Dyfed Pension Fund

www.dyfedpensionfund.org.uk

Annual Report & Accounts 2012-2013

Cronfa Bensiwn DYFED Pension Fund

'Benefiting from Global Opportunities'

LGC Investment Awards 2012 WINNER

In association with AVIVA INVESTORS

Administered by:

Cyngor Sir Gâr Carmarthenshire County Council

Contents

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Chairman's Foreword

It is with particular pleasure that I present this year's Annual Report and Accounts. This is because we were successful in winning two categories at the Local Government Chronicle (LGC) awards ceremony in December 2012.

The Quality of Service Award incorporates the high quality of services and the many benefits that are delivered to our members and employing bodies. The Fund of the Year Award (above £750m) includes a combination of the Fund's annual report, the degree to which the Fund has met all its objectives and any innovations that have been introduced during the year which have improved service delivery.

These accolades are well deserved (even though I may be slightly biased!) and my thanks go to all concerned, all of whom make contributions to this annual report each year. This year's theme of 'Benefiting from Global Opportunities' is linked to the panel's decisions in October 2012 to approve a strategy to invest in Global Equities and to increase the Fund's Emerging Markets exposure. These decisions will improve the overall efficiency of the equity portfolio. More detail on these decisions will be provided within further articles in this annual report.

The pensions administration team has again been very busy during the year implementing legislative changes and responding to numerous consultation documents on the LGPS 2014 scheme. The team has also undertaken further employer and scheme member presentations on the very successful 'My Pension On-line' internet based application.

The administration and investments teams have supplied information to our actuary for the 2013 triennial valuation exercise. Even though equity and bond returns have been positive over the three year inter-valuation period, therefore increasing scheme assets, the value of liabilities has increased significantly as a result of falling bond yields. Consequently, I expect the solvency level to be lower than the 91% of three years ago. Panel members, officers and the actuary will work closely again this time around to ensure that any increase in employer contribution rates are kept to a minimum.

Over the last twelve months the average Local Government Pension Scheme (LGPS) fund returned 14%, driven mainly by strong equity returns. Both the UK FTSE All-Share index and the overseas FTSE World index (ex UK) returned 17% for the year.

Bond performance was however lower with corporate bonds returning 13% but outperforming government issues (the broad gilt index returned 5%) and index linked bonds returning 10%.

Our Fund returned 14.4%, outperforming the average return above, but because of below benchmark returns in many of the regional equity mandates, which were partially offset by outperformance in the bonds and property mandates, it was 0.5% behind the benchmark for the year. However over the longer 30 year horizon the Fund has posted an annualised return of 10.6% p.a., 0.2% p.a. ahead of benchmark, 0.5% p.a. ahead of other funds and almost 7% p.a. ahead of inflation. The market value of the Fund rose by £200m (14%) during the twelve month period, reaching the £1.6bn mark for the first time.

We continue to work in partnership with our client directors at BlackRock (Mr Alex Carpenter), Schroders (Mr Graeme Rutter) and Partners Group (Mr Robert Lamb) to ensure that the Fund continues to perform well and achieve its investment objectives.
I would again this year like to thank my ever present fellow panel members, Councillor Siân Thomas (who juggled her panel time with her Chairmanship of Carmarthenshire County Council!), Councillor Terry Davies and the substitute member Councillor Philip Hughes.

With the above transformations to the Fund and the introduction of the LGPS 2014 scheme upon us we will continue to embrace change enthusiastically and effectively and ensure that our high standards of service delivery to all our stakeholders are further developed. I'm sure you will find this Annual Report and Accounts useful, informative and a source of reassurance that the Fund is well managed.

Councillor Wyn Evans, Chairman of the Dyfed Pension Panel, and Mathew James, Communications Officer, receive the award for Fund of the Year (above £750m)

Introduction

The focus of this year's theme is global opportunities. As the Chairman mentioned in his foreword, the Panel have approved a strategy to invest in Global Equities and to increase the Fund's Emerging Markets exposure. All significant decisions made by the Panel, with the support of the officers and Independent Investment Adviser to the Fund, are made following detailed discussions, analyses, knowledge gathering and training.

This particular decision was the culmination of over twelve months of training sessions from our current investment managers who run global equity mandates for other LGPS funds, reports from our Independent Adviser and analyses from officers. The increase in Emerging Market Equities exposure from 3% to 8% was completed in December 2012 and was funded from half of the European Equities portfolio.

The value of the Global Equity mandate will be approximately £300m and equates to 19% of the Fund. It will be funded from the active UK Equities and the remaining European Equities portfolios. A contract for one or more global equity managers has been advertised on the Official Journal of the European Union website and we expect appointment(s) to be made in late 2013.

The revised equity allocations are shown below:

	Current Benchmark (%)	Revised Benchmark (%)	Variance (%)
UK	39.0	25.0	-14.0
Europe	10.0	0.0	-10.0
Emerging Markets	3.3	8.3	+5.0
Global Equities	0.0	19.0	+19.0

Further information on the Fund's investments can be found later on within this report.

There is clear evidence to support the fact that active strategies are more effective in the context of a global equity mandate where managers are not constrained to holding relatively fixed allocations to particular regions and sectors within regions. In addition, active UK equity strategies are constrained by a number of factors so that allocating away from UK Equities to Global Equities can improve overall portfolio efficiency.

On 21 December 2012, the Department of Communities & Local Government (DCLG) published its long awaited statutory consultation on draft Local Government Pension Scheme Regulations for the new scheme in England & Wales. This first set of draft Regulations covered membership, contributions and benefits and related administration issues and is due to come into force on 1 April 2014. In March 2013 the DCLG commenced a second period of statutory consultation on the new LGPS scheme and also on draft transitional provisions regulations including miscellaneous amendments to the current 2008 Scheme.

These consultations were responded to within the set timelines and can be found on the home page of the Fund's website under 'New LGPS 2014'.

It is going to be a busy and anxious few months for our administration team to ensure we have the software in place and the data available in time for 1 April 2014 but I can rely on them to 'come up with the goods' once again!

The triennial valuation is upon us once again... is it really three years since the last one? We all expect the funding level to be lower than three years ago, for the reasons the Chairman has outlined, and therefore along with colleagues from the other two larger employer organisations I have met with the actuary to discuss ways of mitigating increases in employer contributions. I am fully aware of the pressures on our budgets now and in the future and expect an interesting dialogue between all parties when the results are analysed during the Autumn.

During the year, officers from the eight pension funds in Wales have been working on a project to examine the opportunities for improvement through collaboration. In March 2013 an interim report entitled 'Welsh Local Government Pension Funds – Working Together' was published. The purpose of the work was to determine the optimal number of LGPS funds in Wales and the most appropriate organisational structure.

The key recommendations and areas that could be further developed are:

- Enhanced collaboration was seen as the area where medium term savings can be optimised. This is the option where the balance of service delivery and efficiency, cost of change, time and resource can be blended in the most effective way and should be pursued further.
- Create a Full Business Case for a common investment approach to encompass the common attributes that benefit larger funds with the aim of implementation thereafter.
- Create an appropriate and responsive governance structure to drive and manage future collaboration initiatives within Wales which will:
    - explore the potential in the longer term for consistent valuation and funding assumptions and standards.
    - develop minimum administrative service standards for Wales and an agreed measurement framework.
    - take advantage of joint procurement initiatives to help consistency and efficiencies.

A consultation with stakeholders was undertaken and the results will be used to inform the decision on the way forward.

Finally, may I echo the Chairman's delight in winning the recent LGC awards on behalf of the Fund.

In achieving the awards, Councillor Wyn Evans has already thanked our investment managers and his fellow members but I would also like to thank the administration and investment teams for their continued high standard of service delivery.

A special thank you should also go to Mr Eric Lambert who has been the Fund's Independent Adviser since 2004. As well as attending the usual quarterly panel meetings, he has travelled regularly from his Scottish home to London and Carmarthenshire to assist us in our deliberations over the global equity review. His exceptional knowledge and understanding of the pensions environment has supported the officers and Panel in making informed decisions and has contributed greatly to winning the awards.

Mr Roger Jones
BSc Econ (Hons), CPFA
Director of Resources

Fund Investments

Investment Regulations

Investment Limits

The Dyfed Pension Fund is a funded scheme which means that the contributions and fund monies not currently needed to meet pension and benefit payments are invested, with the Fund receiving income from these investments. The Fund's objective is to meet the future pension payments of both past and current members.

The LGPS Regulations provide a framework for the investment strategy.

A wide range of investments are permitted but certain limits are set to ensure diversification and risk reduction.

The limits relevant to the Fund are:

All contributions to any single partnership	5%
All contributions to partnerships	15%
All loans made from the Fund	10%
All investments in unlisted securities of companies	15%
Any single holding	10%
All deposits with any single bank, institution or person	10%
All investments in Unit Trusts managed by any one body	35%
Any single insurance contract	35%

Statement of Investment Principles (SIP)

The SIP sets out the investment principles of the Fund and how the investments are managed in line with the principles. Key elements include social, environmental and ethical considerations, exercise of voting rights, stock lending policy, and compliance with the Myners principles.

The full SIP can be found in the Appendix to this report.

Investment Strategy

Strategic Asset Allocation

The objective of the Investment Strategy is to achieve the investment return required by the funding strategy in order to meet the Fund's liabilities over time and to recover any funding deficit. The Strategy must produce investment returns that will help stabilise and minimise employer contribution rates in the long term as well as reflecting the balance between maximising returns, protecting asset values, and matching the liabilities (to minimise investment risk).

The Strategy reflects the Fund's appetite for risk and its willingness to accept short term volatility within a long term strategy. The Fund pursues a policy of managing risk through diversification by asset class and by investment managers. The Dyfed Pension Fund Panel has completed a review of the European and Emerging Markets portfolios. Consequently the revised strategic asset allocation as at 31 March 2013 is shown on the following page:

	Previous Benchmark (%)	Range (%)	Revised Benchmark (%)	Range (%)
UK Equities	39.0	37.5 - 40.5	39.0	37.5 - 40.5
Overseas Equities	30.0	28.5 - 31.5	30.0	28.5 - 31.5
North America	*10.00*	*5.00 - 15.00*	*10.00*	*5.00 - 15.00*
Europe (excl. UK)	*10.00*	*5.00 - 15.00*	*5.00*	*0.00 - 10.00*
Japan	*3.50*	*0.00 - 8.50*	*3.50*	*0.00 - 8.50*
Developed Pacific (excl. Japan)	*3.25*	*0.00 - 8.25*	*3.25*	*0.00 - 8.25*
Emerging Markets	*3.25*	*0.00 - 8.25*	*8.25*	*3.25 - 13.25*
Pan European Property	10.0		10.0	
Bonds	20.0	18.5 - 21.5	20.0	18.5 - 21.5
Index Linked Gilts	*10.00*	*5.00 - 15.00*	*10.00*	*5.00 - 15.00*
UK Corporate Bonds	*10.00*	*5.00 - 15.00*	*10.00*	*5.00 - 15.00*
Cash (including GAL)	1.0	0.0 - 10.0	1.0	0.0 - 10.0
Total	100.0		100.0	

The Fund's Investment Strategy is implemented by external investment managers. The investment management structure and the amount of assets each manager managed on behalf of the Fund as at 31 March 2013 is set out below and is also included in the Statement of Accounts.

Manager	Mandate	£m
BlackRock	UK Equities, Overseas Equities, Bonds and Cash	1,487
Schroders	Pan European Property	93
Partners Group	Pan European Property	21
Total		1,601

Investment Performance

The value of the Fund rose by £200m (or 14%) to £1.6bn at 31 March 2013. The performance figures that drove this increase can be found in the table below:

Investment Category	Return (%)
UK Equities	16.7
Overseas Equities	16.3
UK Gov't Bonds	5.2
UK Corporate Bonds	13.1
UK Index Linked	11.6
Other Investments	-2.9
Property	2.9
Total Return	14.4

Oil and Gas companies account for 9% of the MSCI All Country World index.

Value of Assets

The graph below illustrates the increase in the value of the Fund's investments over the last 10 years. It has increased from £761m in 2003-04 to £1,601m in 2012-13.

BlackRock

The active UK, US and Japanese equity strategies underperformed their indices during the period, while the active European equity and UK corporate bond strategies outperformed.

	Fund Return (%)	Index (%)	LA Universe (WM) (%)	Ranking (out of 100)
UK Equities	16.7	16.8	17.1	82
North American Equities	18.8	19.3	18.7	66
Japanese Equities	13.3	14.3	15.9	72
European Equities	18	17.4	20.9	69
Pacific Rim Equities	19.8	19.7	19.3	46
Emerging Market Equities	7.0	7.7	12	78
UK Government Bonds	5.2	5.2	6.3	25
UK Corporate Bonds	13.1	12.0	12.5	25
UK Index Linked Gilts	11.6	11.7	11.2	55
Global Ascent (Sterling)	-2.9	0.7	0.4	97
Overall Relative Performance		0.0	-0.6	

Further information can be found in the BlackRock report.

Top ten equity holdings by market value 31 March 2013

HSBC
The world's local bank
£43m

vodafone
£32m

bp
£29m

A share holdings
£26m

gsk GlaxoSmithKline
£26m

British American Tobacco
£24m

DIAGEO
£19m

B share holdings
£19m

RioTinto
£14m

BARCLAYS
£14m

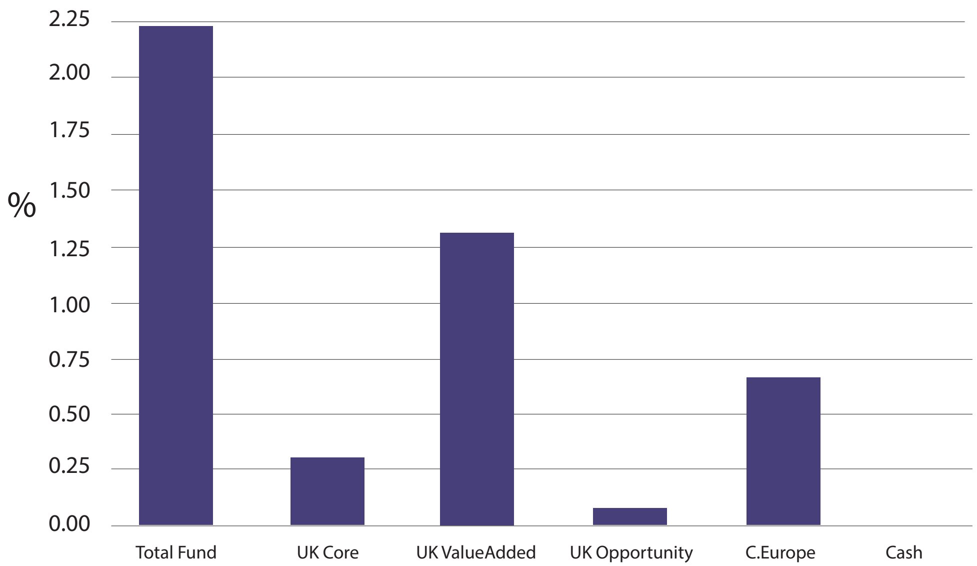
Schroders (Pan European Property)

Performance has been above benchmark with outperformance from both the UK and continental European investments.

UK returns have been driven by an overweight position to the London office sector and income-focussed investments.

Continental European investments have delivered strong returns boosted through currency movements.

The graph below shows the **total return attribution relative to benchmark** for the year ended 31 March 2013:



Schroders achieved a net return of 2.5% compared to the AREF / IPD UK Quarterly Property Fund Index Weighted Average return of 0.3%

Further information can be found in the Schroders report.

Partners Group (Pan European Property)

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. 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 table below illustrates the cash flows as at 31 March 2013:

Portfolio Investments	
Committed	£26.5m
Commitment level	88.39%
Commitment level - directs	22.91%
Commitment level - secondaries	26.72%
Commitment level - primaries	38.76%
Invested	£17.9m
Investment level	67.49%
Partners Group Red Dragon, L.P.	
Commitments	£30.0m
Contributions	£20.6m
Contributions (in % of commitments)	68.35%
Unfunded Commitments	£9.4m
Distributions	£1.5m
Net asset value	£20.6m

As at 31 March 2013, the valuation of the property portfolio is above the original cost of investment.

Further information can be found in the Partners Group report.

The property portfolio was in the 28th percentile in the LA Universe (20th out of 74 LGPS funds that invest in property)

The Dyfed Pension Fund Panel, Officers, Advisers, Managers and Consultants

The Fund's Governance Policy sets out the roles and responsibilities of the Panel.

During 2012-2013 the Panel members were:

Councillor Wyn Evans
Chairman of the Panel

Councillor Terry Davies (MBE)
Panel Member

Councillor Siân Thomas (M.A., M.Ed)
Panel Member

Councillor Philip Hughes
Substitute Panel Member

Panel meetings 2012 - 13	19/06/12	20/09/12	21/09/12	08/10/12	21/11/12	22/11/12	22/02/13	27/02/13	28/02/13
BlackRock	✔	✔				✔		✔	
Schroders			✔		✔				
Partners Group			✔						✔
Annual Consultative Meeting		✔							
Other Panel Meetings				✔			✔		

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

Mr Roger Jones, BSc (Hons) Econ, CPFA
Director of Resources

Mr Chris Moore, FCCA
Head of Financial Services

Mr Anthony Parnell, FCCA
Treasury and Pension Investments Manager

Mr Kevin Gerard, MIPPM
Pensions Manager

The Dyfed Pension Fund Panel 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 Panel and officers attended various training courses, seminars and conferences on administration and investment matters. These were provided by the fund managers, consultants, officers, national and local government associations.

The **Independent Investment Adviser** to the Fund is:

Mr Eric Lambert

Mr Lambert advises Panel on all aspects of investment management at quarterly meetings and ad hoc meetings as necessary.

Other managers and consultants who contribute to the Fund are:

BlackRock, Schroders, Partners Group
Investment Managers

WM Performance Services
Performance Measurement Company

Northern Trust
Custodian

Eversheds
Legal Advisers

Mercer
Actuary

Wales Audit Office
External Auditor

The Pension Panel

The Fund is a member of the National Association of Pension Funds (NAPF) and the Local Authority Pension Fund Forum (LAPFF).

National Association of Pension Funds (NAPF)

NAPF exists to promote an environment where people can save for retirement through the workplace with confidence, surveys consistently show that the workplace is the most preferred when it comes to saving for retirement.

NAPF provides Panel members and Officers with an unparalleled insight into the latest developments in the pensions industry. It has close and effective working relationships with Ministers, MPs, officials and regulators and is recognised as the main representative body for workplace pensions.

During 2012-13, NAPF gave evidence to the Public Service Pensions Bill pointing out areas where the Bill would not work for the LGPS, which resulted in subsequent changes being made to the Bill. NAPF also secured an increase in the cap on limited partnerships in the LGPS investment regulations.

Banks account for 9% of the MSCI All Country World Index.

Local Authority Pension Fund Forum (LAPFF)

The Panel recognises that the Fund's role as a shareholder in the companies within its investment portfolio brings with it a responsibility to encourage socially responsible practices. For this reason, the Panel view the Fund's membership of LAPFF as a powerful mechanism to engage and challenge companies as required rather than withdraw its investment if it does not agree with its current practices.

LAPFF is a voluntary association of 56 LGPS funds in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

LAPFF has grown to become one of the leading voices in corporate governance and responsible investment in the UK, representing local authority pension funds holding more than £115 billion in collective assets under management.

The list below shows LAPFF's achievements during 2012:

- Initiated intensive engagement with 91 companies. Held 34 face to face meetings and conference calls to discuss environmental, social and corporate governance (ESG) issues at companies.
- Nearly 75% of the engagement activity was conducted at board level with chairmen, CEO's and non-executive directors.
- Approximately 60% of the activity resulted in a positive outcome during the year – either an agreement to enter into dialogue with LAPFF or moderate or substantial improvement to company practices.

BlackRock

Introduction

In this report, we provide an overview of your Fund's performance, look at some of the main events in markets around the world and summarise the work we have undertaken jointly over the period.

Market & economic review year ending 31 March 2013

2012 turned out to be a positive year for nearly all segments of the market, but it was the strength of monetary policy as opposed to demand-driven factors that supported asset returns. The risk rally that started in June continued strongly at the start of 2013 but stalled later in the quarter as economic momentum slowed and political risks resurfaced.

The second quarter of 2012 was defined by resurfacing investor uncertainty and a weaker market environment for risk assets. Risk aversion, that had first reared its head as economic data began to deteriorate in March, was exacerbated by concerns over Greek and French elections and the health of the Spanish banking system. Global economic data continued to slow, with softer activity readings and weaker economic survey data from most regions weighing on equity and commodity markets.

In this risk-averse environment, the perceived 'safe-haven' government bonds outperformed despite continued low real yields, as investors strove to preserve capital. Equity markets performed poorly, but retraced some losses in June, driven by the outlining of a series of 'next steps' by eurozone officials and some stabilisation in developed economy data releases. China was a standout underperformer towards the end of the second quarter, as activity data surprised to the downside despite recent policy easing and falling inflationary pressures.

The third quarter saw the US Federal reserve announce QE3, an open-ended quantitative easing programme designed to stimulate the labour market and reduce unemployment. Additionally, the ECB announced its conditional bond-buying programme and stability mechanism designed to support distressed European sovereigns.

The perceived reduction in immediate downside risk in the eurozone led to a sharp rally in risk assets, despite a lack of much real improvement in economic fundamentals, particularly in the peripheral European nations. US economic data remained mixed, with positive developments in the housing market and consumer optimism overshadowed somewhat by weak industrial production and elevated unemployment. In emerging markets, some concerns remained over whether policy measures were sufficient to combat slowing growth, and Chinese equities in particular lagged during the period as a result.

The final quarter of 2012 was largely positive for risk assets as continued global monetary easing and improved investor sentiment led to gains across asset classes. In the US, a deal was reached on 31 December 2012 to avert the immediate impact of $600bn worth of tax increases and spending cuts (commonly referred to as the 'Fiscal Cliff'). US housing and employment data continued to improve, having a positive effect on both consumer and investor sentiment.

European equities continued the strong rally which began in June 2012 after the announcement that the ECB would do 'whatever it takes" to save the euro.

The ECB delivered details with the announcement of the Outright Monetary Transactions ("OMT") programme on 6 September 2012, effectively putting a back-stop to the European sovereign debt crisis and further fueling a rally in eurozone equities and a notable fall in peripheral government bond yields. In Asia, the Chinese growth story gained some momentum with fears of a hard landing all but completely disappeared. Japanese equities rallied 16% as markets were driven higher by the likelihood of more aggressive monetary policy from the incoming government led by Shinzo Abe.

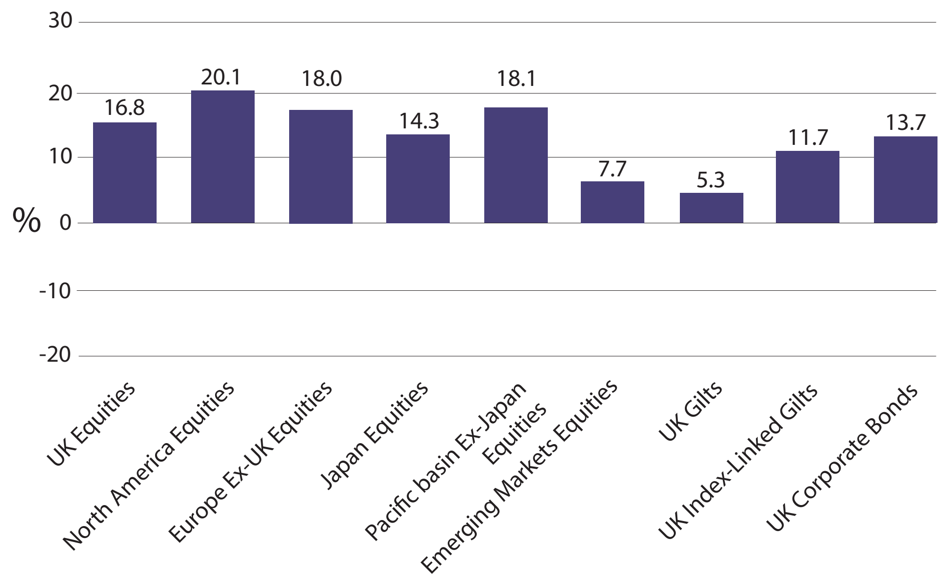
2013 began with a powerful relief rally in equity markets as improving risk appetite overshadowed on-going macro risks to the world economy. Investors were encouraged by modest signs of economic improvement from the world's two largest economies as well as an absence of negative headlines from Europe. The risk rally stalled in February 2013, however, as economic momentum slowed and political risks resurfaced. In the US, the budget sequester took effect on 1 March 2013 as politicians were unable to agree on a long-term fiscal policy programme. Europe also suffered a political setback with the Italian election ending without a majority winner.

In March 2013, a severe banking crisis in Cyprus saw its two largest banks restructure and importantly, highlighted the fragility of the European Union's banking and financial system. Negative risks aside, central banks continue to provide short-term relief by re-affirming loose monetary policies in an effort to boost growth and restore confidence in capital markets. Most notably, the Bank of Japan announced in early April 2013 its intention to double its monetary base and raise inflation to 2% within two years via an aggressive asset purchasing programme. With markets seemingly back-stopped by central bank policy, it remains to be seen to what extent higher asset prices will translate to a more sustainable secular global growth environment in the coming months.

Against this background, equity returns were strong in the year ending 31 March 2013 both in absolute terms and relative to the previous reporting period. US and Canadian markets performed best, increasing 20% in sterling terms, followed closely by European, Pacific Basin and UK markets. Japanese equities returned a creditable 14.3%, while Emerging Markets lagged returning only 7.7% which was not enough to recover the losses of the previous 12 months.

UK gilts continued to enjoy good returns as prices rose, and yields fell, on the back of further quantitative easing with nominal gilts and index-linked gilts returning 5.3% and 11.7% respectively over the 12 month period. UK corporate bond returns significantly exceeded gilts returning 13.7% over the period.

The graph below shows the performance of various asset classes for the year under review:



Source: BlackRock. All returns in sterling

Changes to the portfolio

Since March 2010 the Pension Fund assets managed by BlackRock has comprised two separate portfolios. Approximately 90% of total Fund assets form the 'Main Portfolio'. BlackRock also manages a 'Warehoused Portfolio' which continues to be disinvested over time to fund property portfolios with Schroders and Partners Group. In December 2012, the Pension Fund introduced a new benchmark allocation which reduced the allocation to active European Equity by 5.5% in favour of passive Emerging Market Equities.

Main Portfolio

Asset Class	Benchmark allocation (%)	Range (%)
UK Equities	**43.5**	**+/-1.5**
Total Overseas Equities	**33.5**	**+/- 1.5**
North American Equities	11.0	+/- 5.0
US Equities	*10.3*	
Canada Equities	*0.7*	
Japan Equities	4.0	0.0 - 9.0
Europe ex-UK Equities	5.5	+/- 5.0
Pacific Rim ex-Japan Equities	3.8	0.0 – 8.8
Emerging Markets Equities	9.2	4.2 - 14.2
Fixed Income	**22.0**	**+/- 1.5**
All-Stocks Corporate Bonds	11.0	+/- 5.0
All-Stocks Index-Linked Gilts	11.0	+/- 5.0
Cash	**1.0**	**0 – 2.5**
Global Ascent (Sterling) Ltd	1.0	+/- 0.5
Physical Cash	0.0	0-1.0
Total	**100.0**	

Warehoused Portfolio

Asset Class	Benchmark allocation (%)	Range (%)
Ascent UK Gilt fund	50	n/a
All-Stocks Index-Linked Gilts	50	n/a
Total	**100**	

Annual BlackRock performance summary

In the Scheme year to 31 March 2013 BlackRock's investment return for the Dyfed Pension Fund's Main Portfolio was 15.4% compared to the index return of 15.8%. The active UK, US and Japanese active equity strategies underperformed their indices during the period by 0.4%-0.9%, while the active European equity and UK corporate bond strategies outperformed by 0.6% and 1.1% respectively. Tactical asset allocation detracted slightly over the period. In index-tracking assets, all funds and portfolios tracked their respective index benchmarks within expected tolerances.

Active equities

BlackRock's active equity strategy uses a variety of different insights to determine which stocks to overweight in our funds. These insights are:

- Relative Value: the relative attractiveness of stocks based on reported and forecast fundamentals;
- Quality: the financial strength of the company assessed through its reported financial statements and corporate activity;
- Sentiment: the behaviour of investment analysts, market participants and other financial market signals;
- Fast signals: impact of liquidity and flows over shorter time periods;
- Industry/Themes: capturing industry fundamentals and outlook and lead-lag relationships between stocks.

The UK active equity portfolio underperformed its index benchmark by 0.1% over the 12 month period. The strategy did not perform well in Q2 2012 when markets were falling that the Value insights detracted value. However, the strategy recovered after that with both the Value and Sentiment insights adding value during the remaining period.

The active US equity fund suffered from poor returns to the Quality signal as lower quality stocks outperformed in the strongly rising market. In contrast, the active European equity fund benefitted from strong returns to the Sentiment and Fast signals.

Capital Goods account for 7% of the MSCI All Country World Index.

Active fixed income and tactical asset allocation

Moving to actively managed fixed interest assets, BlackRock's UK corporate bond fund held in the Main Portfolio beat its index benchmark by 1.2% over the 12 month period and by 1.2% pa over the 3 years to end March 2013.

The majority of this performance has come from good industry and security selection especially in Q2 and Q3 2012 when the fund was well positioned to capitalise on volatility in the credit markets. Later in the period, our underweight position in supranationals and sovereigns added significant value as this sector underperformed the market. Asset allocation also added value over the period but interest rate positioning and other factors detracted.

Finally, BlackRock's Global Ascent Fund gives the Dyfed Pension Fund access to a tactical asset allocation overlay based on global macroeconomic factors. The fund fell in value slightly during the year with the developed market currency signals being the main detractor of value.

Contact over the year

Over the review period, BlackRock reported formally to the Investment Panel four times, twice at BlackRock's offices in London and twice in Llanelli. BlackRock also presented to sponsoring employers at the Annual Consultative Meeting in September 2012.

Mr Alex Carpenter
Managing Director,
BlackRock

Schroders

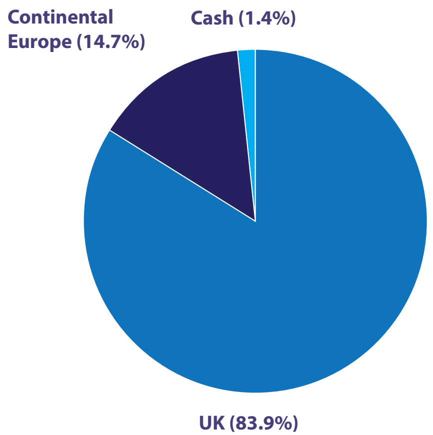
Background

Schroders was formally appointed to manage a pan-European property multi-manager mandate on behalf of the Fund on 8 March 2010. Our objective is to invest in a number of indirect property vehicles throughout the UK and continental Europe. At inception £88 million was committed for investment.

Progress to date

As at 31 March 2013, approximately £86 million of the original commitment had been drawn, representing circa 98% of the original allocation to Schroder Property Investment Management. 83.9% of underlying investments were in UK property, 14.7% were in continental European property and the balance of 1.4% was held in cash. When fully drawn we expect circa 85% of the portfolio to consist of UK assets with the remainder in mainland Europe.

Furthermore an additional circa £2 million (2%) has been committed to property funds and is awaiting draw down by the managers. Future commitments will be funded from undrawn committed cash and from cash that has accumulated on account.



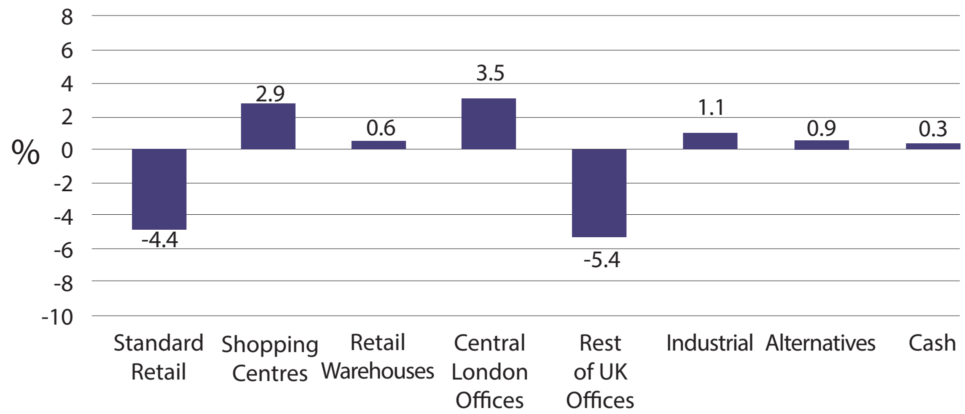
Source: Schroders, 31 March 2013

We estimate that over the long term approximately one third of performance is derived from sector weightings with the remaining two thirds driven by individual fund selections.

With this in mind the UK portfolio is structured to broadly mirror our House View of preferred sector positions. At present the UK portfolio is underweight relative to benchmark in traditional high street shops and regional offices, some of the poorer performing segments of the market, but is overweight to prime shopping centres, retail parks, London offices, industrial property and alternative sectors.

The portfolio's position in alternative sectors, which include student accommodation, healthcare and leisure, is likely to increase further when the portfolio is fully drawn.

The **current UK portfolio sector weightings relative to benchmark** are shown below:



The European portfolio, 14.7% of total portfolio value, has been constructed to give a diverse exposure to the region whilst concentrating on the stronger economies of northern and western Europe. Approximately half the portfolio is invested in retail assets where exposure is primarily through dominant shopping centres. The next largest sector, industrials, is focussed on the major transport nodes and this is expected to increase as the undrawn commitments are invested.

Performance

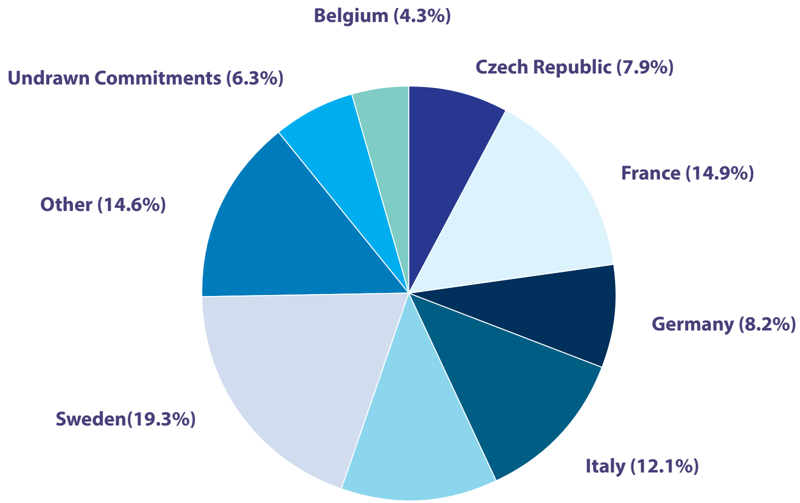
Portfolio performance has been above benchmark over the past twelve months with outperformance from both the UK and continental European investments.

UK returns have been driven by an overweight position to the London office sector and income-focussed investments. We have increased the portfolio's exposure to the latter primarily through investments in the alternatives sector where the income return has been relatively high and stable.

Continental European investments have delivered strong returns over twelve months, in part boosted through currency movements. Performance does, however, remain volatile in a weak macroeconomic environment. The portfolio's exposure to continental Europe consists mainly of assets in northern and western Europe which we expect to be more resilient than the southern European countries.

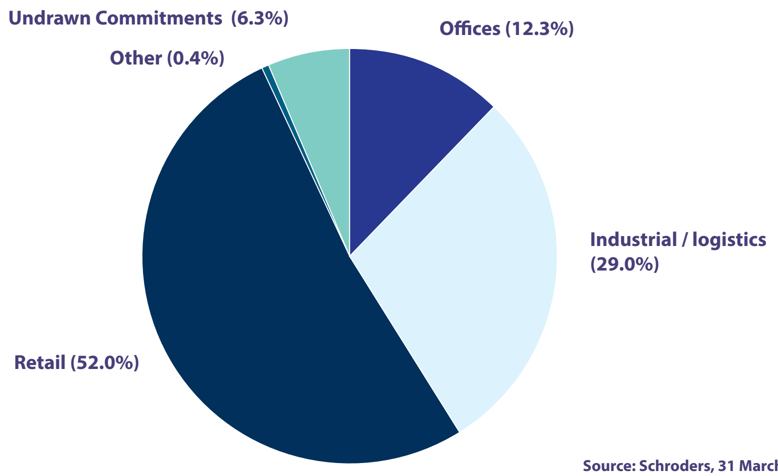
Jaguar, Milton Keynes - one of the Fund's UK investments.

European Portfolio Country Allocation



Source: Schroders, 31 March 2013

European Portfolio Sector Allocation



Source: Schroders, 31 March 2013

UK Outlook

The March 2013 Budget confirmed that the UK economy continues to be stuck in the mire, with weak tax revenues unable to match stubbornly high government spending requirements. In this light it is unsurprising that UK consumer spending and business sentiment remains subdued, and that UK commercial property rental values are likely to see little growth in most sub sectors in the year ahead. Despite this, industry participants have become more positive in recent quarters on future returns, with members of the Investment Property Forum now expecting total returns of 5.2% in 2013 and 7.4% pa over the next 5 years.

The retail sector has suffered some big name casualties over the past twelve months, with Clinton Cards, Game, HMV and Blockbuster all going into administration. Leisure spend, in contrast, has proven remarkably resilient. While consumers are increasingly buying music and films through online channels, cinema and restaurant operators have successfully embraced the internet by using vouchers and other special offers to entice new customers.

Most occupational markets are likely to remain subdued in 2013, with tenants waiting for signs of a sustained recovery in the economy before committing to new space. The central London office market is expected to deliver strong rental growth from 2014, whilst away from the capital we continue to favour areas of the market where rents have rebased and offer the potential for growth. With a shortage of available stock, an increase in debt and equity investors still active, we believe that some money will switch away from prime, long lease assets and into growth assets.

Continental European Outlook

We expect that the reduced risk of a eurozone break-up will encourage domestic investors back into the market in 2013 and that this, combined with the slightly greater availability of debt, will halt the upward drift in secondary property yields in northern Europe. However, weak tenant demand is likely to undermine rents in the short-term, resulting in a forecast small decline in average capital values across northern Europe in 2013, with Germany and Sweden faring best. Capital values in southern Europe will fall more sharply, particularly in Spain which could see a wave of distressed sales.

Looking further ahead, we expect a handful of major cities with low vacancy rates (e.g. Munich, Stockholm, Vienna) will see a recovery in office rents in 2014 and there may also be a limited upturn in certain smaller tech hubs. We also see good opportunities in some parts of the retail sector, such as convenience retail stores in city centres and in tourist destinations and we expect that the growth of on-line retailing will boost the demand for smaller logistics units on the edge of major cities.

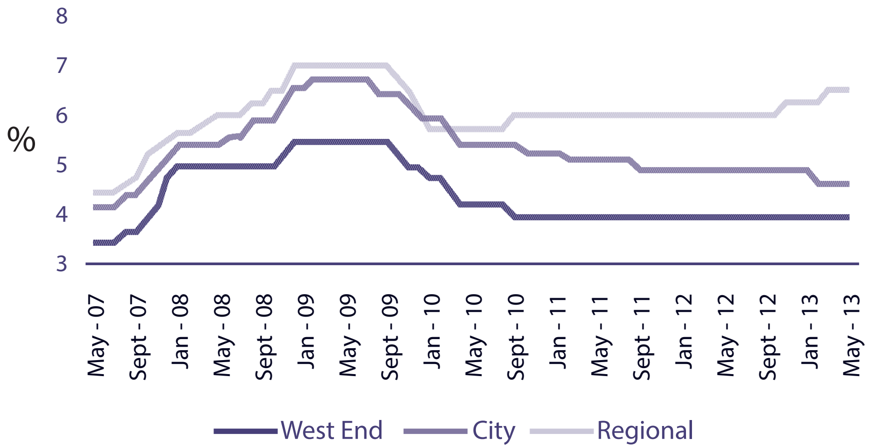
Overseas investors have dominated parts of the UK commercial real estate market since 2008 and their presence continues to grow: at the start of 2013 international capital was behind 51% of all UK investment transactions, rising to 73% in the central London office markets. This influx of global interest is not an entirely new phenomenon; from the mid-1980s Japanese, Nordic and American investors entered the UK market, followed by German and Irish purchasers in the 1990s and, more recently, from the Middle East and Asia. Today the appeal of the UK property market is truly universal, with investors from Africa and South America joining more established parties.

Investors are attracted to the UK due its mature, transparent and well regulated markets, investor friendly tax framework and negligible barriers to property ownership. The UK's safe haven status and uncertainty over the future of the euro have also been key drivers in explaining the inflow of capital to the UK. In 2012, £32.5 billion was invested in commercial property in the UK, 54% of which involved an overseas purchaser. This figure rises to 68% for central London, more than New York (31%), Paris (43%) and Frankfurt (50%). (Source for data: Jones Lang LaSalle, February 2013, 'Capital Markets Research – Real Estate Flows').

Global capital flows into UK property

Within the UK, the central London real estate market has been the top destination for international capital, thanks to its position as a global financial hub, tourist destination and cultural centre. The large lot size, prominence and strong covenants of prime office assets in central London have made them extremely popular with foreign buyers, and account for 70% of transactions, although retail assets such as those on Bond Street are also in demand. Such significant demand for these 'prime' assets has driven yields down to almost pre-crisis levels.

Weight of international money has held down central London office yields



Lufthansa Headquarters, Cologne - one of the Fund's European investments.

Future strategy

Our strategy for the coming year is similar to that of the previous twelve months. We maintain our overweight position to central London offices to benefit from further growth and continue to focus on investments providing a generous income return. We also emphasise the importance of having properties and managers which have the right style attributes - a combination of factors including income return, security of income and the weighted average lease length. Property markets are not homogenous, so styles may vary across the regions and types of property.

We took the opportunity to marginally reduce the portfolio's overweight position to the central London office sector at the beginning of 2013 following three years of strong performance. However, we maintain the overweight position in this sector primarily through a specialist fund as we believe the growth prospects remain strong.

The portfolio's exposure to income based strategies is likely to increase over the following twelve months as equity is drawn into a specialist fund targeting resilient income streams in non-traditional property sectors. We also maintain the portfolio's overweight position to the industrial sector which typically delivers higher income returns.

Summary

The portfolio is almost fully invested and all cash is committed to underlying funds which we expect to be drawn over the next twelve months. The impacts of transaction costs on the mature portfolio will be limited.

Portfolio performance has been above benchmark over the past twelve months with outperformance from both the UK and continental European investments.

Mr Graeme Rutter
Head of Property Multi-Manager, Schroders

GOING GLOBAL - LOOKING FOR VALUE IN A LOW-GROWTH ENVIRONMENT

As the stagnating economy and political muddling-through scenario continue to unwind in the advanced world we now expect asset classes to undergo a 'great new value divide' in the course of our long-held view of general asset price inflation. In this value divide, perceived and actual risks diverge sharply, eventually leading to a drastic mispricing of risk and a correction thereof. In this context, investors will have to thoroughly search for real value in order to separate the wheat from the chaff.

The 'great new value divide'

In this low interest rate environment, investors are forced to hunt for yield in other areas in order to meet their return targets. It is likely that the excess liquidity injected by central banks will drive up asset prices, first in the bond markets, followed by core real estate and core infrastructure and finally in public equity markets as evidenced by last year's blue-chip rally. However, the traditional measure of inflation (the consumer price index) will barely indicate any inflationary pressure and will take years to catch up. Pension funds and other investors are set to lose a significant amount of purchasing power over the course of a decade should they elect to stay in cash or fixed income

At the same time as investors are searching for returns, risk aversion remains elevated. Consequently investors are piling into perceived safety, pushing the risk premium of supposedly 'safe' assets to historically low levels. As a result, the flow of 'safe-haven-but-yield-chasing' liquidity has broken the link between perceived vs. actual risk and has resulted in large valuation gaps, which we call the 'great new value divide': unfavorable premiums are charged in segments such as a number of AAA and AA-rated government bonds, investment grade corporate bonds, or core real estate and core infrastructure assets.

In these segments, investors are likely to face disappointment once interest rates start rising and financial markets adjust to the low-growth reality.

Investors chasing trophy assets in core real estate markets are driving up prices in tier 1 cities. A prime retail property in the centre of London was recently acquired at a cap rate of 3.1% (meaning the annual net operating income of the property is only 3.1% of the price paid). Cap rates at these levels were last seen in the boom years 2006/2007 and are half the levels prevalent between 2002 and 2005.

TAKE THE 'BETTER' RISK

The rebound in prices for 'trophy' properties in major gateway cities globally has forced investors to make difficult decisions. Pay premium prices for core assets, yielding relatively low risk-adjusted returns or pursue properties trading at a discount, offering value-added potential, but also asset specific risks requiring intensive asset management to unlock superior return potential? Given the opportunity set we see in today's real estate markets, we clearly believe Dyfed Pension Fund benefits more from being positioned in the latter.

The 'great new value divide' exemplified in Europe

The continued flight to 'simplicity' and the perceived safety of investing in trophy properties in core markets has resulted in a rift in pricing. High premiums have been assigned to well-located trophy assets in gateway cities, while pricing for 'everything else' has largely remained more appropriate and in select cases, depressed.

In the second half of 2012, the UK real estate market represented the lion's share of real estate transactions in the European market. An examination of transaction activity in Europe's most active market offers evidence of the pricing divide and cap rate differential between prime and non-prime locations. Cap rate spreads between prime and non-prime properties in the UK hit multi-year highs during the 2011/2012 period. Investors' willingness to bid property pricing to irrational levels in prime locations has diminished return expectations and reinforced Partners Group's strategy of not focusing on these properties. We instead prefer to focus on market segments where we can avoid overpaying for properties and minimize taking unnecessary macro risks, which often are properties either in secondary locations in tier 1 cities or in prime locations in tier 2 cities.

Our preference for asset-specific or micro risk over macro risk stems from our belief that micro risks can be influenced through active asset management, while macro risks cannot. Retail transaction activity in Europe slowed in 2012 in all but the most prime locations, as investors expressed anxiety over continued declines in consumer discretionary spending. However, we believe at the right price, this broad aversion to retail properties is overly punitive and has provided compelling investment opportunities for dominant retail schemes positioned in the value-for-money and aspirational segment.

Norwich Castle Mall

A recent example of our conviction in our ability to find discounted retail investments on Dyfed Pension Fund's behalf includes our investment in Norwich Castle Mall, a retail property located in Norwich, UK. The mall is 92% occupied with a diversified tenant mix orientated towards value and convenience. Norwich is among the top ten retailing locations in the UK, benefiting from below-average competition and a large consumer catchment area. The investment in this value-added property was acquired at an attractive entry point and the business plan consists of renovating the property to improve prominence and re-leasing units in line with market norms. The investment was underwritten with an expected gross return of 15.1%. Ultimately, the property provides an opportunity and the scope to create a high-quality asset appealing to institutional investors upon exit.

On the opposite end of the spectrum, we were offered a number of investment opportunities during Q2 2012 in which we could not rationalise seller price expectations or justify the expected risk-return trade-off. As an example, we declined the opportunity to participate in a preferred equity/mezzanine investment to acquire a luxury retail property located in the South of France. At the price offered, the value creation potential at the property was diminished and simply not an investment that met our return expectations. In addition, economic headwinds in France, difficult to predict high-end consumer spending demand and the questionable long-term strength of luxury retail space drove our decision to pass on this opportunity. Similarly, we declined to invest in a sale and leaseback of a 28-building office portfolio in and around the city of Barcelona, Spain. The seller required a price that was simply too aggressive in our opinion, which did not properly reflect the tenant credit risk, nor the low prospects of further value creation in the portfolio, nor the general economic prospect of the region of Catalonia.

On the subject of going global it is perhaps relevant to compare real estate markets in other parts of the world:

The value divide shrinks in the US

Improved availability of capital has increased transaction volume in the US, but investors still demonstrate a preference for trophy properties in prime central business district areas generating stable in-place cash flow. This preference has resulted in tight pricing for prime properties with secure income streams. Conversely, non-prime properties that possess asset-specific or micro risk as a result of mismanagement or recent tenant losses are largely being neglected. We believe select investments in this market segment present compelling opportunities to acquire assets that possess significant upside potential to be created through asset management. In addition, unique supply/demand imbalances for select regional markets have created micro investment opportunities that Partners Group has been able to capitalise on, especially in and around cities that benefit from unique value drivers including demand driven by the energy, IT or healthcare industries.

In the fourth quarter of 2012, Partners Group made a USD 57 million investment in a 574-unit multifamily high-rise located in Alexandria, Virginia. The property is 93% occupied and benefits from a number of upgrades over the last six years, including new roofs, new windows, masonry repairs, major systems upgrades and improvements in 391 units that include new kitchens and bathrooms. The business plan consists of renovating the remaining 183 dated units to achieve rent increases of approximately USD 200 per renovated unit per month and renovating the common areas to increase the overall appeal of the asset. At acquisition, Partners Group represented approximately 95% of the equity and underwrote the investment with an expected gross return of 17.6%.

Asia-Pacific's imbalance provides opportunity in hotel and retail assets

In Asia-Pacific's real estate markets, intraregional growth has led to increased tourism and more arrivals across the region's gateway cities. Both hotel and retail markets have been the largest beneficiaries of this trend. Hong Kong in particular recorded 42 million tourist visits in 2011, most coming from the Asia-Pacific region. At the same time, Hong Kong real estate development – its hotel and retail sectors in particular – has not kept pace with the increase in new arrivals. Between 2009 and 2011, Hong Kong hotel occupancy rose by 14 percentage points from 74% to 88%, and has averaged 83% over the 2001 to 2011 timeframe. Simultaneously, visitor arrivals grew by 10.7% annually since 2006 relative to a 5.9% increase in total hotel room supply. These dynamics marked a clear opportunity for Partners Group to increase our investment focus on properties within the Hong Kong market that would benefit from these market dynamics.

In July 2012, Partners Group provided USD 36.2 million in financing to acquire an interest in Novotel Nathan Road, a 16-story hotel building with 381 hotel rooms on the top twelve floors and retail space on the first four floors. The property is located along the prime shopping belt in Hong Kong and is close to Kowloon's business, dining, shopping and entertainment areas. Originally completed in 1992, the hotel was fully renovated and reopened in 2008 as a 4-star Novotel. The retail podium is currently under-rented and the business plan is to re-tenant the retail podium, improve hotel operations, and thus increase net operating income over the holding period. The investment was made on the basis of an expected gross return of 17.5%.

Buyers and sellers diverge on secondary pricing

In the real estate secondary market, European banks and insurance companies have demonstrated a desire to take action and sell stakes from their real estate portfolios rather than wait for market improvement. This motivation will likely continue to feed the supply of real estate secondary investment opportunities.

However, competition for European secondary portfolios remains reduced, and provides interesting opportunities, especially for those investors capable of larger or multi-country transactions. Smaller portfolios are generally transacting more easily, again making larger deals less competitive and potentially more attractive. Simultaneously, distress has eased and there is increasing evidence that sellers are electing to hold on to portfolios that do not attract sufficient pricing, as opposed to selling at greater discounts. Overall, we continue to focus our efforts on secondary programs that consist of mature assets where there is greater visibility on underlying properties, greater exit viability and the duration of the underlying assets remains relatively short.

Examples of this preference within the Dyfed Pension Fund portfolio include a transaction we recently completed which provides discounted exposure to a real estate program focused on investments mainly in Germany. The interest was acquired from a US financial institution and, due to our prior knowledge of the portfolio, we were able to perform an in-depth valuation of the individual assets.

The program is a 2007-vintage European real estate fund more than three-quarters invested across ten transactions. At acquisition, over half these investments were fully or partially realised, and the investment partner anticipates significant asset exits in the short term.

Given Partners Group's unique structuring on this investment, underwritten performance expectations are a gross return of 22.7%. We will continue to demonstrate a preference for investments in programs that consist of mature assets which provide current income and have greater visibility.

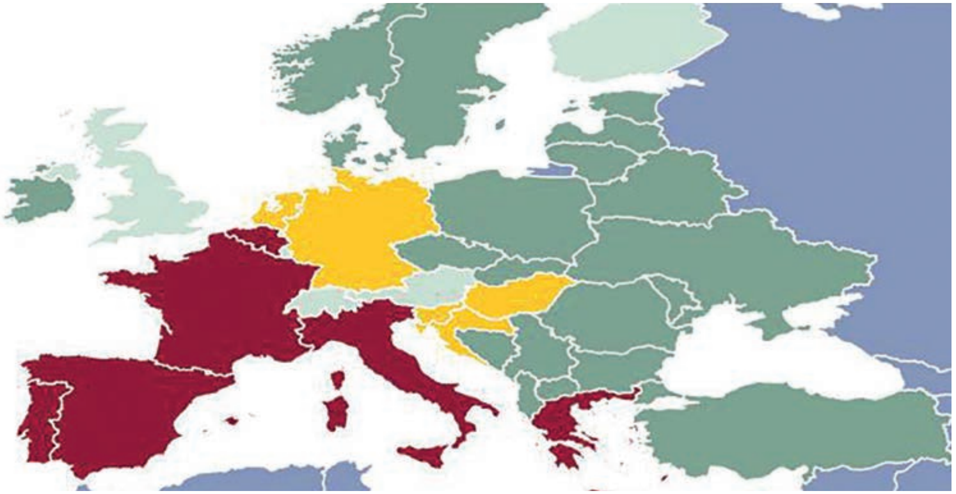
We anticipate to benefit most from larger and complex transactions where Partners Group has clear competitive advantages, and seek motivated or distressed sellers who may transact on a proprietary or semi-proprietary basis. We will continue to avoid overpriced 'core-like' assets trading at premiums as well as lower-quality assets trading at insufficient discounts.

Outlook

With Dyfed Pension Fund's uncommitted capital, Partners Group remains focused on identifying investment opportunities offering superior risk-return potential. With fewer investors willing or able to make macro and micro assessments on a collection of properties including a diversity of quality or locations, mid- to large-sized portfolio transactions have seen less competition and more attractive pricing.

This has created compelling investment opportunities for more experienced buyers with strong in-house due diligence capabilities and the necessary financial resources, such as Partners Group. We will continue to overweight developed regions that offer growth, benefit from limited capital flow as well as low to moderate construction pipelines. In Europe, we will focus on opportunities in the UK, Germany and the Nordics.

There is no 'one' Europe



Expected growth over the next five years

<1.0% <1.5% <2.0% >2.0%

Source IMF, October 2012

Mr Robert Lamb
Vice-President
Partners Group

Performance and Risk

Local Authority Funds

The last twelve months saw equity markets recover strongly, many reaching all-time highs, as risk assets returned to favour. Buoyed by this, the average fund returned 14% in the latest year.

In the UK, the FTSE All-Share index returned 17% for the year, with only Oil & Gas and Basic Materials failing to generate positive double-digit performance. Active managers enjoyed a successful year in this area, with the average fund outperforming the index for the third consecutive year.

Overseas markets also performed strongly with the FTSE World index (ex UK) returning 17% in aggregate. Regionally, North America, Europe and the lesser Pacific markets provided the best returns at just under 20%. Japan delivered 14%, with Emerging Markets lagging at 7%. Sterling fell against both the US Dollar and the Euro meaning that currency hedging had a detrimental impact on returns for the minority of funds hedging away currency risk.

Bond performance was more muted but, with investors favouring risk assets, corporate bonds with a return of 13% outperformed government issues (the broad gilt index returned 5%). Index Linked performed well over the year with a return of 10%. Returns from property remained subdued at 3%. At a level below the income generated, this suggests a continued downward pressure on valuations. Alternative assets delivered almost 10% over the year, the highest return since fiscal year 2006 – hedge funds returned 7% for the year and private equity 12%.

In terms of asset allocation, there was little change at the macro level during the year. At an equity level, with funds eschewing regional allocations in favour of ‘global’ mandates, the proportion held in the UK reduced further. In terms of alternative investments, diversified growth products continue to garner attention but the ‘hot’ asset is infrastructure where we expect to see most growth in the short term. The average fund returned 8%p.a. over the last three years, 4%p.a. ahead of inflation and an important outcome in this valuation year. This said however, while the asset side of the balance sheet has performed well, falling bond yields over the period will have had a seriously negative impact on the liability side.

Longer term returns have continued to improve for the sector as a whole which has enjoyed returns in the region of 8 – 9% p.a. over the last 10 and 20 years, well in excess of both price and wage inflation.

In these pages in recent years, we have reported that funds had found it difficult to meet their benchmarks. This year, the picture was brighter, with some three quarters of funds exceeding their benchmarks. Whilst the outperformance by certain alternative assets of their cash benchmarks will have contributed positively, the key influence arose from genuine ‘alpha’ generated by active equity managers, particularly in UK and European markets. This is a welcome turnaround but benchmark outperformance still remains elusive for most over the longer term.

Dyfed Pension Fund

Returns

In the latest year, the Fund returned a very strong 14.4%. Whilst this was one of the better returns recorded by funds during the year, it was 0.5% behind the benchmark. This underperformance arose principally from the Fund’s equity investments (representing around 70% of the overall asset value). Below benchmark returns were recorded in all regions with the exception of the lesser Pacific markets and in North America. Outperformance in bonds and property provided a partial offset.

Good governance demands that the Panel monitors short term performance but it recognises that asset performance, in absolute terms and relative to benchmark, can be cyclical. It is equally important therefore to review performance and investment strategy over longer periods of time. The medium term e.g. three and five years, is an appropriate timeframe over which to review the performance of the Fund's asset managers. Appropriate time-horizons for long term investors such as UK local authority funds (e.g. ten and 20 years) provide the real measure of the efficacy of the overarching strategy and on how that strategy was implemented.

In the last decade, year on year relative performance has been variable. Over the whole period, the Fund has returned 9.6% p.a. and the benchmark 9.7% p.a. This modest underperformance has arisen from equity selection, particularly domestic equities, where the manager has outperformed in only one of the last ten years. This disappointing feature resulted in the Panel taking the decisive action in 2011 of 'indexing' two-thirds of the allocation.

Pharmaceutical, Biotechnological and Life Sciences companies account for 7% of the MSCI All Country World Index.

We've been measuring the Fund for many years and over the very long term, returns remain very robust. In the last 30 years, the Fund has posted an annualised return of 10.6% p.a., 0.2% p.a. ahead of benchmark, 0.5% p.a. ahead of other funds and almost 7% p.a. ahead of inflation. The structure of the Dyfed Pension Fund has evolved over time (and will continue to do so as it looks to appoint one or more global equity manager(s)). The significant position held in Index-Linked gilts, which had worked extremely well for the Fund, has been scaled back, the equity exposure increased and an allocation to property built up. This profile is different from the average fund, but it's these differences that have helped the Fund better its peers over all measurable time periods up to, and including 30 years, and by 0.4% p.a. over the very longest term.

Risk

Return volatility remains higher than for the sector as a whole but modestly so. This is as expected given the Fund's higher equity exposure and lower exposure to alternative investments. The Fund's property investment has begun to reduce volatility. Viewed over the last three years, the higher volatility was rewarded with higher than average return.

A small proportion of this volatility will have been generated by decisions taken by the asset managers in an effort to outperform their benchmarks. This is known as 'relative' or 'active' risk. In the latest period, relative risk of 0.6% p.a. was lower than in the recent past and remained significantly below the range of risks exhibited by most other authorities. One factor in the reduction in active risk will have been the decision to switch a sizeable proportion of the Fund's UK equities into an index tracking programme.

The risk attributable to 'active' management has not been rewarded in the near or medium terms.

Mr David Cullinan
Head of Performance Consultancy,
WM Performance Services

Independent Investment Adviser

A local golf friend of mine with modest business premises on a small industrial estate in East Lothian (Scotland) buys second hand commercial printing machines, refurbishes them and sells them on with training and servicing. Nothing particularly strange or unusual but his clients are truly global, spanning every continent and covering in excess of 50 countries, many in the developing world. Every Sunday he will be flying to North (or South) America, Africa, SE Asia or Eastern Europe and while we might envy his air-mile collection, we do not envy his jet-lag. Amongst my other friends there are several whose business activity is around servicing clients on a global scale for large corporations, frequently based in the US but with manufacturing in many other low-cost countries. The world is indeed a small place, the so-called 'global village'.

So when we review the returns delivered by investment markets in the period ending 31 March 2013, it is little surprise we have to talk about international (global) events. US fiscal cliff and political shenanigans, the endless crises – and economic stagnation - in the Eurozone, China's dampening and changing pattern of growth from export - to domestic consumer -led, the unknown longer-term effects of central banks' sustained Quantitative Easing and near-zero interest rate policies, the UK in a 'will it, won't it?' double dip recession – it didn't but it was a close run thing. With so many major problems globally over the last financial year, it would be reasonable to assume safe-haven assets such as bonds would have fared considerably better than riskier assets such as equities. You would be very wrong!

Equities had a very strong 12 month period with major markets all advancing by 15-20%; for example the UK equity market returned 16.8%. Conversely UK conventional Government gilts returned just 5.2%, albeit index-linked performed higher returning 10.2% driven by excess demand versus supply and the technical issue of RPI not merging with the lower CPI. Within fixed interest, corporate ('credit bonds') returned higher than Sovereign issues and longer-dated performed better than shorter-dated gilts. UK property continued to see gently falling capital values but, supported by a 6% pa income yield, returned a modest positive. In low transaction volume the adage that a property is only worth what it can be sold for was never truer.

The average LGPS (Local Government Pension Scheme) fund returned a shade under 14%, driven mainly by the strong equity returns. The outperformance of UK gilts by equities is much needed for the satisfactory financing and funding of Local Authority schemes but there needs to be still more. For example over the 3 years to 31 March 2013 – an important period for funds with a 31 March 2013 triennial actuarial valuation - UK equities returned a healthy 8.8% pa but this is only just ahead of conventional UK gilts at 8.2% pa and actually behind index-linked gilts at 11.5% pa, but 13.0% pa at the more relevant long end of maturities. The latter is significant as this asset is the best proxy for the scheme liabilities and actuaries assume that the fund's assets will outperform the liabilities by typically around 2% pa. This has not been the case for many years and goes a long way, along with considerable improvements in longevity, to explaining why most schemes are currently having to fund a deficit.

Unlike closed and rapidly-maturing private sector pension funds, where there has been a wholesale shift from equities to bonds and other (supposedly) less volatile assets, LGPS funds have remain largely committed to equities. The only real trend at a high asset allocation level has been the positive move to gain exposure to 'alternative assets' as a replacement for some equities. However the average exposure to these alternatives is only around 9% and this disguises significant differences from 0% to around 20%. Our Fund, having examined the benefits and costs of these alternatives, has almost no exposure. Another significant trend is within equity exposure where the move has been to ever greater 'internationalisation' and less regional focus. A decade ago equity exposure was pre-dominantly with companies listed on the UK stock market, with minority exposure on a regional basis to international markets such as North America, Continental Europe, Japan, Pacific ex Japan and Emerging Markets. The recognition of global influences has led to much greater exposure, almost 60% of total equities, to international markets and an increasing desire not to be regionally prescriptive but to give an asset manager (or managers) discretion to invest in those companies whose equity they want to buy irrespective of the domicile of the company and the market on which the shares happen to be listed. This method of investing is commonly known as unconstrained global equity investing.

After considerable due diligence your Fund is preparing to divest from some of our regional equities in favour of unconstrained global equities. This will be a major activity in the coming year.

A typical LGPS fund returned 8.1% pa over the 3 years to 31 March 2013, welcomingly outstripping inflation whether measured by CPI or RPI. Over the same period our Fund's customised benchmark, which has an asset allocation not dissimilar to the average LGPS fund, would have achieved a return of 9.2% pa. The Fund's actual return therefore underperformed its benchmark but outperformed the average fund.

Moreover, the combination of the Fund's asset allocation and manager performance has resulted in the Fund's returns being ahead of the average LGPS fund over 1, 3, and 5 years. The Fund's rankings are 41% over one year, 30% over 3 years and 20% over 5 years. So, despite some current disappointment with our principal active manager, our Fund's returns over the more important medium and longer terms are still envied by the vast majority of Local Authority pension funds.

The Fund's assets are performing perfectly satisfactorily and in line with any reasonable expectation. What is still hurting our financing and funding is the abnormally low gilt yields. Until these revert to more normal levels – which cannot be anticipated to be any time soon but hopefully will come in the next few years – the Fund will struggle to obtain 100% funding. Part of the financial and funding solution therefore lies with a pick-up in economic growth, especially in the UK, and Government monetary policy - such as Quantitative Easing – being less supportive of gilts and (paradoxically) the UK gilt market losing some of its current 'safe haven' status.

Materials account for 6% of the MSCI All Country World Index.

Mr Eric Lambert
Independent Investment Adviser

Fund Administration

Introduction

The Pension Fund is governed by Regulations issued by the Department for Communities and Local Government (DCLG). 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.

Principal Benefits

- Inflation Proofed Pension. The new-look LGPS arrangement does not provide for an automatic Lump Sum for post 31 March 2008 service. However, 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 31 March 2008 will provide a Tax Free Cash Lump Sum at retirement.
- Enhanced service 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 nominated cohabiting partners pension may also be payable, however, benefits cannot be paid unless you have completed a nominated cohabiting partners form.
- 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 employers approved scheme or to an approved personal pension plan.
- Employees who leave with more than 3 months service (or less than 3 months service where a transfer payment has been received) are entitled to a Preserved Inflation Proofed Pension (and a Tax Free Cash Lump Sum in respect of service upto and including 31st March 2008, usually payable at Normal Retirement Age).
- Additional contributions may be paid to increase pension benefits.

Pensions Increase

Pensions are reviewed annually under the Pensions Increase Act as prescribed by Social Security legislation in line with the upgrading of various state benefits.

This coming year, pensions have increased by 2.2% from 8 April 2013 and represents the increase in the Consumer Price Index for the 12 month period to the 30 September 2012. 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 in the last 12 months will have a proportionate increase applied.

Local Government Pensioner pay dates for 2013-14 are as follows:

26 April 2013	31 October 2013
31 May 2013	29 November 2013
28 June 2013	24 December 2013
31 July 2013	31 January 2014
30 August 2013	28 February 2014
27 September 2013	28 March 2014

National Fraud Initiative

The Pension Fund continues to participate within the anti-fraud initiative organised by the Audit Commission 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 claimants.

Legislative update

Cohabiting Partners Benefits

From 1 April 2008, the LGPS makes provision for a pension to not only a spouse or Civil Partner, but also to a nominated cohabiting partner. In order to qualify the following regulatory conditions must apply to 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.

You should contact the Pension Administration Section should you wish to nominate a cohabiting partner or require further information on additional contributions to provide full service cover for related dependent benefits or are available via **www.dyfedpensionfund.org.uk.**

Please note that benefits cannot be paid unless you have completed a nominated cohabiting partners form.

e.g. A scheme member dies in service and she has been living with her partner for the last 12 years as if they were man and wife and they also have a 9 year old child. A will was made leaving everything to her partner. The Pension Fund did not have a Nominating Cohabiting Partner form, therefore, could not pay a nominated partners pension.

Nominated cohabiting partner forms and further information can be obtained by either contacting the pensions section or via the Fund website.

Job Evaluation & Single Status

Where reductions in pay occur as a result of job evaluation or single status exercises, a scheme member can elect to use the annual average of the best 3 consecutive years pay to the 31 March within the last 13 years of employment for the purposes of final pay. **Scheme members must make an election, no later than one month before the date they cease membership of the LGPS if they wish to exercise this option.**

Employee Contribution Rates

The LGPS introduced tiered contribution levels from 1 April 2008. The Government had initially indicated that following a review of Public Sector pensions that there would be an increase to scheme member contributions with effect from April 2012. As a result of further negotiations, increases have not been applied to member contributions, however, the Government intends to introduce a 'new' LGPS contribution banding from 1 April 2014. Further information will be issued to scheme members once the Government confirms its proposals.

The earnings bands and contribution rates applicable from April 2013 are as follows:

Earnings Band (£)	Contribution Rate (%)
Up to 13,700	5.50
13,701 - 16,100	5.80
16,101 - 20,800	5.90
20,801 - 34,700	6.50
34,701 - 46,500	6.80
46,501 - 87,100	7.20
More than 87,100	7.50

A 'New' LGPS 2014

A review of Public Sector pensions was carried out by Lord Hutton and his findings were published on 10 March 2011. The Chancellor accepted these recommendations in his budget speech on 23 March 2011. The Local Government Association (LGA) and trade unions announced the outcome of their negotiations on the new LGPS proposals which would take effect from 1 April 2014 on 31 May 2012.

The Government has undertaken three further consultations with the latest having a closing date of 2 August 2013. At the time of writing it is anticipated that the LGPS 2014 Regulations will be laid before Parliament in Autumn 2013.

The table below shows the main provisions of the proposed LGPS 2014 for membership FROM 1 April 2014

Basis of Pension	Career Average Revalued Earnings (CARE)
Accrual rate	1/49th
Revaluation rate	Consumer Price Index (CPI)
Normal Pension Age	Equal to the members State Pension Age (Minimum Age 65)
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit
Definition of Pensionable Pay	Based on actual pensionable pay and to include non contractual overtime and additional hours for part time staff
Vesting Period	Will increase from 3 months to 2 years
Contribution Bandings	The proposed contribution banding below for the LGPS 2014 will not be subject to annual reviews, it will instead be subject to a review following each triennial valuation.

Earnings Band (£)	Contribution Rate (%)
Up to 13,500	5.50
13,501 - 21,000	5.80
21,001 - 34,000	6.50
34,001 - 43,000	6.80
43,001 - 60,000	8.50
60,001 - 85,000	9.90
85,001 - 100,000	10.50
100,001 - 150,000	11.40
150,001 or more	12.50

Tax Changes

Further changes have been made, and more proposed, to the maximum amount of tax exempt pension savings that can be built up in any given year (Annual Allowance or AA) , and during the time before your pension benefits come into payment (Lifetime Allowance or LTA). From April 2012, the LTA for tax-privileged pension saving decreased from £1.8m to £1.5m. 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. From April 2014 the LTA will decrease from £1.5m to £1.25m. Members who believe they will be affected will need to apply for 'Fixed Protection 2014' from HMRC.

The AA limit was reduced to £50,000 in April 2011, the AA limit for 2012-13 & 2013-14 will remain at £50,000. However, from April 2014 the AA limit will reduce to £40,000. 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. 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.

Please note that pensions staff cannot give financial or personal taxation advice.

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.

The full Communication Policy Statement can be found in the Appendix to this report.

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.

Customer Charter & Service Standards

To compliment the administration strategy the fund has also produced a Customer Charter which outlines our commitment to each stakeholder and a Service Standards directive which outlines the processing times of our administrative procedures.

All documents are available on the Fund website.

Membership statistics

A schedule of employers (as at 31 March 2013) who either participate or have a relationship with the Dyfed Pension Fund is attached to the Statement of Accounts later in this report.

Volume of members within the fund for last 3 years

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

	31/03/11	31/03/12	31/03/13
Active	17,655	17,569	17,596
Deferred	10,547	11,365	12,177
Pensioner	9,003	9,407	9,872
Total	37,205	38,341	39,645

Whilst overall scheme membership has increased by 6% over the last three years this masks a slight decline in active membership from 47% to 44% of total membership which is comparable with other Welsh Pension Funds.

Member Movement Statistics

The data below illustrates the number of individual member status movements performed by the pensions administration team over the last 3 years.

This provides a reflection of the work undertaken in relation to New Members, Leavers and Retirements.

Year	Status Entry	Status Exit	Total
2010-2011	3,848	3,167	7,015
2011-2012	3,887	2,647	6,534
2012-2013	4,588	2,298	6,886

Performance

The table below shows the Fund has performed well, has met its commitment to service standards and outlines the Fund's performance against its benchmark.

01/04/12 - 31/03/13	Total Completed	Benchmark	Performance
New Starters	2,263	95.00%	96.13%
Transfers into the Fund	226	95.00%	97.73%
Retirement Quotes	474	95.00%	95.97%
Payment of Retirement Benefits	792	95.00%	95.36%

A full list of the service standards is available on the website.

The Pensions Administration Team

Your Pensions Administration Section

In addition to the primary role of administering the Local Government Scheme and its provisions, the Pension Administration 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.

As well as implementing legislative changes and responding to numerous consultation documents by set timescales, which included website updates and ensuring model fund data was received by the Government Actuary's Department, we:

- Undertook further employer and scheme member presentations on 'My Pension On-line'. 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.
- Continued with our internal staff training programme where additional staff members attained Degree status in Pensions Administration and management. 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. With the Dyfed Pension Fund again taking the lead, the ABS production was undertaken on an all-Wales Pension Funds basis.
- Continued with the 'Life Certificate' exercise aimed at pension payments paid by cheque.
- 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 the engagement with colleague LGPS Fund authorities in Wales to examine available partnership opportunities and share best practice in Scheme administration. The Dyfed Pension Fund taking the lead on a number of exercises including specific Newsletters outlining changes to Scheme rules, development of the new style Annual Benefit Statements and production of a number of specific 'factsheets' on key legislative aspects.
- Through the FRS17/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.

Looking Forward

Although final regulations and Government Actuary Department factors are still awaited the pensions section anticipates yet another busy year, as in addition to their core functions, your Pension Administration Section intends to:

- Increase the number of registered 'My Pension On-line' users by conducting further promotional events with each employing authority to actively encourage scheme member take up by increasing the number of desktop visits.
- In conjunction with participating employers conduct a rolling programme of presentations to advise Scheme members of the key changes and benefits of the LGPS 2014 Scheme.
- Undertake a full review of all scheme guides, factsheets and documentation to ensure compliance with LGPS 2014, along with creating a new website to reflect the introduction of the LGPS 2014.
- Continue to liaise with all scheme employers to ensure appropriate processes and procedures are in place in order to comply with auto enrolment requirements.

The introduction of the new scheme will bring yet more inherent complexities and retrospective protections that staff will have to ensure are applied appropriately in each individual case. I would like to record my sincere thanks to all staff involved on Scheme administration not only for the work done over the last scheme year but also for their enthusiasm, dedication and capacity to embrace change.

The Actuary's View

Does Bigger mean Better?

We rarely seem to get a pause for breath when dealing with the Local Government Pension Scheme (LGPS), of which the Dyfed Pension Fund is a part. This is despite one of the criticisms sometimes levelled at the Scheme being that the pace of change can be too slow. Over the last 12 months the Fund has had to deal with preparing for the changes to the Scheme which will come into effect from April 2014 (even at the date of writing this note these still haven't been finalised), a change to the Fund's investment regulations, potential changes to the Fund's governance arrangements, and numerous consultations from the government in relation to all these areas.

Over and above this, all the LGPS Funds in Wales, including the Dyfed Pension Fund, have been actively reviewing their overall structural arrangements. In particular, they have been looking at the extent to which the Funds might work more effectively if they were to collaborate more closely in some areas, and they have been considering the potential opportunities and benefits from greater working together in a number of areas including governance and decision making, administration, and investment management. The mantle has now been taken up by the government in Westminster, which has now launched its own consultation into how the LGPS Funds within the whole of England and Wales might better collaborate.

Food and Beverage companies account for 6% of the MSCI All Country World Index.

This is perhaps not quite 'going global', but no doubt the government is hoping that greater economies of scale will help to manage the LGPS more effectively in the future. However, this begs the questions of whether the management of the LGPS really has been ineffective in the past, and also how any economies of scale may materialise in practice. At one level, none of this can affect the fundamental financial position of the Scheme, because the Scheme still has to pay the same level of benefits for the same number of members, and no amount of economies of scale or greater efficiencies can change these benefits. The effects of greater collaboration will therefore be more subtle and will take some time to emerge.

So I am reminded of the small matter of the actuarial valuation of the Fund as at 31 March 2013, and whether this 'bigger, better' world which lies ahead will solve any of the challenging issues which now confront us in terms of managing the Fund's deficit and the level of the employers' contributions. I for one will not be holding my breath. For the time being at least the Dyfed Pension Fund will have to stand on its own two feet, just as it has done so admirably to date.

John Livesey
Fellow of the Institute and Faculty of Actuaries.
Mercer Limited.

Statement of Accounts

Explanatory Foreword

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 2012-2013.

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 2012-13, 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 (Revised May 2007) 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

The Pension Investments Team

Fund Account for the Year Ended 31 March 2013

2011-12 £'000		Note	2012-13 £'000
	Dealings with members, employers and others directly involved in the Fund		
	Contributions		
	Employer		
41,410	Normal		42,664
6,220	Augmentation		6,950
	Member		
16,967	Normal		16,780
45	Additional voluntary		136
2,940	Transfers in from other pension funds	5	2,049
67,582			68,579
	Benefits payable		
(45,581)	Pensions payable		(49,882)
(12,645)	Commutation and lump sum retirement benefits		(12,368)
(1,689)	Lump sum death benefits		(1,281)
(21,637)	Payments to and on account of leavers	6	(3,942)
(1,159)	Administrative expenses	7	(1,138)
(82,711)			(68,611)
(15,129)	**Net Additions (Withdrawals) from dealings with Members**		**(32)**
	Returns on Investments		
26,593	Investment Income	8	31,234
(1,760)	Taxation	9	(2,182)
	Changes in the market value of investments		
(10,382)	Unrealised	10.2	132,768
36,025	Realised	10.3	40,477
(1,454)	Investment Management Expenses	12	(1,686)
49,022	**Net Return on Investments**		**200,611**
33,893	**Net Increase (Decrease) in the net assets available for benefits during the year**		**200,579**
1,346,786	Opening Net Assets of Scheme		1,380,679
1,380,679	**Closing Net Assets of Scheme**		**1,581,258**

Net Assets Statement for the year ended 31 March 2013

31/03/12 £'000 (restated)		Note	31/03/13 £'000
1,393,782	Investment Assets		1,595,264
12,020	Cash deposits		7,812
(5,196)	Investment liabilities		(2,237)
1,400,606		10.1	1,600,839
4,790	Current assets	15	5,530
(24,717)	Current liabilities	16	(25,111)
(19,927)	Net Current Assets		(19,581)
1,380,679	**Total Net Assets**		**1,581,258**

Current assets (previously £4,473k) and Current liabilities (previously £24,400k) have been increased to reflect pension payroll control accruals of £448k that historically have been netted off and decreased to reflect payments made in 2011-12 that related to 2012-13 of £131k, and the netting off of these transactions with the ledger system.

Reconciliation of the movement in Fund Net Assets

2011-12 £'000		2012-13 £'000
1,346,786	Opening Net Assets	1,380,679
8,250	Net New Money Invested	27,334
25,643	Profit and losses on disposal of investments and changes in the market value of investments	173,245
1,380,679	**Closing Net Assets of Fund**	**1,581,258**

Notes to the Dyfed Pension Fund Accounts for the year ended 31 March 2013

1 Description of the Fund

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

The following description of the Fund is a summary only. For more detail, reference should be made to the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

1.1 General

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

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

It is a contributory defined pension scheme administered by 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 Panel (the Panel).

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 60 employer organisations within the Dyfed Pension Fund as at 31 March 2013 and these are detailed in Note 20. The membership details of these organisations are summarised below:

31/03/12		31/03/13
17,569	Number of active contributors in the Fund	17,596
9,407	Number of pensioners	9,872
11,365	Number of deferred pensioners	12,177
38,341	Total membership	39,645
48	Number of employers with active members	48

These figures reflect the recorded position as at 31 March 2013 but are always subject to some movement post year end for notifications from employing bodies received after this date.

1.3 Funding

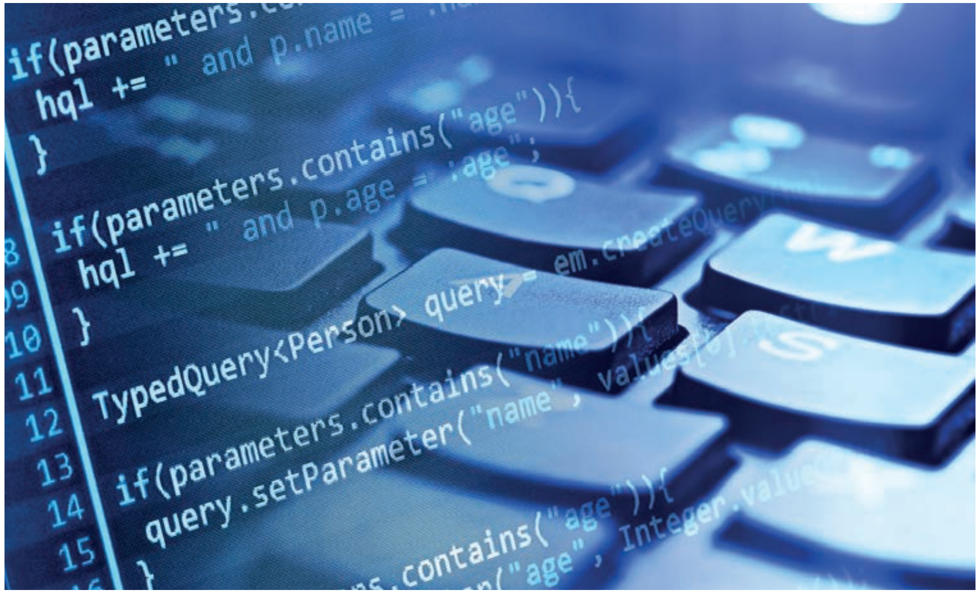
Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations, the last such valuation was as at 31 March 2010. Currently, employer contribution rates range from 5.6% to 46.8% 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 post 31 March 2008
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.

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**



Software and Services account for 5% of the MSCI All Country World Index.

1.5 LGPS 2014

Following a review of Public Sector pensions the Government undertook a statutory consultation on the proposals for a new LGPS from 1 April 2014. The Dyfed Pension Fund consultation response is on the website. Further consultations will take place over the coming months in respect of transitional protection for existing scheme members and on Scheme Governance. Road shows and guidance will be made available to scheme members once all regulations have been laid before Parliament.

The table below shows the main provisions of the proposed LGPS 2014 for membership FROM 1 April 2014.

Basis of Pension	Career Average Revalued Earnings (CARE)	
Accrual rate	1/49th	
Revaluation rate	Consumer Price Index (CPI)	
Normal Pension Age	Equal to the members State Pension Age (Minimum Age 65)	
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit	
Definition of Pensionable Pay	Based on actual pensionable pay and to include non contractual overtime and additional hours for part time staff	
Vesting Period	Will increase from 3 months to 2 years	
Contribution Bandings	The proposed contribution banding below for the LGPS 2014 will not be subject to annual reviews, it will instead be subject to a review following each triennial valuation.	
	Earnings Band (£)	Contribution Rate (%)
	Up to 13,500	5.50
	13,501 - 21,000	5.80
	21,001 - 34,000	6.50
	34,001 - 43,000	6.80
	43,001 - 60,000	8.50
	60,001 - 85,000	9.90
	85,001 - 100,000	10.50
	100,001 - 150,000	11.40
	150,001 or more	12.50

2 Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2012-2013 financial year and its position at year end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-2013 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.

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.

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

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.

3.4 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 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff, management, accommodation and other overheads are apportioned to the Fund in accordance with council policy.

3.7 Investment management expenses

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' fee is performance related. The performance related penalty was £0.45m in 2012-2013 (2011-2012: £0.48m).

Net assets statement

3.8 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:

3.8.1 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.

3.8.2 Fixed interest securities

Fixed interest securities are recorded at net market value.

3.8.3 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.

3.8.4 Limited partnerships

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

3.8.5 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.

3.9 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.

3.10 Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

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.

3.11 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.

3.12 Actuarial present value of promised retirement benefits

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a reference in the accompanying actuarial report.

3.13 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 Equitable Life, where a range of investment options are available.

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

AVC's are invested separately from the assets of the Fund and are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Pension Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only - Note 17.

4 Critical judgements in applying accounting policies

4.1 Fund liability

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

5 Transfers in from other pension funds

2011-12 £'000		2012-13 £'000
0	Group transfers in from other schemes and scheme mergers	0
2,940	Individual transfers in from other schemes	2,049
2,940		**2,049**

6 Payments to and on account of Leavers

2011-12 £'000		2012-13 £'000
(6)	Refunds to members leaving service	(3)
(1)	Payments for members joining state scheme	4
(20,807)	Group transfers to other schemes	* (1,193)
(823)	Individual transfers to other schemes	(2,750)
(21,637)		**(3,942)**

* this figure is an accrual of £1.2m relating to the transfer of Dyfed Powys Probation.

7 Administrative Expenses

2011-12 £'000		2012-13 £'000
(1,052)	Administration and processing	(1,055)
(71)	Actuarial fees	(47)
(25)	Audit fees	(25)
(11)	Legal and other professional fees	(11)
(1,159)		**(1,138)**

8 Investment Income

2011-12 £'000		2012-13 £'000
2,205	Fixed interest securities	1,627
20.503	Equity dividends	24,453
2,236	Pooled property investments	3,371
1,204	Pooled investments - Unit trust and other manager funds	1,164
422	Property	606
23	Interest on cash deposits	11
0	Other	2
26,593		**31,234**

9 Taxation

2011-12 £'000		2012-13 £'000
(0)	Witholding tax - fixed interest securities	(0)
(1,756)	Witholding tax - equities	(2,163)
(4)	Withholding tax - pooled	(19)
(1,760)		**(2,182)**

10 Investments

10.1 Net investment assets

Fair value 31/03/12 £'000		Fair value 31/03/13 £'000
	Investment assets	
	Fixed interest securities	
	UK Corporate Bonds	
149,019	- BlackRock	163,663
	Indexed Linked Securities	
145,298	- BlackRock	164,837
	Equities	
	UK Quoted Equities	
545,497	- BlackRock	627,928
	Pooled Investments	
	UK Managed Funds	
12,330	- BlackRock (GASL)	11,926
	Overseas equities	
437,842	- BlackRock	508,091
	Pooled property investments	
78,419	- Schroders	87,560
6,702	- Partners Group	12,794
	Property	
4,188	- Schroders	4,498
6,702	- Partners Group	7,842
	Cash deposits	
11,860	- BlackRock	5,991
160	- Schroders	1,821
0	- Partners Group	0
	Investment income due	
3,531	- BlackRock	3,959
140	- Schroders	0
	Amounts receivable for sales	
4,114	- BlackRock	2,166
1,405,802	**Total investment assets**	**1,603,076**
	Investment liabilities	
	Amounts payable for purchases	
(5,196)	- BlackRock	(2,237)
(5,196)	**Total investment liabilities**	**(2,237)**
1,400,606	**Net investment assets**	**1,600,839**

10.2 Reconciliation of movements in investments

During the year, investments purchased totalled £400m whilst sales totalled £329m. The sales realised a net gain of £40m. Acquisition costs are included in the purchase price of the investment.

	Fair value 31/03/2012 £'000	Purchases at Cost £'000	Sales at Cost £'000	Cash movement £'000	Unrealised gains/(losses) £'000	Fair value 31/03/2013 £'000
Fixed interest securities	294,317	38,534	(30,307)	0	25,956	328,500
Equities	545,497	265,353	(245,831)	0	62,909	627,928
Pooled investments	450,172	75,000	(49,407)	0	44,252	520,017
Pooled property investments	85,121	18,418	(2,585)	0	(601)	100,353
Property	10,890	2,250	(1,192)	0	392	12,340
Liquidity Fund	0	0	0	0	0	0
	1,385,997	**399,555**	**(329,322)**	**0**	**132,908**	**1,589,138**
Other investment balances						
Cash deposits	12,020	0	0	(4,208)	0	7,812
Amount receivable for sales investments	4,114	0	0	(1,948)	0	2,166
Investment income due	3,671	0	0	428	(140)	3,959
Amounts payable for purchases investments	(5,196)	0	0	2,960	0	(2,236)
	1,400,606	**399,555**	**(329,322)**	**(2,768)**	**132,768**	**1,600,839**

Transaction costs are included in the cost of purchase and sale proceeds. Identifiable transaction costs incurred during the year amounted to £1.44m (2011-2012: £3.17m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled vehicles. The amount of indirect costs is not separately provided to the scheme.

10.3 Realised gains and losses

2011-12 £'000		2012-13 £'000
23,232	Fixed interest Securities	7,579
9,491	Equities	5,953
3,294	Pooled Investments	26,744
8	Pooled Property Investments	212
0	Property	(11)
36,025		**40,477**

10.4 Geographical analysis of investments

Fair value 31/03/12 £'000	Geographical analysis	Fair value 31/03/13 £'000
943,124	UK	1,067,201
163,833	Europe (excl UK)	114,295
150,412	North America	177,552
50,856	Japan	57,761
46,743	Pacific Rim	56,071
45,638	Emerging Markets	127,959
1,400,606		**1,600,839**

10.5 Fund manager analysis

Fair value 31/03/12 £'000	Fund manager analysis	Fair value 31/03/13 £'000
1,304,293	BlackRock	1,486,775
82,908	Schroders	93,428
13,405	Partners Group	20,636
1,400,606		**1,600,839**

11 Concentration of Investments

The following investments represent more than 5% of the Fund's total net assets as at 31 March 2013:

	Value as at 31/03/2013 £'000	Proportion of Investment Portfolio %
BlackRock Ascent Life US Equity Fund	169,192	10.57
BlackRock Ascent UK All Stock Corp Bond Fund	156,183	9.76
BlackRock Ascent Life European Equity Fund	88,747	5.55

12 Investment Management Expenses

2011-12 £'000		2012-13 £'000
(1,332)	Management fees	(1,566)
(92)	Custody fees	(89)
(13)	Performance measurement service	(13)
(17)	Independent Adviser	(18)
(1,454)		**(1,686)**

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. No financial assets were reclassified during the accounting period.

2011-12					2012-13			
Designated at fair value through profit and loss £'000	Loans and receivables £'000 (restated)	Financial liabilities at amortised cost £'000 (restated)	Total £'000 (restated)		Designated at fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000
				Financial assets				
294,317	0	0	294,317	Fixed interest securities	328,500	0	0	328,500
545,497	0	0	545,497	Equities	627,928	0	0	627,928
450,172	0	0	450,172	Pooled investments	520,017	0	0	520,017
85,121	0	0	85,121	Pooled property investments	100,353	0	0	100,353
10,890	0	0	10,890	Property	12,340	0	0	12,340
0	13,010	0	13,010	Cash	0	9,529	0	9,529
7,783	0	0	7,783	Other investment balances	6,126	0	0	6,126
0	3,802	0	3,802	Debtors	0	3,813	0	3,813
1,393,780	**16,812**	**0**	**1,410,592**		**1,595,264**	**13,342**	**0**	**1,608,606**
				Financial liabilities				
(5,196)	0	0	(5,196)	Other investment balances	(2,237)	0	0	(2,237)
0	0	(24,717)	(24,717)	Creditors	0	0	(25,111)	(25,111)
(5,196)	**0**	**(24,717)**	**(29,913)**		**(2,237)**	**0**	**(25,111)**	**(27,348)**
1,388,584	**16,812**	**(24,717)**	**1,380,679**	**Total**	**1,593,027**	**13,342**	**(25,111)**	**1,581,258**

13.2 Net gains and losses on financial instruments

2011-12 £'000		2012-13 £'000
	Financial assets	
25,646	Fair value through profit and loss	173,245
(3)	Loans and receivables	0
0	Financial assets measured at amortised cost	0
25,643	**Total financial assets**	**173,245**
	Financial liabilities	
0	Fair value through profit and loss	0
0	Loans and receivables	0
0	Financial liabilities measured at amortised cost	0
0	**Total financial liabilities**	**0**
25,643	**Total**	**173,245**

13.3 Fair value of financial instruments and liabilities

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

Carrying value 31/03/12 £'000	Fair value 31/03/12 £'000		Carrying value 31/03/13 £'000	Fair value 31/03/13 £'000
		Financial assets		
1,155,233	1,393,780	Fair value through profit and loss	1,223,952	1,595,264
16,812	16,812	Loans and receivables	13,342	13,342
1,172,045	**1,410,592**	**Total financial assets**	**1,237,294**	**1,608,606**
		Financial liabilities		
(5,196)	(5,196)	Fair value through profit and loss	(2,237)	(2,237)
(24,717)	(24,717)	Financial liabilities measured at amortised cost	(25,111)	(25,111)
(29,913)	**(29,913)**	**Total financial liabilities**	**(27,348)**	**(27,348)**
1,142,132	**1,380,679**	**Total**	**1,209,946**	**1,581,258**

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.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and certain unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include limited partnerships, where fair value is ascertained from periodic valuations provided by those controlling the partnership. Assurance over the valuation is gained from the independent audit of the partnership.

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

Fair values at 31 March 2013	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	800,250	774,378	20,636	1,595,264
Loans and receivables	13,342	0	0	13,342
Total financial assets	**813,592**	**774,378**	**20,636**	**1,608,606**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(2,237)	0	0	(2,237)
Financial liabilities at amortised cost	(25,111)	0	0	(25,111)
Total financial liabilities	**(27,348)**	**0**	**0**	**(27,348)**
Net financial assets	**786,244**	**774,378**	**20,636**	**1,581,258**

Fair values at 31 March 2012	Quoted market price Level 1 £'000 (restated)	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000 (restated)
Financial assets				
Financial assets at fair value through profit and loss	701,408	678,968	13,404	1,393,780
Loans and receivables	16,812	0	0	16,812
Total financial assets	**718,220**	**678,968**	**13,404**	**1,410,592**
Financial liabilities				
Financial assets at fair value through profit and loss	(5,196)	0	0	(5,196)
Financial liabilities at amortised cost	(24,717)	0	0	(24,717)
Total financial liabilities	**(29,913)**	**0**	**0**	**(29,913)**
Net financial assets	**688,307**	**678,968**	**13,404**	**1,380,679**

Telecommunications account for 4% of the MSCI All Country World Index.

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 Panel. 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 Panel and its independent 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.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Panel 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. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on funds' asset allocations. 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 (+/-)
Cash	0.02%
UK Equities	13.36%
Overseas Equities	13.32%
UK Corporate Bonds	4.68%
Index Linked Securities	8.41%
Property	2.11%
Alternatives (GASL)	8.08%

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 2013 £'000	Change	Value on Increase £'000	Value on Decrease £'000
Cash	7,812	0.02%	7,814	7,810
UK Equities	627,928	13.36%	711,820	544,037
Overseas Equities	508,091	13.32%	575,768	440,413
UK Corporate Bonds	163,663	4.68%	171,322	156,004
Index Linked Gilts	164,837	8.41%	178,699	150,975
Property	112,694	2.11%	115,072	110,316
Alternatives	11,926	8.08%	12,890	10,963
Sales receivable	2,166	0.00%	2,166	2,166
Purchases payable	(2,237)	0.00%	(2,237)	(2,237)
Income receivables	3,959	0.00%	3,959	3,959
Total Assets	**1,600,839**		**1,777,273**	**1,424,406**

Asset Type	Value as at 31 March 2012 £'000 (restated)	Change	Value on Increase £'000	Value on Decrease £'000
Cash	12,020	0.00%	12,020	12,020
UK Equities	545,497	15.31%	629,013	461,981
Overseas Equities	437,842	15.89%	507,415	368,269
UK Corporate Bonds	149,019	5.46%	157,155	140,882
Index Linked Gilts	145,298	7.70%	156,486	134,110
Property	96,012	6.20%	101,964	90,059
Alternatives	12,330	7.00%	13,193	11,467
Sales receivable	4,114	0.00%	4,114	4,114
Purchases payable	(5,196)	0.00%	(5,196)	(5,196)
Income receivables	3,671	0.00%	3,671	3,671
Total Assets	**1,400,606**		**1,579,835**	**1,221,377**

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 Panel 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 2013 and 31 March 2012 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

31/03/12 £'000 (restated)	Asset type	31/03/13 £'000
12,020	Cash and cash equivalents	7,812
990	Cash held at CCC	1,717
294,317	Fixed interest securities	328,500
307,327	**Total**	**338,029**

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 31/03/13	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	7,812	78	(78)
Cash held at CCC	1,717	17	(17)
Fixed interest securities	328,500	3,285	(3,285)
Total change in available assets	**338,029**	**3,380**	**(3,380)**

Asset type	Value as at 31/03/12	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£'000	£'000	£'000
Cash and cash equivalents	12,020	120	(120)
Cash held at CCC	990	10	(10)
Fixed interest securities	294,317	2,943	(2,943)
Total change in available assets	**307,327**	**3,073**	**(3,073)**

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 Panel 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 2013 and as at 31 March 2012:

Fair value 31/03/12	Asset type	Fair value 31/03/13
437,842	Overseas Equities	508,091
19,639	Property	25,298
94	Cash	251
457,575	**Total overseas assets**	**533,640**

14.9 Currency risk sensitivity analysis

The aggregate currency exposure within the Fund as at 31 March 2013 was 5.3% (2011-12 8.3%).

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

A 5.3% 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 31/03/13	Change to net assets available to pay benefits	
		5.3%	-5.3%
	£'000	£'000	£'000
Overseas Equities	508,091	535,019	481,161
Property	25,298	26,639	23,957
Cash	251	264	238
Total change in available assets	**533,640**	**561,922**	**505,356**

Asset type	Fair value 31/03/12	Change to net assets available to pay benefits	
		+8.3%	-8.3%
	£'000	£'000	£'000
Overseas Equities	437,842	474,183	401,501
Property	19,639	21,269	18,009
Cash	94	102	86
Total change in available assets	**457,575**	**495,554**	**419,596**

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 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 if needed. Also, at present, contributions received from contributing employers and members far exceed the benefits being paid.

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

31/03/12 £'000 (restated)		31/03/13 £'000
	Contributions due from employer	
2,268	- Employer	2,165
781	- Employee	864
990	Cash Balances	1,717
751	Debtors	784
4,790		**5,530**

15.1 Analysis of Current assets

31/03/12 £'000 (restated)		31/03/13 £'000
3	Central government bodies	3
2,955	Other local authorities	4,074
1	NHS bodies	1
405	Public corporations and trading funds	589
1,426	Other entities and individuals	863
4,790		**5,530**

The Debtors figure shown above includes no debts which are past their due date for payment.

16 Current liabilities

31/03/12 £'000 (restated)		31/03/13 £'000	
(1,710)	Unpaid benefits	(266)	
(23,007)	Creditors	(24,845)	*
(24,717)		**(25,111)**	

* this figure includes an accrual for £22m relating to the transfer of Dyfed Powys Probation assets.

16.1 Analysis of Current liabilities

31/03/12 £'000 (restated)		31/03/13 £'000
(448)	HMRC	(478)
0	Central government bodies	0
(20,833)	Other local authorities	(22,000)
(1)	NHS bodies	0
(542)	Public corporations and trading funds	(414)
(2,893)	Other entities and individuals	(2,219)
(24,717)		**(25,111)**

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 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 31/03/12 £ '000	Contributions £ '000	Expenditure £ '000	Change in Market Value £ '000	Value as at 31/03/13 £ '000
Prudential	950	757	(232)	75	1,550
Equitable Life	768	14	(105)	53	730
Standard Life	3,660	218	(927)	238	3,189
Total	**5,378**	**989**	**(1,264)**	**366**	**5,469**

18 Funding arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, 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 last such valuation took place as at 31 March 2010. The next valuation will take place as at 31 March 2013.

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

19 Related Party Transactions

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

The Authority incurred costs of £0.856 million (2011-2012: £0.825 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 £30.156 million to the Fund in 2012-2013 (2011-2012: £30.446 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 2013, the Fund had an average investment balance of £5.66 million (2011-2012: £4.11 million) earning interest of £30,566 (2011-2012: £23,071).

19.1 Governance

There are three members and one substitute member of the Pension Panel. In 2012-13 these were Councillor Wyn Evans, Councillor Siân Thomas, Councillor Terry Davies and the substitute was Councillor Philip Hughes. They are all active members of the Fund.

The Director of Resources, Mr Roger Jones, who has the role of Section 151 Officer for the Authority, plays a key role in the financial management of the Fund and is also an active member of the Fund.

The Panel members, and the Senior Officers that advise the Panel, are required to declare their interest at each meeting.

The Panel members and Director of Resources accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

For more details, and to view the Governance Policy, please refer to the Fund's website - **www.dyfedpensionfund.org.uk**

Automobiles and Components account for 2% of the MSCI All Country World Index.

20 Employing bodies contribution rates, contributions receivable and Benefits payable

2011-12 Contribution rate %	2011-12 Contributions £'000	2011-12 Benefits payable £'000		2012-13 Contribution rate %	2012-13 Contributions £'000	2012-13 Benefits payable £'000
			Scheduled bodies			
16.6	30,446	25,551	Carmarthenshire County Council	16.6	30,156	26,471
14.7	12,998	10,767	Pembrokeshire County Council	14.7	13,461	12,339
15.2	9,268	6,937	Ceredigion County Council	15.2	10,045	7,304
13.1	3,816	2,568	Dyfed Powys Police Authority	13.1	3,605	1,698
16.0	1,245	838	Mid & West Wales Fire Authority	16.0	1,302	895
13.4	191	137	Coleg Ceredigion	14.7	212	229
14.3	1,077	520	Coleg Sir Gar	13.7	1,084	631
14.9	658	554	Pembrokeshire Coast National Park	13.6	552	523
12.3	671	87	Pembrokeshire College	13.2	762	159
	60,370	**47,959**			**61,179**	**50,249**
			Designated (Resolution) bodies			
21.4	11	5	Aberystwyth Town Council	24.7	13	5
12.1	1	0	Aberaeron Town Council	9.9	1	0
19.2	68	57	Carmarthen Town Council	18.1	57	96
20.9	3	1	Gorslas Community Council	22.6	4	1
19.8	12	27	Haverfordwest Town Council	24.4	9	17
21.6	7	15	Kidwelly Town Council	30.5	10	10
25.6	2	0	Llanbadarn Fawr Community Council	21.9	2	5
21.4	1	0	Llanarthney Community Council	17.5	1	0
15.2	135	84	Llanelli Rural Council	14.9	139	179
18.9	48	63	Llanelli Town Council	15.3	42	68
15.0	6	0	Llangennech Community Council	12.7	5	0
27.3	23	6	Llannon Community Council	17.1	17	6
22.1	23	22	Pembrey & Burry Port Town Council	19.9	17	5
1.8	3	14	Tenby Town Council	9.3	4	14
	343	**294**			**321**	**406**

2011-12 Contribution rate %	2011-12 Contributions £'000	2011-12 Benefits payable £'000		2012-13 Contribution rate %	2012-13 Contributions £'000	2012-13 Benefits payable £'000
			Admission bodies			
			Community Admission Body (CAB)			
0.0	2	0	Cardigan Swimming Pool Trust	0.0	2	0
15.3	41	15	Ceredigion Assoc. of Voluntary Services	15.7	53	16
14.9	1,286	536	Careers Wales	14.2	2,923	1,405
11.4	70	43	Carms Assoc. of Voluntary Services	11.9	56	62
17.8	8	0	Carms Federation of Young Farmers	11.8	6	0
12.5	41	6	Iaith Cyf (Cwmni Iaith)	14.5	37	6
34.4	4	14	Leonard Cheshire Disability	44.2	5	14
20.9	33	26	Llanelli Joint Burial Authority	22.1	37	23
7.8	48	0	Menter Bro Dinefwr	6.2	49	0
10.7	46	9	Menter Cwm Gwendraeth	11.9	45	81
7.9	12	0	Menter Gorllewin Sir Gar	5.6	13	0
17.2	8	0	Menter Iaith Castell Nedd - Port Talbot	16.5	8	0
16.3	9	6	Narberth & District Comm & Sports Assoc.	18.6	10	7
14.2	94	1	Pembs Assoc. of Voluntary Services	13.0	94	71
12.2	79	12	Planed	11.6	77	52
14.9	144	16	PRISM	13.2	133	21
13.5	330	7	Tai Ceredigion	11.3	281	29
15.3	731	602	UOW Trinity St Davids	17.5	666	501
26.7	88	233	University College of Wales	46.8	66	198
14.9	242	211	Welsh Books Council	14.4	249	227
16.2	38	76	West Wales Action for Mental Health	16.6	19	37
14.5	34	32	Valuation Tribunal for Wales	16.9	37	34
	3,388	**1,844**			**4,866**	**2,793**
			Transferee Admission Body (TAB)			
12.5	4	0	Garnant Golf Club Limited	12.5	67	55
17.8	76	11	Grwp Gwalia Cyf	17.8	7	0
0.0	0	0	Cwmamman Town Council	14.2	3	0
	80	**11**			**77**	**55**
			Bodies with no pensionable employees			
0.0	5	6	DVLA	0.0	5	6
0.0	55	488	Dyfed Powys Magistrates Courts	0.0	52	512
11.5	6	2	Carmarthen Family Centre	0.0	0	27
0.0	4	6	Milford Haven Town Council	0.0	2	4
0.0	0	2	MENCAP	0.0	0	2
0.0	0	9,213	Dyfed County Council	0.0	0	9,394
0.0	0	0	Dyfed Assoc. Of Voluntary Services	0.0	0	12
0.0	20	22	National Health Service	0.0	14	15
0.0	370	46	Welsh Water Authority	0.0	13	41
0.0	0	8	Cwm Environmental	0.0	0	9
0.0	0	13	Cartrefi Cymru	0.0	0	5
	1	1	Rent Officer Service	0.0	1	1
	461	**9,807**			**87**	**10,028**
	64,642	**59,915**	**Total**		**66,530**	**63,531**

20.1 Bodies with No Pensionable Employees

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

21 Contingent Assets

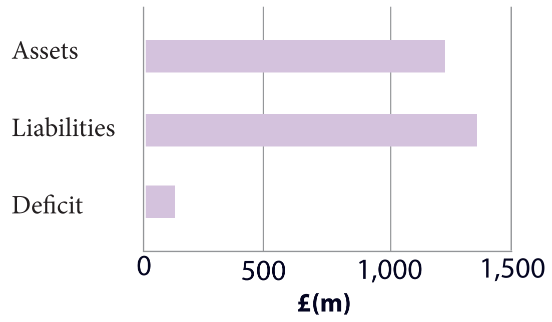
Three admission body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default.

22 Actuarial Statement

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Dyfed Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £1,234 million represented 91% of the Fund's past service liabilities of £1,363 million (the 'Funding Target') at the valuation date.



The valuation also showed that a common rate of contribution of 12.0% of pensionable pay per annum was required from employers. The common 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.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 3.2% of pensionable pay for 17 years. This would imply an average employer contribution rate of 15.2% of pensionable pay in total.

Further details regarding the results of the valuation are contained in Mercer's formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our 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). Different approaches adopted in implementing 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 Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- pre retirement	7.0% p.a.	6.75% p.a.
- post retirement	5.5% p.a.	6.75% p.a.
Rate of pay increases	4.75% p.a.	4.75% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% p.a.	3.0% p.a.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

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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 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% p.a.	4.2% p.a.
Rate of pay increases	4.25% p.a.	4.15% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% p.a.	2.4% p.a.

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £1,737 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£227 million. Adding interest over the year increases the liabilities by a further c£85 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£3 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2013 is therefore £2,052 million.

John Livesey
Fellow of the Institute and
Faculty of Actuaries
Mercer Limited
May 2013

Transportation companies account for 2% of the MSCI All Country World Index.

Independent Auditor's Statement

Independent Auditor's Statement to the Members of the Administering Authority of Dyfed Pension Fund

I have examined the pension fund accounts and related notes contained in the 2013 Annual Report of Dyfed Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Carmarthenshire County Council for the year ended 31 March 2013 which were authorised for issue on 27 September 2013. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Independent Auditor

The Administering Authority, Carmarthenshire County Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on the consistency of the pension fund accounts and related notes contained in the Annual Report with the pension fund accounts and related notes included in the Statement of Accounts of the Administering Authority. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts.

I conducted my work based on the requirements of Bulletin 2008/3 issued by the Auditing Practices Board. My report on the pension fund accounts and related notes included in the Statement of Accounts produced by Carmarthenshire County Council describes the basis of my opinion on those accounts.

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Dyfed Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Carmarthenshire Council for the year ended 31 March 2013 which were authorised for issue on 27 September 2013 on which I issued an unqualified opinion.

As stated in my report on the statutory financial accounts, I cannot conclude the audit until further enquiries regarding the lawfulness of transactions and enquiries arising from matters raised by members of the public have been formally completed.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the Authority's Statement of Accounts, 27 September 2013.

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

1 October 2013

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 Investment Panel, 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 Statement of Investment Principles.

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 ie 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 make-up 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 The WM Company, which the Dyfed Pension Fund uses, and CAPS.

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

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

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

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

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

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

Contacting the Fund

Pension Investments

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Membership & Benefits Queries

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Surname H-O	01267 224155
Surname P-Z	01267 224185

Appendix

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.

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

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

This policy document sets out the methods used to meet those communication needs and is subject to periodic review.

The Dyfed Pension 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.

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

Scheme Members

Fund Website

The Fund has established an extensive website which sets outs 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.

The site allows Scheme members to calculate and project their benefits, as well as providing external links to related websites.

My Pension Online

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 on 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 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

An Annual Benefit Statement is sent directly to the home address of all active contributors. The statement sets out the current value of benefits (as at 31 March), a projection at age 60 / 65, the current value of death benefits and a State Pension forecast. Statements are also sent directly to the home address of all deferred members, providing the up rated value of benefits and supplementary notes of guidance.

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. Examples of such literature include a range of factsheets, guides, flyers and posters.

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

Roadshows
Frequently held to raise member awareness and understanding towards general Scheme provisions. In partnership with the Fund's in-house AVC provider(s), mid-life planning and pre retirement sessions are also held periodically.

General Presentations & Courses
The Fund can deliver standard or tailored presentations on a wide range of LGPS related subjects.

Pension Surgeries
Pension surgeries are available for groups of Scheme members by request, or for individual members on a surgery basis. Meetings are held at employer venues or alternatively members are able to make an individual appointment with the dedicated Communication & Training Officer.

Mid Life Planning Courses
The Fund's dedicated in-house AVC provider(s) is continually on hand to perform sessions aimed at improving pension benefits, and raising awareness towards retirement planning matters.

Pre-Retirement Courses
The Fund's dedicated Communication & Training Officer is available to attend pre-retirement courses 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.

Payment Advice / P60
Pensioners are issued with payment advice slips every April, and thereafter when a variance of £5 or more occurs. Payment advice slips are frequently tailored with generic messages as a means of notification. P60 notifications are also issued annually in May. This provides 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.

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.

Miscellaneous
Pensioners achieving their 100th birthday are contacted by the Pension Fund to celebrate this landmark birthday and wherever possible, visited by an appropriate representative of the Pension Fund.

Prospective Scheme Members

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

Corporate Induction Courses
The dedicated Communication & Training Officer will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the Scheme. A one-on-one pensions surgery session 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.

Pension Roadshows
As well as being a valuable aid for pensioners and current scheme members, road shows are used to target specific non-members, with support being enlisted from the in-house AVC provider(s). 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
A meeting is held annually for all Scheme employers, at which detailed investment, financial and administrative reports are presented by Fund Managers. Other speakers may also be invited to discuss certain issues connected to the Pensions Industry.

Periodic Meetings
Periodically meetings are arranged for employers. Specifically this has been used as a means of communicating major strategic issues, significant legislation changes and end of year / triennial valuation matters.

Employers' Guide
An Employers' Guide is issued and has been made available on the Fund website to assist employers in discharging their pensions administration responsibilities. This is supplemented by the support of a dedicated Communication & Training Officer, who is available by telephone or personal visit to assist whenever necessary.

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 held at employer venues, with development being monitored and reviewed periodically thereafter.

Website
The Fund website has a dedicated employer area that provides all employers with the guidance needed to effectively discharge their administrative responsibilities. A Latest News index keeps employers up to date with all Scheme developments. Various publications are also available to download.

Access to Pensions Administration System
Each employer has the opportunity to access the pension records of their current members, providing the facility to provide pension benefit estimates directly to members.

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 programme 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 as part of the Fund's commitment to continual improvement.

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

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.

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. Communities & Local Government (CLG) 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.

South & Mid Wales Pensions Officers' Group

Pension Officers from administering authorities in the region meet regularly to share information and ensure uniform interpretation of the LGPS and other prevailing regulations.

Data Protection

To protect any personal information held on computer, the Dyfed Pension Fund, as administered by Carmarthenshire County Council, is registered under the Data Protection Act 1998. This allows members to check that the details held on record are accurate.

National Fraud Initiative

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

General

Whilst this Policy Statement outlines the communication approaches adopted by the Dyfed Pension Fund, there are roles and responsibilities which fall on Scheme members, prospective Scheme members and participating Scheme employers in ensuring that information necessary to maintain an accurate membership base is provided in a timely manner.

Policy Review

This statement will be revised if there is any material change in the Dyfed Pension Fund's communications policy, but will be reviewed no less frequently than on an annual basis.

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.

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 panel must be set up for the Dyfed Pension Fund to:

- review the performance of the fund, decide on the strategic direction of all matters relating to the investment of the fund and monitor all aspects of the investment function
- to determine on Administering Pension Fund Authority matters.

Powers delegated to the Director of Resources for Pensions Administration include:

- In accordance with The Local Government Pension Scheme Regulations 1997 or subsequent amending legislation:
    - 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**
    - Maintenance and update of membership records
    - The calculation and authorisation of benefit payments
    - Provision of membership data for actuarial valuation purposes
    - Preparation and maintenance of the Communication Policy Statement and the Pensions Administration Strategy Statement.

The Panel

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 submit 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 Statement of Investment Principles.

Media companies account for 2% of the MSCI All Country World Index.

Membership

The Panel comprises of:

- three members (one acting as Chair) plus a nominated substitute to act in the absence of a member. Each member of the Panel has voting rights and each Panel member and the substitute are nominated by Carmarthenshire County Council, the Administering Authority, from its elected membership. At least three members must attend each panel meeting
- three officers from Carmarthenshire County Council. The Director of Resources, Head of Financial Services and Treasury and Pension Investments Manager. At least two officers must attend each panel meeting
- the Independent Investment Adviser.

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

The Head of Financial Services, Treasury and Pension Investments Manager and officers in the Treasury and Pension Investments team support the Director of Resources 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 Investment Panel 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 Statement of Investment Principles, 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 panel members.

Panel Meetings

The Panel meets four times a year. Meetings are held in London at the offices of the Fund Managers and in Carmarthenshire.

An agenda, minutes from the previous meeting and written reports are sent to each Panel member before each meeting. During the Panel meeting the Panel members receive reports presented by Officers of Carmarthenshire County Council, its Independent Investment Adviser, the Performance Measurement Consultant, the Fund Managers and any other person the Panel invites to speak at the meeting. Panel decisions are formally minuted.

After each Panel a meeting is held with the Directors of Finance of the three County Councils, where Fund performance and other items dealt with at Panel are discussed. Issues raised at this meeting that Panel need to be made aware of are reported back to the following Panel 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 representative, 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 Fund, the Director of Resources, the Fund Advisers and Investment Managers attend the ACM to answer any questions.

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:

A. Structure

B. Representation

C. Selection

D. Voting

E. Training, facility time and expenses

F. Meetings *(frequency / quorum)*

G. Access

H. Scope

I. 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 panel.

Compliance Statement: Not Fully Compliant - Justification:

The Dyfed Pension Fund Panel exists and meets four times a year. The Panel 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 Panel but they are all invited to the annual ACM where all Panel 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) after each Panel meeting where Panel minutes are made available. 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 Panel has representatives from Carmarthenshire County Council and the independent investment adviser. Other scheme employers, admitted bodies and scheme members do not attend Panel but they are all invited to the annual ACM where all Panel 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) after each Panel meeting where Panel 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 Panel is to perform. If Panel members change 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 Panel members can vote. Carmarthenshire County Council is the Administering Authority and all functions are delegated to the Panel.

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 Panel have regular training sessions run by the Fund Managers, the Actuary, and officers. New Panel members attend intense training sessions on commencement of their panel duties, including the LGE pension training session.

Best Practice Principle F: Meetings (frequency / quorum)

- That an administering authority's main committee or committees meet at least quarterly
- That 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
- That 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 Panel 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 committees or panels 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 Panel, including the Panel'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 Panel 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 Panel members.

Best Practice Principle I: Publicity

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

Compliance Statement: Fully Compliant - Justification:

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

Summary

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

Funding Strategy Statement

This Statement has been prepared by Carmarthenshire County Council (the Administering Authority) to set out the funding strategy for the Dyfed Pension Fund (the Fund), in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Introduction

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which the Administering Authority is required to prepare an FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the Fund published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles. Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme Regulations 1997 (as amended), 'the Regulations'). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 77) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate.

Contributions to the Fund should be set so as to 'secure its solvency', whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

The key statements relate as follows:

- Valuation Results – How much to pay and when to meet current and future payments
- Funding Strategy Statement – How solvency and risks will be managed having regard to liabilities
- Statement of Investment Principles - How the Fund will be invested and managed.

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 actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible
- to take a prudent longer term view of funding those liabilities.

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 Pension Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, and admitted bodies, having regard to the liabilities
- manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive and invest monies in respect of contributions, transfer values and investment income
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme Regulations 1997 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).

Responsibilities of the key parties

The Administering Authority (Carmarthenshire County Council):

- collects employer and employee contributions
- invests surplus monies in accordance with the regulations and agreed strategy
- ensures that cash is available to meet liabilities as and when they fall due
- manages the valuation process in consultation with the Fund's actuary
- prepares and maintains an FSS and a SIP
- monitors all aspects of the Fund's performance and funding
- exercises discretions within the regulatory framework.

The Individual Employers:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding
- discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

The Fund's actuary:

- prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS
- sets employer contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining contribution rates that are as constant as possible
- prepares advice and calculations in connection with bulk transfers and individual benefit-related matters
- advises on funding strategy, clarifies the preparation of the FSS, and the interrelationship between the FSS and the SIP.

The Fund's investment managers:

- invest funds given in accordance with the SIP and the Investment Management Agreement (IMA)
- meet, or exceed, investment performance targets and risk constraints.

Solvency issues and target funding levels

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements.

The key assumptions making up the funding strategy and as adopted for the 2010 actuarial valuation are:

Past Service	current yields basis
Asset valuation	Market Value
Investment Return pre-retirement	7.0% p.a.
Investment Return post-retirement	5.5% p.a.
CPI Price inflation	3.0% p.a.
Salary increases	4.75% p.a.
Pension increases	3.0% p.a.
Future Service	**long term basis**
Investment Return	6.75% p.a.
CPI Price inflation	3.0% p.a.
Salary increases	4.75% p.a.
Pension increases	3.0% p.a.

Underlying these assumptions are the following two tenets:

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

The current actuarial valuation of the Fund is effective as at 31 March 2010. The actuarial valuation revealed that the assets of the Fund represented 91% of projected accrued liabilities at the valuation date on the actuarial basis outlined above.

Individual participating Employers have historically had discrete contribution rates certified at past fund valuation exercises. This practice will continue with no "grouping" of Employers which ensures that factors and decisions taken by each Employer during the valuation period will only influence that body's contribution rate. Additionally, investment performance is allocated pro rata to each employer's asset share. It is viewed that there is no need to give special consideration to the allocation of investment performance to each individual employer, as might be the case under a "Best Value" transfer of function for example.

The recovery period covering the funding of (non ill-health) early retirements has been reduced over recent valuations. For the majority of employers, such costs will now be recovered on a pay-as-you go basis with any actuarial strain components created as a result of such early retirements being repaid to the Fund over a period not exceeding 3 years.

The Administering Authority has agreed with certain employers an early retirement contingency within their contribution rates. The contingency element is capitalised over a 3 year period for the purpose of monitoring early retirement costs.

The Administering Authority, following consultation with the participating employers, has adopted the following objective to achieve the funding target:

- deficits are to be recovered over a period of 17 years, although shorter periods may apply in some cases. In determining the deficit recovery period the Administering Authority has had regard to:
  - the responses made to the consultation with employers on the FSS principles
  - the need to balance a desire to attain the target as soon as possible against the short term cash requirements which a shorter period would impose
  - the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Healthcare Equipment companies account for 2% of the MSCI All Country World Index.

Link to investment policy set out in the Statement of Investment Principles (SIP)

The results of the 2010 valuation show the liabilities to be 91% covered by the current assets, with the funding deficit of £129m being covered by future deficit contributions.

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

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgoings. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out performance of the investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher, by approximately 40% and the declared funding level would be correspondingly reduced to approximately 65%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The benchmark column shows the benchmark investment strategy set by the Pension Panel. When operating this strategy the investment manager is allowed to vary the asset mix in order to maximise returns. However these variations must remain within the ranges shown in the adjacent table.

The current benchmark investment strategy, as set out in the SIP is:

	Benchmark (%)	Range (%)
UK Equities	39.0	37.5 – 40.5
Overseas Equities	30.0	28.5 - 31.5
Pan European Property	10.0	
Bonds	20.0	18.5 - 21.5
Cash (including GTAA)	1.0	0.0 - 10.0
Total	100.0	

Overseas Equities	Benchmark (%)	Range (%)
North America	10.00	5.00 - 15.00
Europe (excl. UK)	5.00	0.00 - 10.00
Japan	3.50	0.00 - 8.50
Developed Pacific (excl. Japan)	3.25	0.00 - 8.25
Emerging Markets	8.25	3.25 - 13.25
Total	30.00	

Bonds	Benchmark (%)	Range (%)
Index Linked Gilts	10.00	5.00 - 15.00
UK Corporate Bonds	10.00	5.00 - 15.00
Total	20.00	

Additional Restrictions are as follows:

Overseas Bonds	0 - 7%
Total Overseas Exposure	43.0 – 53.0%

The funding strategy adopted for the 2010 valuation is based on an assumed asset outperformance of 2.5% p.a. in respect of liabilities pre-retirement, and 1.0% p.a. in respect of post retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall asset out-performance allowance of around 1.6% p.a. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund 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 actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.6% per annum assumed on the basis of the current liability profile.

CIPFA guidance identifies the following key risks:

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Managers fail to achieve performance targets over the longer term
- Asset allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies.

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements Regulatory
- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules.

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in Panel membership.

Key Risks Specific to the Fund

The Fund is actively managed against its benchmark, a combination of strategic asset allocation and peer group average returns for each asset.

The Fund's response:

- Pension Panel meetings with the investment managers are held on a formal basis. Also, a Consultative Meeting is held with employers and other interested parties each year. Communication with employers therefore provides the effective sharing and collecting of relevant information
- The Fund has adopted a cautious strategy throughout which is reflected in the assumptions used
- Any changes to regulations are immediately assessed
- Where there are changes in the economic scenarios and other assumptions used in preparing the investment strategy, an immediate evaluation of the impact of those changes on the strategy is carried out
- Elected Members serving on the Pension Panel receive regular training. This training is given by the various Advisers and Professionals acting on behalf of the Pension Panel at the formal meetings. Training is also delivered through the attendance of courses and seminars organised by external training providers
- Decisions relating to the Dyfed Pension Fund are made by the Pension Panel after receiving advice from the Advisers appointed by the Panel and from Officers employed by the Administering Authority.

Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employers who either participate in or have a relationship with the Dyfed Pension 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 FSS between full actuarial valuations. If considered appropriate, the FSS will be reviewed (other than as part of the triennial valuation process), if for example:

- there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- there have been significant changes to the Fund membership, or LGPS benefits
- there 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 FSS
- there have been any significant special contributions paid into the Fund.

Statement of Investment Principles

Introduction

The Dyfed Pension Fund adopts as best practice the production, publication and regular review of a Statement of Investment Principles (SIP). The Fund will continue this practice in response to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

With effect from 1 July 2000, Carmarthenshire County Council as the local authority responsible for the administration of the Dyfed Pension Fund (Superannuation Act 1972, 1995 Regulations) has been required to publish a SIP, which must include:

- The types of investments held
- The balance between different types of investments
- Risk
- The expected return on investments
- The realisation of investments
- The extent to which Socially Responsible Investment (SRI) is taken into account in investments
- The exercise of the rights (including voting rights) attaching to investments.

Carmarthenshire County Council in drawing up this statement has consulted its independent adviser and has liaised with its investment managers, particularly on the aims and objectives of the Fund and the manner in which the Fund wishes to achieve these objectives.

The overall investment policy falls into two parts:

- The strategic management of the assets which is fundamentally the responsibility of the Pension Panel. The Pension Panel consists of 3 Elected Members of Carmarthenshire County Council (and 1 substitute member) nominated with delegated powers from Carmarthenshire County Council, who are advised by an independent adviser, and the Director of Resources of Carmarthenshire County Council. This strategic management is driven by the investment objectives
- The day to day management of the assets is delegated to professional investment managers.

Strategic Objectives of the Dyfed Pension Fund

The Pension Panel have adopted the following objectives in consideration of their strategic management of the Fund:

- To ensure that the assets of the Fund match or exceed its liabilities, i.e. the Fund remains solvent
- To establish a strategic asset allocation benchmark which is expected to deliver the required investment return, at an accepted level of risk, in the long term
- To minimise the employers contribution rate, whilst avoiding volatility.

In investing, the Fund is exposed to a number of risks. The following are considered to be the most significant:

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 Panel 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 Panel 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 Panel 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.

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 Panel 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 Panel's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Panel has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Panel has considered the risk of underperformance by any single investment manager.

Other provider risk

- 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 Panel 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 Panel 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.

Strategic Management

It is the Pension Panel'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 Panel 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 Panel, following an asset liability study by Mercer, has set a benchmark mix of asset types and ranges within which the investment manager may operate with discretion. The Panel believes that this mix of assets will fulfil the assumptions within the valuation undertaken in March 2010, as well as taking account of the liability profile of the Fund. This mix will also help to control the risks.

The day to day management of the Assets

The Investment Management Agreements (IMAs) between Carmarthenshire County Council and the investment managers lay out the terms and conditions of the day to day management of the Dyfed Pension Fund. The asset allocation determined following the asset liability study in 2008 and the investment in Pan European Property is as follows:

	Benchmark (%)	Range (%)
UK Equities	39.0	37.5 – 40.5
Overseas Equities	30.0	28.5 - 31.5
Pan European Property	10.0	
Bonds	20.0	18.5 - 21.5
Cash (including GTAA)	1.0	0.0 - 10.0
Total	100.0	

Overseas Equities	Benchmark (%)	Range (%)
North America	10.00	5.00 - 15.00
Europe (excl. UK)	5.00	0.00 - 10.00
Japan	3.50	0.00 - 8.50
Developed Pacific (excl. Japan)	3.25	0.00 - 8.25
Emerging Markets	8.25	3.25 - 13.25
Total	30.00	

Bonds	Benchmark (%)	Range (%)
Index Linked Gilts	10.00	5.00 - 15.00
UK Corporate Bonds	10.00	5.00 - 15.00
Total	20.00	
Additional Restrictions are as follows:		
Overseas Bonds	0 - 7%	
Total Overseas Exposure	43.0 – 53.0%	

The investment managers are allowed to vary the percentage allocations within the ranges indicated. In exceptional circumstances, and within legal constraints, these percentages may be varied with the prior agreement of the pension panel.

Although the investment managers are able to extend to 10% cash within the range allowed, they will advise the Panel when they go over 5% cash. There is a small amount of cash held locally at Carmarthenshire County Council in order to pay all non trading expenses of the Fund.

Following the decision to invest 10% of the value of the Fund in Pan European Property, the intention is to achieve the required investment return from an accepted level of risk. Property is an accepted asset to give diversification of risk. This has affected the benchmarks within which the investment managers can invest as shown above.

The restrictions faced by the investment managers are contained within the Investment Management Agreements (IMAs). The following investments are allowable for the Dyfed Pension Fund:

- Units in active and passive funds, including Global Ascent Ltd
- Shares, convertibles and warrants quoted on any UK exchange
- Shares included in the FT/S&P or MSCI World Indices
- Pan European Property either directly or through pooled funds
- Sovereign issue debt
- Corporate debt – bonds to have a minimum credit rating of either Aa3 or AA- by Moody's Investor Services or Standard and Poors
- Derivatives on any of the above shares or markets with prior permission, with the constraint that they should not gear the portfolio
- Life Funds - up to a limit of 35% of the Fund
- Currencies of any market in the FT/S&P or MSCI World Index.

All investments, excluding property holdings, are readily realisable.

The investment manager has confirmed that within UK Corporate Bonds, the use of derivatives will be for the purposes of efficient portfolio management only, and will not be used for speculative purposes or to leverage the portfolio.

The restrictions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) are included in the IMA and are of course of relevance to the SIP also.

The requirement is for the investment managers to outperform a benchmark. The target given to Blackrock is to seek to outperform the benchmark by 0.7% annualised on a rolling 3 year basis whilst not underperforming the benchmark by more than 3% pa in any one year. The benchmark is constructed by taking the percentage asset allocation given to the manager around which they can work, and assuming the WM Company's Local Authority Universe average performance for each asset class. The investment manager can therefore trade between asset classes at his discretion, within the above restrictions.

The target given to Schroders is to seek to outperform the IPD Pooled Property Fund Index by 0.75% pa over a rolling 5 year period. The target given to Partners Group is to seek a 12% pa gross absolute return (with a secondary benchmark of 200 basis points pa above the IPD Pan European Property Index) over any 3 year rolling period.

The Pension Panel, assisted by the Independent Investment Adviser and Director of Resources, meet quarterly with the investment managers to review performance, to decide on any appropriate investment changes and to monitor all aspects of the investment function. The current managers, advisers and consultants to the Dyfed Pension Fund are:

Investment Managers
BlackRock, Schroders and Partners Group

Independent Investment Adviser
Mr Eric Lambert

Performance measurement company
WM Performance Services

Actuary
Mercer

Custodian
Northern Trust

Social, Environmental and Ethical Considerations

The Pension Panel recognises that social, environmental and ethical considerations are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. The managers have produced statements setting out their policies. The managers have been delegated by the Panel to act accordingly.

Exercise of Voting Rights

The Panel has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly the managers have produced written guidelines of their process and practice. The managers are encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Panel, which include both pooled and segregated mandates. Within segregated mandates, the Panel has absolute discretion over whether stock lending is permitted. The Panel has considered its approach to stock lending, taking advice from its investment adviser.

After consideration of that advice, the Panel has decided not to permit stock lending within any of its segregated investment mandates. The managers of pooled funds may undertake a certain amount of stock lending on behalf of unit holders in the fund. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Panel has no direct control over stock lending in pooled funds, nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund. The Panel reviews its policy on stock lending on a regular basis.

Myners 6 Principles and Compliance Checklist (see overleaf)

Compliance with this Statement

The Pension Panel will monitor compliance with this statement annually at its May meeting. The investment managers will confirm annually in writing that they have complied with this statement and should this statement materially change the investment managers will be informed promptly.

The Review of this Statement

A review of this statement will take place in response to any valuation, asset liability study, or any other material event that would influence the policies of the Fund. This includes changes to the liabilities, the finances, regulations or risk acceptance of the Fund. This review will take place every year at a minimum, or sooner if the situation warrants it. All relevant parties will be involved in the review.

Statement by the Fund Managers

BlackRock, Schroders and Partners Group confirm that they have been made aware of any changes to the Statement of Investment Principles (SIP) and have complied with the SIP over the past year.

Myners 6 Principles - Compliance Checklist

1.	Effective Decision-Making	
	Define who takes investment decisions	Included in SIP
	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 Panel 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 Statement of Investment Principles 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 SIP
	Specify attitude to risk and limits	Clearly outlined in SIP
	Identify performance expectations and timing of evaluation	Clearly outlined in SIP
	Peer group benchmark in use for comparison purposes only	In Place
	Written mandate included in management contract containing elements specified	Contract has been updated, SIP 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 SIP
	Active or passive management considered	Fully considered and in SIP
	Targets and risk controls reflect performance expectations	Fully considered and in SIP
	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 Panel and officers of managers and the Independent Adviser.
	Overall Principle 4	Fully compliant

5.	Responsible Ownership	
	Incorporate US Principles on activism into mandates	Custodian reports on corporate actions taken
	Engage external voting agencies if appropriate	Strong Corporate Governance policy in place through investment manager
	Review manager strategies	Own policy is in operation.
	Establish means to measure effectiveness	Regular reporting in place
	Overall Principle 5	Fully compliant

6.	Transparency and Reporting	
	SIP updated as specified	In Place. Included in the Annual Report
	Consultation undertaken on amendments	In Place. Consultation each year.
	Changes notified to stakeholders	In Place. Included in the Annual Report
	Publish changes to SIP and its availability	In Place. Included in the Annual Report
	Identify monitoring information to report	In Place. Included in SIP and reports given at prescribed intervals
	Inform scheme members of key monitoring data & compliance with principles	In Place. Included in SIP
	Overall Principle 6	Fully compliant