	4
Bonds	21	18	-3
Cash	2	2	0
Alternatives	12	14	2
Diversified Growth	3	2	-1
Property	9	8	-1

- Most of the change to allocations at this level came about through the relative market movements
- Within equities there was a significant switch into 'planet aware' investments.
- Elsewhere there was further diversification into multi-asset credit, private debt and alternative income strategies.

LGPS Average Long Term Returns (% p.a.)

- Long term performance of the LGPS has been extremely strong. The average fund achieved a positive return in all but 6 of the last 30 years and delivered annualised performance of over 8% p.a.
- Equities have driven long term performance.

Dyfed Pension Fund Performance

Fund Performance Within Universe Range of Results

- The range of results was much wider in the latest year than is usually seen. This is due to the large differences between asset classes.
- Funds with a higher equity allocation will generally have outperformed their peers.
- In the latest year the Dyfed Fund return of 28.4 % was well above the average of 22.7 % .
- This ranked 21st, in the top quartile of Fund performance.

Asset Allocation Relative to Universe Average

- 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 yielded excellent results and drove the Fund outperformance.

Longer Term Returns (% pa) and Rankings

	3 Year	5 Year	10 Year	20 Year
Fund	8.3	10.5	9.1	7.7
Universe Average	7.6	9.5	8.3	6.9
Ranking	(39)	(16)	(10)	(8)

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. This is shown in the graphic above.
- In periods to March 2020 this relationship was not visible. However, the strong results from equities in the latest year has seen it re-emerge.
- In the following charts we show LGPS funds (blue dots) in risk / return space. We divide that space into quarters. Most funds would prefer to be in the top left quarter – achieving a higher-than average level of return at a lower-than average level of risk. However most funds would also be happy to be in the top right quarter – taking a higher level or risk but being rewarded for this with outperformance.
- Over recent periods there is a visible link between risk and return.

Karen Thrumble

Local Authority Pension Performance Analytics (PIRC)

Independent Investment Adviser

Despite the extraordinary events of the last year, I am pleased to report that the past year, my first with the Dyfed Pension Fund, has been a very good year for the Pension Fund. Asset prices have recovered strongly following the collapse at the end of last year, resulting in returns which are significantly ahead of that required by the actuarial valuation. So I'm happy to report, not only that the Fund is in robust good health, but that it has also made further progress in its journey towards a more sustainable future.

The lockdowns as a result of the Coronavirus pandemic had a severe economic impact in 2020-21. Global GDP fell over 5% in Q2 2020, with the UK suffering more than most, falling some 20%. Governments have responded with gargantuan amounts of stimulus, much of it fiscal (ie government spending), which have achieved the desired effect of engineering a strong bounce-back in economic activity in the second half of the year, despite ongoing restrictions (by Q1 2021, global GDP was roughly flat year on year, with the US up and UK down c.2%, and forecasters estimate some +5% growth globally for 2021). However, this has also resulted in a number of imbalances building up: Firstly, the level of fiscal stimulus has been greater than the negative effect of the pandemic, particularly in the US. Household savings have spiked to record levels, as consumers have been unable to spend, and many have received additional stimulus cheques : this means there's a lot of money, as well as pent-up demand in the short term, and is resulting in some stronger than expected growth this year. This was the intended effect! Secondly, to fund this stimulus, Governments have incurred enormous increases in debt – most have decided not to raise taxation to fund this spending yet. While interest rates remain very low, these debts are supportable, but they do leave Government finances exposed, should Central Banks decide they need to raise interest rates. Thirdly, as rising demand meets supply, which is struggling following the shock of COVID and the current trend to de-globalise supply chains, there is increased risk of inflation : particularly so, given the ongoing significant “quantitative easing” (money printing) by many central banks. While most expectations are for 2-3% inflation in the medium term, there is clearly increasing risk that inflation overshoots, putting pressure on central banks to raise interest rates. Either way, though, with interest rates currently 1-2% below inflation, it is likely that we will continue to see sustained, negative real interest rates.

So what about financial markets?

Global stock markets have had a bumper year, returning 39.1% globally, and 26.7% in the UK. Initially, this rally was driven by US / tech giants and COVID beneficiaries (e.g. online retail), but this changed markedly in Q3, on the announcement of the vaccines, and some of the cheaper, cyclical sectors (including traditional energy, and markets like the UK, where these cyclical sectors are more prevalent) have performed better. This underlines the importance of having an asset allocation, as your Fund does, which is well diversified geographically and across industries.

Government bond markets performed poorly over the year (UK government bonds -5.5%) : having risen as interest rates fell in Q1 2020, they have suffered as concerns about inflation and upward pressure on interest rates have risen in the second half of the year. Global corporate bonds, which your Fund holds, are less sensitive to interest rates, have a better yield, and have benefited from the improving economic outlook, and returned a better 7.4%.

Given this backdrop, let's look at what has been happening in your Fund.

The Dyfed Pension Fund has further strengthened its funding position during the 2020/21 year. It produced an overall return of 28.3% during the year, so even when combined with the market weakness at the end of last year, means that it has returned 9.1% p.a. over the 2 years since our March 2019 actuarial valuation. This is 1% ahead of its composite benchmark index, and well ahead of the 4.1% p.a. required by the valuation, meaning 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 2021. This strong performance has been echoed over the long term, with your Fund returning 10.5% p.a. over the last 5 years, putting it well ahead of the median LGPS Fund (y% p.a.), and, indeed ranking it in the top quartile. This strong performance was largely driven by the Fund's significant allocation to equities, which I discussed last year, and which has been reconfirmed by the Strategic Asset Allocation review, which your committee agreed in June 2020.

Your committee has also made significant progress on 2 more important fronts Growing importance of the Welsh Pool (WPP). The WPP is a collaboration between all 8 administering authorities in Wales and is a critical part in our efforts to reduce costs from asset management and reporting, to access illiquid asset classes [and to increase our influence in engaging to further our responsible investment goals]. During the year, we have increased the proportion of our total assets invested via the Pool from 23% to 40%, through the transition in Q3 of the corporate bond portfolio into the Pool, and through the transition of 5% of overall assets from regional passive portfolios into the WPP's global growth fund, which has outperformed the global equity market benchmark by 4.4% over the 2 years since its inception. The WPP also continues to work on developing a global infrastructure strategy, into which the Committee intends to invest 5% of assets. This is expected to launch in the current year.

A further step to control climate risk in the Fund. Managing exposure to climate risk in your portfolio is not only aligned with our objectives as a society, but also makes good investment sense. Through its allocation to actively managed equities primarily, the Fund's equity holdings (representing c. 70% of Fund assets attend March) already had a lower Carbon intensity than the MSCI market index, and it had already made some investment in renewable energy assets through the BlackRock SAIF fund. During the year, your committee reviewed a number of options, and agreed to invest 10% of Fund assets into a low-Carbon index fund, managed by BlackRock, which offers a Carbon intensity 78% lower than the

market index and very low cost. It is also working with the WPP to reduce the carbon intensity of their equity portfolio. Together, these changes are expected to reduce the carbon intensity of the Fund's equity holdings by a further 13%, meaning their average Carbon intensity will be some 24% less than the MSCI market index. The Fund has also continued to increase its investment in renewable energy via the BlackRock SAIF strategy, and it is anticipated that the WPP Infrastructure Fund will bring an additional exposure to renewables. Finally, your committee is investing significant time in agreeing a roadmap toward reducing climate risk in the Fund – which will include updating governance, measuring progress and ensuring effective engagement with investee companies, in addition to any changes in investment strategy – as part of its preparation for the Task Force for Climate-related Financial Disclosure (TCFD) reporting obligations which come into effect from [October 2022].

In conclusion, the Dyfed Pension Fund has improved on its already 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 Ministry for Housing, Communities and Local Government (MHCLG). Under the provisions of the Local Government Pension Scheme (Local Government Reorganisation in Wales) Regulation 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 0.5% from 12th April 2021 and represents the increase in the consumer price index for the 12-month period to the 30 September 2020. 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 2021/22 are as follows:

30 April 2021	28 May 2021	30 June 2021
30 July 2021	31 August 2021	30 September 2021
29 October 2021	30 November 2021	24 December 2021
31 January 2022	28 February 2022	31 March 2022

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 2021 are as follows:

Contribution table 2021/22			
Band	Actual pensionable pay for an employment	Contribution rate for that employment	
		Main section	50/50 section
1	Up to £14,600	5.50%	2.75%
2	£14,601 to £22,900	5.80%	2.90%
3	£22,901 to £37,200	6.50%	3.25%
4	£37,201 to £47,100	6.80%	3.40%
5	£47,101 to £65,900	8.50%	4.25%
6	£65,901 to £93,400	9.90%	4.95%
7	£93,401 to £110,000	10.50%	5.25%
8	£110,001 to £165,000	11.40%	5.70%
9	£165,001 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 will remain at £1,073,100. 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 2021

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 remains 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 2021) 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	25	15	40
Admitted	31	24	55
Total	56	39	95

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

	31/03/2019	31/03/2020	31/03/2021
Active	18,446	18,564	18,700
Deferred	15,736	15,900	15,881
Pensioner	13,256	14,059	14,626
Undecided Leaver	2,073	2,259	2,293
	49,511	50,782	51,500

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

01/04/2020 - 31/03/2021	Total Completed	Benchmark	Performance
New Starters	3,463	95.00%	99.57%
Transfers into the Fund	240	95.00%	95.19%
Retirement Quotes	494	95.00%	98.58%
Payment of Retirement Benefits for New Pensioners	863	95.00%	95.63%

Analysis of leavers during 2020-21

Category	2020-2021
Refund of contributions	295
Transfers to other scheme	0
Death in Service	15
Ill health Retirements	68
Early / Normal Retirement	536
Redundancy Efficiency Retirements	32
Flexible Retirements	12
Late Retirements	90
Opt outs	106
Preserved Benefits	531
Other leavers*	1,569
Number of deferred members re-entering the scheme	130
Total	3,384

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

Completed and Outstanding LGPS Cases	2020-2021
Number of Completed cases	18,468
Number of Outstanding cases	1,340

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 2020.

The data quality review undertaken in December 2020 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 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
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 32 permanent FTE staff to administer the above pension schemes. During the year to 31st March 2021, the following staff turnover occurred; 4 staff left the team and 4 staff joined the team.

The permanent members of staff dedicated to the LGPS is 22.2 FTE. As at 31st March 2021, there were 51,500 LGPS members of the Dyfed Pension Fund which equates to 2,320

scheme members per pensions administration team member. The average number of cases completed per team member during the year was 832.

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:

- 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 which staff have to continually ensure are applied appropriately in each individual case.

It has been a challenging year for everybody during the pandemic. I would like to take the opportunity to record my sincere thanks to all staff involved in Scheme Administration and I'm pleased to report that the team have risen to the challenge and ensured that telephone calls were diverted to softphones, correspondence continued to be issued, and new, along

with existing pensioners, continued to be paid each month. This was in addition to embracing further regulatory changes during the year.

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

Now that John Livesey has passed on the reins so that he can enjoy his long and happy retirement, it is a pleasure to be writing my first update as your Fund actuary.

John wrote his last submission last year in the midst of the opening stages of the pandemic when there was a great deal of fear and uncertainty. This fear and uncertainty was reflected in financial markets. At the time of writing last year, he estimated that the valuation funding level of 105% had fallen to around the 90% level. Shortly after, the funding position fell further still, but the good news is that throughout the final three quarters of 2020 and the first quarter of 2021 the funding level has seen a steady and sustained improvement to a healthy position.

I think it's fair to say that very few people would have predicted such an asset bounce at the start of the COVID-19 pandemic in the UK and the unprecedented days of national lockdown. The sustained recovery of assets values is testament to the UK's world leading vaccine roll-out programme which has undoubtedly buoyed confidence in asset markets and funding levels. Whilst we can measure the market value of most asset prices daily, what is less clear at this stage is what the longer-term economic impact of COVID-19 means in terms of future economic activity and future asset returns.

Although markets appear to have bounced back, we shouldn't forget the impact that the pandemic will have had on everyone and their families either directly through the virus itself, or indirectly through missed diagnoses, financial hardship or strains on mental health. Some effects of these may be observed immediately through increased death rates but the impact on longer term life expectancy will take time to feed through. Behind each statistic is a life and family and that should not be forgotten.

In our interim review later this year we will be working with officers to explore the possible longer-term impacts of COVID-19 on future investment returns and life expectancy so that these can be factored in to the 31 March 2022 actuarial valuation.

The pandemic has shown that risk of funding long-term pension liabilities are multifaceted. Whilst pandemic risk is the most prominent at the moment, increasingly the risk associated with climate change is moving up the agenda, notably with the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. Climate change has the potential to be a huge financial risk to any long-term investor, including pension schemes.

Actuaries, investment managers and administering authorities have a responsibility to consider climate change and address long term risks that it presents and increasingly we are likely to see the need to consider/disclose exposure to climate related risks. The Dyfed Pension Fund have of course taken steps already to reduce its exposure to fossil fuels in its strategy, and as part of the 2022 valuation, we will model some plausible climate change “shock” scenarios when considering funding levels and contribution requirements. I look forward to updating you again next year on the initial outcomes of the 2022 actuarial valuation.

Clive Lewis

Actuary, Mercer

Section 5 - Governance

Pension Board Annual Report

This report sets out the work carried out by the Dyfed Pension Board 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.

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 LGPS by the Council. 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 Elwyn Williams as Pension Committee Chair is also invited to attend each Pension Board meeting.

The year was notable for the impact of the Covid pandemic and the disruption this had on the life of everyone in the country. As a consequence, the Board met on just 2 occasions during 2020-21 in November 2020 and February 2021. The meeting scheduled to be held in June/July 2020 had to be cancelled because of the Covid19 outbreak. This meant that the Council as Scheme Manager had to respond quickly to maintain service delivery and overall management of the Fund. Inevitably some of the Board's planned work schedule had to be deferred. In line with the arrangements put in place by Carmarthenshire County Council, these two 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 Pension 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. For example, this included regular monitoring of the risk register; monitoring and review of the performance of the pensions administration service; and a review of the annual accounts. In this way the Board continues to discharge its oversight and scrutiny role.

There have been full agendas for each meeting and the issues discussed during the year included:

- The development of an annual work plan for the Board.
- Briefings and discussion on the performance of the pension administration service. Improving data quality is an area of focus for the Pensions Regulator
- Briefings by the Independent Advisor to the Fund and discussion on the Investment performance on the Fund
- Review and discussion of the decisions of the Pension Committee
- Consideration of developments affecting the LGPS including progress with the Wales Pension Partnership
- Audit and risk management issues affecting the Fund

There were no changes in membership of the Board during the year and the Board has its full complement of members. Despite the disruption caused by the Covid pandemic both virtual meetings were very well attended at 93%, representing an improvement in attendance compared with 64% in the previous year. Detailed attendance of Board Members is set out in the Appendix to this report.

At the end of March 2021, the Dyfed Pension Fund had total assets of £3 billion and a membership of 51,500 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. A structured programme of training and development is essential for individual members and the Board collectively to discharge its 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. In particular the Wales Pension Partnership has been running quarterly online training sessions for all Committee and Board Members across the 8 Welsh funds. 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 the Fund's investment managers and sessions arranged through the Wales Pension Partnership.
- Three seminars and updates on current issues affecting the LGPS.
- A specific training event on the issues involved in investing in China.

Regular training sessions will continue to be arranged and incorporated as part of Board meetings. During the year we received training sessions that covered equity restructuring and investing in low carbon products. Training 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 is likely to continue during 2021/22.

The LGPS nationally continues to go through major change as across England and Wales eight asset pools have been set up to manage the investment of local authority pension funds. The rationale behind pooling is to reduce costs and provide the scale to access illiquid asset classes to help diversification and improve investment returns.

Together with pension board chairs from the other Welsh Funds, I represented the Board at the regular briefings on progress in the management of the Wales Pension Partnership with presentations from the host authority (Carmarthenshire County Council) and their partners Link and Russell Investments. These meetings are held every 6 months and provide an opportunity for Pension Board Chairs to ask questions and scrutinise progress on the activity of the pool. This new forum helps build good working relationships between Boards and the Pool and strengthens the overall governance of the Welsh pension funds.

Assets are now being moved into the Wales Pension Partnership, and the Pension Board have been updated on developments at each meeting. However, following the outbreak of the Covid virus, progress has been delayed during the year. Going forward 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 2020-21

John Jones - Independent Chair

Cllr Gareth Lloyd - Employer Member Representative

Mike Rogers - Pensioner Member Representative

Paul Ashley-Jones - Employer Member Representative

Gwyn Jones - Active Member Pensioner Representative

Cllr Philip Hughes - Employer Representative

Tommy Bowler - Trade Union Representative

Board Member Attendance 2020-21

	14 July 2020	20 November 2020	17 February 2021
John Jones	N/A	✓	✓
Mike Rogers	N/A	✓	x
Cllr. Philip Hughes	N/A	✓	✓
Gwyn Jones	N/A	✓	✓
Tommy Bowler	N/A	✓	✓
Cllr. Gareth Lloyd	N/A	✓	✓
Paul Ashley-Jones	N/A	✓	✓

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 Ministry of Housing, Communities and Local Government (MHCLG) 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

MHCLG 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 MHCLG, and where an authority has chosen not to comply, to state the reasons why. The Dyfed Pension Fund's Governance Compliance Statement is attached at Annex I.

This Governance Policy will be updated when necessary and reviewed at least annually. The last review was in 2021.

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) is 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 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.

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 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

Dated: 12 October 2021

Director of Corporate Services

Audit Committee Approval

Approval of Dyfed Pension Fund Statement of Accounts post audit

Chair of Audit Committee

Dated: 12 October 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			87,250
	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		(6,128)
(11,864) *	Management Expenses	8	(15,186)
(17,957)	Net Additions (Withdrawals) including fund management expenses		(21,314)
	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		665,076
2,575,686	Opening Net Assets of Scheme		2,384,473
2,384,473	Closing Net Assets of Scheme		3,049,549

*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/>			<hr/>
2,377,619		11.1	3,041,244
10,386	Current assets	15	12,723
(3,532)	Current liabilities	16	(4,418)
<hr/>			<hr/>
6,854	Net Current Assets/(Liabilities)		8,305
<hr/>			<hr/>
<u>2,384,473</u>	Total Net Assets		<u>3,049,549</u>

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	10,822
(187,169)	Profit and losses on disposal of investments and changes in the market value of investments	654,254
<hr/>		<hr/>
<u>2,384,473</u>	Closing Net Assets of Fund	<u>3,049,549</u>

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	14,626
15,900	Number of deferred pensioners	15,881
2,259	Number of undecided leavers	2,293
<u>50,782</u> *	Total membership	<u>51,500</u>
46	Number of employers with active members	47

*Restated to include undecided leavers

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.

4.1 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	(3,443)
<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	8,958	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	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 *	
424,727	UK Equities	518,289
545,586	Global Equities	962,408
269,631	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
2,045,678		2,691,278
	Other Investments **	
319,669	Pooled Property Investments	338,043
319,669		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
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	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	1,664,040	(1,176,310)	(10,499)	(349)	186,743	3,041,244

	Fair value 31/03/2019 £'000	Purchases £'000	Sales £'000	Fees included in NAV £'000	Cash movement £'000	Change in unrealised gains/(losses) £'000	Fair value 31/03/2020 £'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
<u>545</u>	Pooled property investments	<u>2,022</u>
<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	1,122,806
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
<u>0</u>	EMEA (Europe, Middle East & Africa)	<u>77,086</u>
<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</u>	<u>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</u>	<u>1,820,157</u>
<u>2,377,619</u>	<u>100.0</u>		<u>100.0</u>	<u>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
<u>2,799</u>		<u>3,444</u>

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	Proportion of Investment Portfolio
	£'000	%
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
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)	3,049,549

*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)	Fair value through profit and loss	654,254
(187,169)	Total Financial assets	654,254
0	Total Financial liabilities	0
(187,169)	Total	654,254

13.3 Fair value of financial instruments and liabilities

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	3,049,549

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	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	29,686	2,606,964	412,899	3,049,549

	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	2,365,404
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			Unrealised Gains /	Realised Gains /	Market Value
	01 April 2020	Purchases	Sales	(Losses)	(Losses)	31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'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 31 March 2021		Value on Increase	Value on Decrease
	£'000	Change %	£'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	2,660,433

Asset Type	Value as at 31 March 2020		Value on Increase	Value on Decrease
	£'000	Change %	£'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		£'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
397,326	Total	340,025

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% £'000	-1% £'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)

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

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	1,878,163
25,578	Overseas pooled property investments	40,276
66	Cash	0
1,169,125	Total overseas assets	1,918,439

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%	-6.80%
	£'000	£'000	£'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)

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

16.1 Analysis of Current liabilities

31/03/20 £'000		31/03/21 £'000
(689)	HMRC	(680)
(35)	Local authorities	0
(606)	Public corporations and trading funds	(367)
<u>(2,202)</u>	Other entities and individuals	<u>(3,371)</u>
<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 at 31/03/20 £ '000	Contributions £ '000	Expenditure £ '000	Change in Market Value £ '000	Value as at 31/03/21 £ '000
	Restated				
Prudential**	6,276	0	0	0	6,276
UTMOST*	497	7	(105)	32	431
Standard Life	2,797	340	(382)	252	3,007
Total	<u>9,570</u>	<u>347</u>	<u>(487)</u>	<u>284</u>	<u>9,714</u>

* 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 11 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
3	Post-employment benefits	4
<u>17</u>		<u>19</u>

20 Employing bodies contribution rates, contributions receivable and benefits payable

Contri- bution rate %	2019-20				Contri- bution rate %	2020-21		
	Deficit/ (Surplus) £'000	Contri- butions £'000	Benefits payable £'000			Deficit/ (Surplus) £'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 Commissioner				
13.5	93	4,875	3,100	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	69	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	619	633

Contri- bution rate %	2019-20				2020-21			
	Deficit/ (Surplus)	Contri- bution £'000	Contri- butions £'000		Benefits payable £'000	Contri- bution £'000	Contri- butions £'000	Benefits payable £'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			194	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

Contri- bution rate %	2019-20			Benefits payable £'000		2020-21		
	Deficit/ (Surplus)		Contri- butions £'000			Contri- bution £'000	Contri- butions £'000	Benefits payable £'000
	Contri- bution £'000	Contri- butions £'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)	90,616	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.

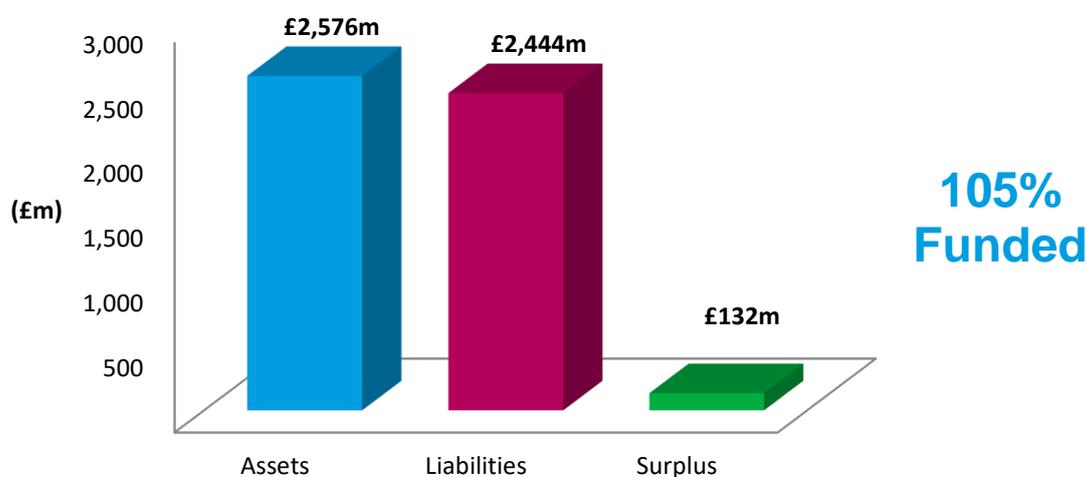
	Proportion to be recharged %
DVLA	100
Milford Haven Town Council	100
National Health Service	100
Carmarthen Family Centre	100
Dwr Cymru Welsh Water	50

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 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

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 2021 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 2020-21.

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2021 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 2020-21.

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 twelve 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 and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon. 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 financial statements, set out on pages 65 and 66, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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:
 - 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 non-compliance 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; and

- 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 Audit Committee and legal advisors about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the administering authority; 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 the 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

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Section 7 - Funding Strategy Statement

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)
- 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.

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.

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. This version of the FSS is being consulted on from December 2019 and the final Statement will be formally approved prior to 31 March 2020 in accordance with Council delegations.

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 admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

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 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.
- Investing over the long term provides opportunities to improve returns.
- Diversification across 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 avoid taking more risk than is necessary to achieve the Fund’s objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term.

- 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 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 Pension 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 Pension 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 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 that 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 Pension 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 Pension 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 Pension Fund 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 category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- **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.

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.

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. To date, no significant transitions have taken place within the Fund but if they were undertaken in future the Committee would take professional advice and consider the appointment of specialist transition managers.
- **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.

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. 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 contains 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 has entered the Wales Pension Partnership (WPP) 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 will lead to improved governance, transparency and reporting giving the Pension Fund assurance that its investment strategy is being implemented effectively.

Following a meeting with DCLG in late 2016, the WPP has formally been given permission to implement its proposals.

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.

At the time of preparing this statement the Fund has already 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.

The Fund intends to invest the majority of its remaining assets into the WPP but will maintain some cash balances at the fund. Investment strategy will be retained by the Fund with advice from the fund manager/operator and any other relevant professional advisors.

Asset class	Manager	% of Fund assets	Benchmark and performance objective
Passive Equity	BlackRock	25-30	FTSE All-Share and FTSE All-World Indices Benchmark Return

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 administering 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 fund representatives on the JGC report back to their respective individual funds' Pensions committees who are responsible for satisfying themselves as to the effectiveness of the pooling arrangements overall and the operation of the JGC.

The local Pensions Board seeks reassurance on aspects of the management of the Fund's investments and external scrutiny and formal due diligence of the operator and depositary will also be 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 will be 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 proposed structure, the depositary will hold legal title to the assets of the WPP. The operator is responsible for managing and operating the WPP, including entering into the legal contracts with the investment managers.

The operator will provide and operate 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 administration in relation to 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.

The WPP will also procure independent external legal and tax advice as necessary to support them in their relationship with the operator.

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

The Dyfed Pension 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 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.
2. We will seek sustainable returns from well-governed assets.
3. We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and 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 as part of their overall ESG duties. The Fund's managers report on this matter as part of the Fund's annual ESG review.

At the present time the Pension Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. They understand 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.

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

Voting rights

The Pension 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 Pension 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, Mercer.

	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	

Myners 6 Principles and Compliance Checklist

1 Effective Decision-Making

Define who takes investment decisions.	Included in the Investment Strategy Statement (ISS).
Consider whether members have sufficient skills.	Training - LGC members seminar, LAPFF and NAPF conferences, investment manager training days, Employer Organisation training days. Training plan in place.
Determine whether appropriate training is being provided.	Training - LGC members seminar, LAPFF and NAPF conferences, investment manager training days, Employer Organisation training days. Training plan in place.
Assess whether in-house staffing support is sufficient.	Suitably qualified and trained staff. Training plan in place.
Establish an investment committee with suitable terms of reference.	Pension Committee established with terms of reference agreed.
Draw up a business plan.	A business plan has been published. An Actuarial Valuation Report, Investment Strategy Review, Funding Strategy Statement and ISS are updated and produced every three years.
Priority is given to strategic asset allocation decisions	Asset / liability study undertaken to determine asset allocation after full discussions.
All asset classes permitted within the regulations have been considered.	Property has been considered and managers appointed. Other alternative asset classes will be considered in the future.
Asset allocation is compatible with liabilities and diversification requirement.	Asset / liability study undertaken to determine asset allocation after full discussions.
Separate contracts in place for actuarial services and investment advice.	Separate contracts currently in place.
Terms of reference specified.	Clear specifications issued.
Specify role of S151 officer in relation to advisers.	Section 151 officer role clear in constitution.
Tender procedures followed without cost constraint factor.	Tendering taken place this year.
Overall Principle 1	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 tax-payers, 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.

Regular monitoring/review undertaken by Committee and officers of managers and the Independent Adviser

Overall Principle 4

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. Included in the Annual Report.

In Place. Consultation each year.

In Place. Included in the Annual Report.

In Place. Included in the Annual Report.

In Place. Included in ISS and reports given at prescribed intervals.

In Place. Included in ISS.

Fully compliant

Section 9 - 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. This meeting is currently held online because of COVID-19 restrictions.

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 Ministry of Housing, Communities & Local Government (MHCLG) 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 10 - 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.

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