

# CITY & COUNTY OF SWANSEA PENSION FUND


## 1. Introduction

The City & County of Swansea Pension Fund is administered by the City & County of Swansea. However it is a separate statutory fund and its assets and liabilities, income and expenditure are not consolidated into the accounts of the Authority. That is, the Pensions Fund's assets and liabilities are distinct.

The summarised accounts of the Pension Fund shown here comprise three main elements:-

- The Fund Account which shows income and expenditure of the fund during the year, split between payments to/contributions from members and transactions relating to fund investments.
- The Net Assets Statement which gives a snapshot of the financial position of the fund as at 31st March 2014.
- The Notes to The Accounts which are designed to provide further explanation of some of the figures in the statement and to give a further understanding of the nature of the fund.

## 2 Summary of transactions for the year

Where the money comes from:-			And where it goes.....									
	£'000			£'000								
Contributions and transfers in	87,392		Pensions Payable	49,588								
Other	110		Lump sum benefits	17,206								
			Refunds and transfers out	3,136								
			Administrative expenses	1,022								
	<u>87,502</u>			<u>70,952</u>								
			<table border="1"> <thead> <tr> <th></th> <th>£'000</th> </tr> </thead> <tbody> <tr> <td>Net new money into the Fund</td> <td>16,550</td> </tr> <tr> <td>Net return on investments</td> <td>90,493</td> </tr> <tr> <td>Increase in Fund value</td> <td><u>107,043</u></td> </tr> </tbody> </table>			£'000	Net new money into the Fund	16,550	Net return on investments	90,493	Increase in Fund value	<u>107,043</u>
	£'000											
Net new money into the Fund	16,550											
Net return on investments	90,493											
Increase in Fund value	<u>107,043</u>											

# **CITY & COUNTY OF SWANSEA PENSION FUND**

## **Section 151 Officer's Certificate**

I hereby certify that the statement of accounts on pages 141 to 178 present fairly the position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31st March 2014.

# CITY & COUNTY OF SWANSEA PENSION FUND

## Fund Account For The Year Ended 31st March

2012/13	2013/14		
£'000	Notes	£'000	£'000
<b>Contributions and benefits</b>			
Contributions receivable :			
53,937	3	58,554	
15,380	3	<u>16,133</u>	74,687
1,867	4		12,705
23	5		<u>110</u>
<u>71,207</u>			<u>87,502</u>
Benefits payable :			
-47,058	6	-49,588	
-13,868	6	<u>-17,206</u>	-66,794
Payments to and on account of leavers :			
-12	7	-11	
-3,590	7	<u>-3,125</u>	-3,136
-1,037	8		<u>-1,022</u>
<u>5,642</u>			<u>16,550</u>
<b>Net additions from dealing with members</b>			
<b>Returns on investments</b>			
18,753	9		24,456
139,791	12		77,463
-6,439	8		<u>-11,426</u>
<u>152,105</u>			<u>90,493</u>
<b>Net returns on investments</b>			
<u>157,747</u>			<u>107,043</u>
<b>Net increase in the fund during the year</b>			
1,119,852			1,277,599
<b>1,277,599</b>			<b>1,384,642</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## Net Assets Statement As At 31 March

31st March 2013 (Reclassified)* £'000	Notes	31st March 2014 £'000
<b>Investments at market value:</b>		
1,240,512 Investment Assets	11	1,335,099
14,493 Cash Funds	12	13,866
21,497 Cash Deposits	12	29,232
1,744 Other Investment Balances - Dividends Due	12	2,063
<b>1,278,246 Sub Total</b>		<b>1,380,260</b>
5,278 Current Assets	16	15,097
-5,925 Current Liabilities	16	-10,715
<b><u>1,277,599 Net assets</u></b>		<b><u>1,384,642</u></b>

The financial statements on pages 141-173 summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Fund Committee. The financial statements do not take account of liabilities and other benefits which fall due after the period end. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Statement of the Actuary in the Annual Report of the Pension Fund and a summary is included in Note 18 of this statement, and these accounts should be read in conjunction with this information.

\*The reclassification as at the 31st March 2013 is explained in note 12.

## Notes to the Financial Statements

### **1. Basis of preparation**

The financial statements summarise the fund's transactions for the 2013/14 financial year and its position at year-end 31 March 2014. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements do not take account of liabilities and other benefits which fall due after the period end.

### **2. Accounting Policies**

The following principal accounting policies, which have been applied consistently (except as noted below), have been adopted in the preparation of the financial statements:

#### **(a) Contributions**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the month employee contributions are deducted from the payroll.

Early Access contributions from the employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received. Under current rules, employers can exercise discretion to give access to a person's pension rights early (other than for ill health). Where this is done, the additional pension costs arising are recharged to the relevant employer and do not fall as a cost to the fund. Under local agreements some Employers have exercised the right to make these repayments over three years incurring the relevant interest costs.

Other Contributions relate to additional pension contributions paid in order to purchase additional pension benefits.

#### **(b) Benefits**

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the fund as appropriate.

#### **(c) Transfers to and from other Schemes**

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the fund. They are accounted for on a cash basis, or where Trustees have agreed to accept the liability in advance of receipt of funds, on an accruals basis from the date of the agreement.

#### **(d) Investments**

- i) The net assets statement includes all assets and liabilities of the fund at the 31st March.

# **CITY & COUNTY OF SWANSEA PENSION FUND**

## **2. Accounting Policies (continued)**

- ii) Listed investments are included at the quoted bid price as at 31st March.
- iii) Investments held in pooled investment vehicles are valued at the closing bid price at 31st March if both bid and offer price are published; or, if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- iv) Unquoted securities and pooled investment vehicles are valued by the relevant investment managers based on the Fund's share of the net assets or a single price advised by the Fund Manager, in accordance with generally accepted guidelines.
- v) Unit trusts are valued at the Managers' bid prices at 31st March.
- vi) Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.
- vii) Investment management fees are accounted for on an accruals basis.
- viii) Transaction costs are included in the cost of purchases and sales proceeds.
- ix) Investments held in foreign currencies have been translated into sterling values at the relevant rate ruling as at 31st March.
- x) Property Funds/Unit Trusts are valued at the bid market price, which is based upon regular independent valuation of the underlying property holdings of the Fund/Unit Trust.

### **e) Financial Instruments**

Pension Fund assets have been assessed as fair value through profit and loss in line with IAS19.

### **f) Cash and Cash Funds**

Cash comprises cash in hand and cash deposits. Cash funds are highly liquid investments held with Investment Managers.

### **g) Investment Income**

Investment income and interest received are accounted for on an accruals basis. When an investment is valued ex dividend, the dividend is included in the Fund account.

### **h) Other**

Other expenses, assets and liabilities are accounted for on an accruals basis.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 3. Analysis of Contributions

Total Contributions		Total Contributions	
2012/13 £'000		2013/14 £'000	
<b><u>Administering Authority</u></b>			
<b>38,514</b>	City & County of Swansea	<b>41,711</b>	
<b><u>Admitted Bodies</u></b>			
35	Babtie	11	
229	Celtic Community Leisure	235	
17	Colin Laver Heating Limited	13	
20	Swansea Bay Racial Equality Council	20	
83	Wales National Pool	100	
104	Capgemini	89	
1,900	NPT Homes	2,027	
20	Phoenix Trust	7	
1,109	Grwp Gwalia	1,182	
<b>3,517</b>	<b>Total Admitted Bodies</b>	<b>3,684</b>	
<b><u>Scheduled Bodies</u></b>			
5	Cilybebyll Community Council	6	
25	Coedffranc Community Council	25	
1,616	Gower College	1,637	
1,234	NPTC Group	1,639	
66	Neath Town Council	74	
22,982	Neath Port Talbot County Borough Council	24,490	
32	Margam Joint Crematorium Committee	21	
7	Peledda Community Council	6	
13	Pontardawe Town Council	14	
33	Swansea Bay Port Health Authority	34	
76	Swansea City Waste Disposal Company	26	
1,197	University of Wales Trinity St Davids	1,320	
<b>27,286</b>	<b>Total Scheduled Bodies</b>	<b>29,292</b>	
<b>69,317</b>	<b>Total Contributions Receivable</b>	<b>74,687</b>	

## **CITY & COUNTY OF SWANSEA PENSION FUND**

### **3. Analysis of Contributions (continued)**

The admission agreement for Babtie ceased on 4th July 2013 when their contract with Neath Port Talbot County Borough Council ended, therefore their participation in the Fund has now ceased.

Coleg Powys merged with Neath Port Talbot College with effect from 1st August 2013 to form NPTC Group. A direction was received from the Department of Communities and Local Government (DCLG) for the scheme members employed by Coleg Powys to be transferred from Powys Pension Fund to Neath Port Talbot College section of the Fund.

The admission agreement for Swansea Waste Disposal Company ceased from 1st August 2013 when that company's employees were transferred into the City and County of Swansea section of the Fund.



## CITY & COUNTY OF SWANSEA PENSION FUND

### 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

2012/13		2013/14
£'000		£'000
52,340	Employers	55,436
1	Normal	9
1,596	Other	3,109
<u>53,937</u>	Early Access	<u>58,554</u>
	<b>Total</b>	<b><u>58,554</u></b>
15,346	Employees	16,105
34	Normal	28
<u>15,380</u>	Other	<u>16,133</u>
	<b>Total</b>	<b><u>16,133</u></b>
<u>69,317</u>	<b>Total Contributions Receivable</b>	<b><u>74,687</u></b>

### 4. Transfers In

Transfers in comprise of:

2012/13		2013/14
£'000		£'000
0	Group transfers from other schemes *	8,900
1,867	Individual transfers from other schemes	3,805
<u>1,867</u>	<b>Total</b>	<b><u>12,705</u></b>

\* This figure represents a bulk transfer from the Powys Pension Fund in respect of Coleg Powys, who have merged with Neath Port Talbot College (a scheduled body within this Scheme) to form Neath Port Talbot College Group. The figure of £8.9m, represents an estimate made by the actuary of the Powys Pension Fund, of the transfer value in respect of Coleg Powys. This estimate will be reviewed by the Actuary for the City & County of Swansea Pension Fund when data becomes available.

### 5. Other Income

Other income comprise of:

2012/13		2013/14
£'000		£'000
13	Bank Interest	89
10	Early Access - Interest	21
<u>23</u>	<b>Total</b>	<b><u>110</u></b>

### 6. Benefits Payable

By category

2012/13		2013/14
£'000		£'000
47,058	Pensions	49,588
11,830	Commutation and lump sum retirement benefits	15,349
2,038	Lump sum death benefits	1,857
<u>60,926</u>	<b>Total</b>	<b><u>66,794</u></b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 7. Payments to and on account of leavers

Transfers out and refunds comprise of:

2012/13		2013/14
£'000		£'000
12	Refunds to members leaving service	11
3,590	Individual transfers to other schemes	3,125
<b>3,602</b>	<b>Total</b>	<b>3,136</b>

## 8. Administrative and Investment Management Expenses

All administrative and investment management expenses are borne by the Fund:

2012/13		2013/14
£'000		£'000
<b>Administrative Expenses</b>		
661	Support Services & Employee Costs	659
22	Actuarial Fees	45
41	Advisors Fees	43
40	External Audit Fees	58
22	Performance Monitoring Services Fees	25
25	Printing & Publications	23
217	Other	166
9	Pension Fund Committee	3
<b>1,037</b>		<b>1,022</b>
<b>Investment Management Expenses</b>		
3,204	Management Fees	4,378
3,120	Performance Fees	6,915
115	Custody Fees	133
<b>6,439</b>		<b>11,426</b>
<b>7,476</b>	<b>Total</b>	<b>12,448</b>

## 9. Investment Income

2012/13		2013/14
£'000		£'000
8,954	U.K. Equities	13,433
6,041	Overseas Equities	6,619
2,736	Managed Fund - Fixed Interest	3,055
842	Pooled Investment vehicles - Property Fund	1,006
175	Pooled Investment vehicles - Private Equity	341
5	Interest	2
<b>18,753</b>	<b>Total</b>	<b>24,456</b>

## **9. Investment Income (continued)**

The assets under management by Legal and General are managed wholly in a pooled investment vehicle. The pooled investment vehicles are a combination of equity, bond and money market unit funds which operate on an 'accumulation' basis, i.e. all dividends and investment income are automatically reinvested back into their relevant funds and not distributed as investment income. Therefore, the fund value and change in market value on these funds will reflect both capital appreciation / depreciation plus reinvested investment income.

## **10. Taxation**

### **a) United Kingdom**

The Fund is exempt from Income Tax on interest and dividends and from Capital Gains Tax but now has to bear the UK tax on other income. The fund is reimbursed V.A.T. by H.M. Revenue and Customs and the accounts are shown exclusive of V.A.T.

### **b) Overseas**

The majority of investment income from overseas suffers a withholding tax in the country of origin.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets

	31st March 2013			31st March 2014		
	UK £'000	Overseas £'000	Total £'000	UK £'000	Overseas £'000	Total £'000
<b>Equities</b>						
Quoted	297,494	282,996	580,490	324,568	313,060	637,628
<b>Pooled investment vehicles</b>						
Managed Funds:						
Quoted:						
Equity	0	12,881	12,881	0	13,467	13,467
Fixed Interest	0	109,679	109,679	0	117,200	117,200
Unquoted:						
Equity	123,346	183,449	306,795	128,747	194,470	323,217
Fixed Interest	51,886	10,205	62,091	52,409	11,862	64,271
Index-linked	20,590	0	20,590	20,720	0	20,720
Property Unit Trust	5,296	0	5,296	6,107	0	6,107
Property Fund	26,552	29,304	55,856	31,056	31,560	62,616
Hedge Fund	0	44,891	44,891	0	49,060	49,060
Global Tactical Asset Allocation	0	17,109	17,109	0	15,529	15,529
Private Equity	0	24,834	24,834	0	25,284	25,284
<b>Total pooled investment vehicles</b>	<b>227,670</b>	<b>432,352</b>	<b>660,022</b>	<b>239,039</b>	<b>458,432</b>	<b>697,471</b>
<b>Total equities and pooled investment vehicles</b>	<b>525,164</b>	<b>715,348</b>	<b>1,240,512</b>	<b>563,607</b>	<b>771,492</b>	<b>1,335,099</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets (continued)

An analysis of investment assets based on the class of investment is shown below :

31st March 2013 £'000		Investment assets	31st March 2014 £'000	
171,770		Fixed interest	181,471	
20,590		Index linked securities	20,720	
420,840		U.K. equities	453,315	
61,152		Property	68,723	
44,891		Hedge Funds	49,060	
24,834		Private Equity	25,284	
17,109		Global Tactical Asset Allocation (GTAA)	15,529	
479,326		Overseas Equities	520,997	
<b><u>1,240,512</u></b>		<b>Total investment assets</b>	<b><u>1,335,099</u></b>	

# CITY & COUNTY OF SWANSEA PENSION FUND

## 12. Reconciliation of movements in investments

	Value at 31st March 2013 (Reclassified)	Purchases	Sales	Change in Market Value	Value at 31st March 2014
	£'000	£'000	£'000	£'000	£'000
<b>Equities</b>					
Aberdeen	98,166	10,637	-8,478	-978	99,347
JPM	201,896	247,752	-240,647	16,306	225,307
Schroders	293,309	59,382	-52,629	26,379	326,441
L&G	306,795	5,730	-10,495	21,187	323,217
	<u>900,166</u>	<u>323,501</u>	<u>-312,249</u>	<u>62,894</u>	<u>974,312</u>
<b>Property</b>					
<b>UK</b>					
Schroders	31,848	1,984	0	3,331	37,163
<b>Overseas</b>					
Partners	16,797	4,047	-3,021	1,257	19,080
Invesco	12,507	0	-517	490	12,480
	<u>61,152</u>	<u>6,031</u>	<u>-3,538</u>	<u>5,078</u>	<u>68,723</u>
<b>Fixed Interest</b>					
<b>Fixed Interest</b>					
L&G	62,091	4,433	0	-2,253	64,271
Goldman	109,679	3,055	0	4,466	117,200
	<u>171,770</u>	<u>7,488</u>	<u>0</u>	<u>2,213</u>	<u>181,471</u>
<b>Index-Linked</b>					
L&G	20,590	887	0	-757	20,720
	<u>20,590</u>	<u>887</u>	<u>0</u>	<u>-757</u>	<u>20,720</u>
<b>Hedge Funds</b>					
BlackRock	23,609	0	-466	2,541	25,684
Fauchier	21,282	0	-424	2,518	23,376
	<u>44,891</u>	<u>0</u>	<u>-890</u>	<u>5,059</u>	<u>49,060</u>
<b>Private Equity</b>					
HarbourVest	24,834	6,551	-10,403	4,302	25,284
	<u>24,834</u>	<u>6,551</u>	<u>-10,403</u>	<u>4,302</u>	<u>25,284</u>
<b>Global Tactical Asset Allocation</b>					
BlackRock	17,109	0	-163	-1,417	15,529
	<u>17,109</u>	<u>0</u>	<u>-163</u>	<u>-1,417</u>	<u>15,529</u>
<b>Cash funds</b>					
L&G	14,296	2,111	-2,666	89	13,830
Schroders	197	0	-162	1	36
	<u>14,493</u>	<u>2,111</u>	<u>-2,828</u>	<u>90</u>	<u>13,866</u>
<b>Total</b>	<u>1,255,005</u>	<u>346,569</u>	<u>-330,071</u>	<u>77,463</u>	<u>1,348,965</u>
<b>Cash</b>	<u>21,497</u>				<u>29,232</u>
<b>Other Investment Balances - Dividends Due</b>	<u>1,744</u>				<u>2,063</u>
<b>TOTAL</b>	<u>1,278,246</u>			<u>77,463</u>	<u>1,380,260</u>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 12. Reconciliation of movements in investments (continued)

At the 31st March 2013, the dividends due to the Fund have been reclassified as Other Investment Balances, having previously been included in Current Assets.

Transaction costs are included in the cost of purchase and sales proceeds. Identifiable transaction costs incurred in the year relating to segregated investments amounted to £388k (2012/13: £290k). Costs are also incurred by the Fund in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately identifiable.

## 13. Concentration of Investments

The following investments represented 5% or more of the Fund's net assets at 31st March 2014:

	Value as at the 31st March 2013 £'000	Proportion of Net Asset %	Value as at the 31st March 2014 £'000	Proportion of Net Asset %
L&G UK Equity Index	123,346	9.7%	128,747	9.3%
Goldman Sachs Global Libor Plus II	109,679	8.6%	117,200	8.5%
L&G North America Equity Index	71,710	5.6%	76,747	5.5%

## 14. Realised Profit on the Sale of Investments

	2012/13 £'000	2013/14 £'000
3,429 U.K. Equities		15,280
14,132 Overseas		27,909
64 Property Fund		0
0 Cash Fund		3
	<b>17,625</b>	<b>43,192</b>
	<b>Net Profit</b>	

## CITY & COUNTY OF SWANSEA PENSION FUND

### 15. Fixed Interest and Index Linked Investments

The fixed interest and index-linked investments are comprised of:

31st March 2013		31st March 2014
£'000		£'000
78,289	UK Public Sector	115,086
114,071	Other	87,105
<b>192,360</b>		<b>202,191</b>

### 16. Current Assets and Liabilities

The amounts shown in the statement of Net Assets are comprised of:

31st March 2013 (Reclassified)		31st March 2014
£'000		£'000
<b>Current Assets</b>		
616	Contributions - Members	613
2,024	Contributions - Employers	2,011
786	Early Access Debtor	2,120
415	Transfer Values	9,232
1,437	Other	1,121
<b>5,278</b>		<b>15,097</b>
<b>Current Liabilities</b>		
-1,563	Investment Management Expenses	-4,321
-1,601	Commutation and lump sum retirement benefits	-3,873
-455	Lump sum death benefits	-688
-1,445	Transfers to Other Schemes	-895
-514	Payroll Deductions - Tax	-538
-347	Other	-400
<b>-5,925</b>		<b>-10,715</b>
<b>-647 Net</b>		<b>4,382</b>

Analysed as:

31st March 2013 (Reclassified)		31st March 2014
£'000		£'000
<b>Current Assets</b>		
698	Central Government Bodies	774
3,850	Other Local Authorities	13,655
0	Public Corporations & Trading Funds	2
730	Other Entities and Individuals	666
<b>5,278</b>		<b>15,097</b>
<b>Current Liabilities</b>		
-2	Central Government Bodies	-38
-1,475	Other Local Authorities	-2,677
-4,448	Other Entities and Individuals	-8,000
<b>-5,925</b>		<b>-10,715</b>
<b>-647 Net</b>		<b>4,382</b>

The reclassification is explained in Note 12



# CITY & COUNTY OF SWANSEA PENSION FUND

## 16. Current Assets & Liabilities (continued)

### Early Access Debtor

	Instalment Due 2014/15 £'000	Instalment Due 2015/16 £'000	Instalment Due 2016/17 £'000	Instalment Due 2017/18 £'000	Total £'000
Early Access Principal Debtor	1,658	240	209	13	2,120
Early Access Interest Debtor	25	19	17	1	62
<b>Total (Gross)</b>	<b>1,683</b>	<b>259</b>	<b>226</b>	<b>14</b>	<b>2,182</b>

### 17. Capital and Contractual Commitments

As at 31st March 2014 the Scheme was committed to providing funding to appointed managers investing in unquoted securities. These commitments amounted to £40.3m (2012/13 : £53.3m).

## 18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2014

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the City & County of Swansea Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

### Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £1,227.6M) covering 81% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:
  - 16.2% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.  
**Plus**
  - 5.7% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2014, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 3.9% p.a.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.
5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates as set out on the following page.

## CITY & COUNTY OF SWANSEA PENSION FUND

### 18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2014 (continued)

The main actuarial assumptions were as follows:

#### Discount rate

##### In service:

Scheduled and subsumption bodies	5.6% a year
Orphan bodies	5.2% p.a

##### After leaving service

Scheduled and subsumption bodies	5.6%p.a.
Orphan bodies	3.9%p.a.

Rate of general pay increases 3.9% p.a.

Rate of increases to pension accounts 2.4% p.a.

Rate of increase in pensions in payment 2.4% p.a.

Valuation of assets market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.

8. CIPFA's Code of Practice also requires the actuarial present value of the promised retirement benefits to be disclosed based on IAS26 and using assumptions relevant to IAS19 and not the funding assumptions above. The actuarial present value of the promised retirement benefits on this basis as at 31st March 2013 is £1,936.8m (31st March 2010 £1,819.4m), which compares to the market value of assets at that date of £1,277.6m (31st March 2010 £1,016.8m).

9. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required. This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, the City and County of Swansea, in respect of this statement.

Aon Hewitt Limited  
Jun-14

## **CITY & COUNTY OF SWANSEA PENSION FUND**

### **18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2014 (continued)**

#### **Definitions**

##### **Admission Body**

An employer admitted to the Fund under an admission agreement.

##### **Orphan Body**

This is an admission body or other employer whose participation in the Fund may cease at some future point in time, after which it is expected that the Administering Authority will have no access to future contributions in respect of the employer's liabilities in the Fund once any liability on cessation has been paid.

##### **Scheduled Body**

Employers which participate in the Fund under Schedule 2 of the Administration Regulations.

##### **Subsumption and subsumption body**

When an admission body or other employer ceases participation in the Fund, so that it has no employees contributing to the Fund and once any contribution on cessation as required by the regulations has been paid, the Fund will normally be unable to obtain further contributions from that employer (eg if future investment returns are less than assumed). It is however possible for another long term employer in the Fund (generally a scheduled body) to agree to be a source of future funding should any funding shortfalls emerge on the original employer's liabilities. The long term employer effectively subsumes the assets and liabilities of the ceasing employer into its own assets and liabilities. In this document this is known as subsumption. In this document the admission body or other employer being subsumed is referred to as a subsumption body and its liabilities are known as subsumed

#### **Certificate of the Actuary Regarding the Contributions Payable by the Employing Authorities in 2013/14**

In accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 (the "Administration Regulations"), we certify that contributions should be paid by Employers at the following rates for the period 1st April 2011 to 31st March 2014.

i) A common rate of 14.6% of Pensionable Pay.

ii) Individual adjustments which, when added to or subtracted from the common rate, produce the following Employer contribution rates:

## CITY & COUNTY OF SWANSEA PENSION FUND

### 18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2014 (continued)

Employer				
		2011	2012	2013
		% Pensionable Pay	% Pensionable Pay	% Pensionable Pay
<b>Administering Authority</b>				
City and County of Swansea		20.5	22.1	22.4
<b>Scheduled Bodies</b>				
Neath Port Talbot County Borough Council		21.5	21.9	22.0
	<b>Contribution Rate 1 April 2011 to 31 March 2014</b>	<b>Additional Monetary Amount Year Commencing 1 April</b>		
	<b>% Pay</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Scheduled Bodies</b>		<b>£</b>	<b>£</b>	<b>£</b>
Coedffranc Community Council	19.1	11,000	11,600	12,200
Margam Joint Crematorium Committee	19.1	11,000	11,600	12,200
Neath Town Council	19.1	14,000	14,700	15,500
Swansea Bay Port Health Authority	19.1	15,000	15,800	16,600
Neath Port Talbot College	13.9	175,000	184,000	194,000
Swansea Metropolitan University	14.4	275,000	290,000	305,000
Gower College	14.1	206,000	217,000	228,000
Swansea City Waste Disposal Company	18.3	29,000	30,700	32,300
Pontardawe Town Council	19.3	220	230	240
Cilybebyll Community Council	20.5	-	-	-
Pelenna Community Council	17.1	360	380	400
<b>Admitted Bodies</b>				
Colin Laver Heating Limited	19.7	-	-	-
Swansea Bay Racial Equality Council	23.7	2,300	2,400	2,600
Babtie Group	14.6	-	-	-
Celtic Community Leisure	11.1	-	-	-
Wales National Pool	14.5	-	-	-
Capgemini	18.7	-	-	-
Phoenix Trust	13.9	-	-	-
NPT Homes	15.1	-	-	-

These represent the minimum contributions to be paid by each Employer. Employers may choose to pay additional contributions from time to time subject to the Administering Authority's agreement.

In addition, any extra liabilities falling on the Fund in respect of retirements under Regulation 18,19 or 30 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2008 (the "Benefits Regulations") should be financed by additional Employer contributions, calculated in a manner advised by the Actuary and payable over a period of 3 years.

In addition, any additional benefits granted under Benefits Regulation 12 or 13 should be financed by additional Employer contributions, under Administration Regulation 40 or as calculated in a manner advised by the actuary.

Additional contributions may be payable by any Admitted Bodies which have ceased to participate in the fund since 31 March 2010 and will be certified separately.

Contribution rates for Employers commencing participation in the Fund after 31 March 2010 will be advised separately.

## **CITY & COUNTY OF SWANSEA PENSION FUND**

### **18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2014 (continued)**

Where payments due from an Employer listed in this Certificate are expressed as capital amounts, the amounts payable by that Employer should be adjusted to take account of any amounts payable, in respect of surplus or shortfall to which those capital payments relate, by new employers created after the valuation date which have been credited with proportions of the assets and liabilities of the relevant Employer. Any adjustment should be advised by the Fund Actuary.

### **19. Related party transactions**

£659k (£661k 2012/13) was paid to the City & County of Swansea for the recharge of Administration, I.T., Finance and Legal Services during the year.

Contributions received from admitted and scheduled bodies as detailed on page 147.

The City & County of Swansea acts as administering Authority for the City and County of Swansea Pension Fund (formerly the West Glamorgan Pension Fund).

Transactions between the Authority and the Pension Fund mainly comprise the payment to the Pension Fund of employee and employer payroll superannuation deductions, together with payments in respect of enhanced pensions granted by Former Authorities.

The Pension Fund currently has 32 scheduled and admitted bodies. Management of the Pension Scheme Investment Fund is undertaken by a panel. The panel is advised by two independent advisors.

### **Governance**

There are 7 councillor members of the pension committee who are active members in the City & County of Swansea Pension Fund. The benefit entitlement for the Councillors is accrued under the same principles that apply to all other members of the Fund.

## CITY & COUNTY OF SWANSEA PENSION FUND

### 20. Additional Voluntary Contributions

Some members of the Fund pay voluntary contributions to the fund's AVC providers, The Prudential, to buy extra pension benefits when they retire. These contributions are invested in a wide range of assets to provide a return on the money invested. Some members also still invest and have funds invested with the legacy AVC providers, Equitable Life and Aegon.

The pension fund accounts do not include the assets held by The Prudential, Equitable Life or Aegon. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only.

AVC Provider	Value of Funds at 1st April 2013	Purchases at Cost (Contributions In/Out)	Sale Proceeds	Change in Market Value	Funds at 31st March 2014
	£'000	£'000	£'000	£'000	£'000
Prudential	2,644	1,162	-1,117	36	2,725
Aegon	1,535	50	-337	104	1,352
Equitable Life	400	2	-46	17	373
<b>Totals</b>	<b>4,579</b>	<b>1,214</b>	<b>-1,500</b>	<b>157</b>	<b>4,450</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 21. Membership

The Pension Fund covers City & County of Swansea employees (except for teachers, for whom separate pension arrangements apply), and other bodies included in the schedule.

Detailed national regulations govern the rates of contribution by employees and employers, as well as benefits payable. At 31st March 2014 there were 15,576 contributors, 10,833 pensioners and 9,663 deferred pensioners.

Membership statistics	31st March 2010 Number	31st March 2011 Number	31st March 2012 Number	31st March 2013 Number	31st March 2014 Number
Contributors	14,744	14,524	14,179	14,586	15,576
Pensioners	9,302	9,600	10,027	10,432	10,833
Deferred Pensioners	7,248	7,614	8,204	8,815	9,663
<b>Total</b>	<b>31,294</b>	<b>31,738</b>	<b>32,410</b>	<b>33,833</b>	<b>36,072</b>

See Appendix 1 for current year analysis

## 22. Fair Value of Investments

### Financial Instruments

The Fund invests mainly through pooled vehicles with the exception of three segregated equity mandates. The managers of these pooled vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity and also monitor credit and counterparty risk, liquidity risk and market risk.

### Financial Instruments - Gains & Losses

Gains and losses on financial instruments have been disclosed within note 9, 12 and 14 of the pension fund accounts.

### Fair Value – Hierarchy

The fair value hierarchy introduced as part of the new accounting Code under IFRS7 requires categorisation of assets based upon 3 levels of asset valuation inputs -

- Level 1 - quoted prices for similar instruments.
- Level 2 - directly observable market inputs other than Level 1 inputs.
- Level 3 - inputs not based on observable market data.

The table on the following page shows the position of the Fund's assets at 31st March 2013 and 2014 based upon this hierarchy:



# CITY & COUNTY OF SWANSEA PENSION FUND

## 22. Fair Value of Investments (continued)

	31 March 2013			31 March 2014				
	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
<b>Equities</b>								
UK Equities	297,494	297,494	-	-	324,568	324,568	-	-
Overseas Equities	282,996	282,996	-	-	313,060	313,060	-	-
<b>Pooled Investment Vehicles</b>								
Fixed-Interest Funds								
UK Equity	109,679	-	109,679	-	117,200	-	117,200	-
Overseas Equity	123,346	-	123,346	-	128,747	-	128,747	-
Fixed Interest	196,330	-	196,330	-	207,937	-	207,937	-
Index-linked	62,091	-	62,091	-	64,271	-	64,271	-
Property Unit Trust	20,590	-	20,590	-	20,720	-	20,720	-
Property Fund	5,296	-	5,296	-	6,107	-	6,107	-
Hedge Fund	55,856	-	26,552	29,304	62,616	-	31,056	31,560
Global Tactical Asset Allocation	44,891	-	-	44,891	49,060	-	-	49,060
Private Equity	17,109	-	-	17,109	15,529	-	-	15,529
Cash	24,834	-	-	24,834	25,284	-	-	25,284
	35,990	35,990	-	-	43,098	43,098	-	-
<b>Other Investment Balances -</b>								
Dividends Due	1,744	1,744	-	-	2,063	2,063	-	-
<b>Total</b>	<b>1,278,246</b>	<b>618,224</b>	<b>543,884</b>	<b>116,138</b>	<b>1,380,260</b>	<b>682,789</b>	<b>576,038</b>	<b>121,433</b>

## 23. INVESTMENT RISKS

As demonstrated above, the Fund maintains positions indirectly via its investment managers in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

### Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Pension Fund annually reviews its Statement of Investment Principles (SIP) and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed.

The Fund continues to review its structure. A key element in this review process is the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- Private equity - by stage, geography and vintage where funds of funds are not used
- Property - by type, risk profile, geography and vintage (on closed ended funds)
- Hedge funds – multi-strategy and or funds of funds

### Manager Risk

The Fund is also well diversified by managers with no single active manager managing more than 25% of Fund assets. On appointment, fund managers are delegated the power to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. Some private equity and property investment is fund, rather than manager-specific, with specific funds identified by the investment sub group after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above almost all the Fund's investments are through pooled vehicles and a number of these are involved in derivative trades of various sorts including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties. However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk.

There has been no historical experience of default on the investments held by the pension fund.

Within the Fund, the areas of focus in terms of credit risk are bonds and some of the alternative asset categories.

- The Fund's active fixed-interest bond portfolio £117,200k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2014, the Fund's exposure to non-investment grade paper was 10.8% of the actively managed fixed income portfolio.
- On private equity the Fund's investments are almost entirely in the equity of the companies concerned. The Fund's private equity investments of £25,284K are managed by Harbourvest in a fund of funds portfolio.

On hedge fund of funds and multi-strategy vehicles, underlying managers have in place a broad range of derivatives. The Fund's exposure to hedge funds through its managers at 31st March 2014 is set out below with their relative exposure to credit risk.

	March 2014 £'000	Credit Exposure
Fauchier Partners	23,376	14.2%
Blackrock	25,684	22.4%

### Liquidity Risk

The Pension Fund has its own bank accounts. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential. This is in place with the Fund's position updated regularly.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities and bonds now comprise 83% of the Fund's value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at least – often weekly or fortnightly.

On alternative assets the position is more mixed. Most are subject to their own liquidity terms or, in the case of property, redemption rules. Closed-ended funds such as most private equity vehicles and some property funds are effectively illiquid for the specific period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

The table below analyses the value of the Fund's investments at 31st March 2014 by liquidity profile.

	Amounts at				
	31st March 2014 £000s	Within 1 month £000s	1-3 months £000s	4-12 months £000s	> 1 Year £000s
<b>Equities</b>					
UK Equities	324,568	324,568	0	0	0
Overseas Equities	313,060	313,060	0	0	0
<b>Pooled Investment Vehicles</b>					
Fixed-Interest Funds	117,200	117,200	0	0	0
UK Equity	128,747	128,747	0	0	0
Overseas Equity	207,937	207,937	0	0	0
Fixed Interest	64,271	64,271	0	0	0
Index-linked	20,720	20,720	0	0	0
Property Unit Trust	6,107	0	0	6,107	0
Property Fund	62,616	0	0	31,056	31,560
Hedge Fund	49,060	0	0	49,060	0
Global Tactical Asset Allocation	15,529	0	0	15,529	0
Private Equity	25,284	0	0	0	25,284
Deposits with banks and other financial institutions	43,098	43,098	0	0	0
Other Investment Balances - Dividends Due	2,063	2,063	0	0	0
<b>Total</b>	<b>1,380,260</b>	<b>1,221,664</b>	<b>0</b>	<b>101,752</b>	<b>56,844</b>

## CITY & COUNTY OF SWANSEA PENSION FUND

### 23. INVESTMENT RISKS (continued)

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses some pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach has been applied and all such investments have been designated "within 4-12 months".

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4). In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 2000 to 2013.

This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation. As can be seen from the table, even using the conservative basis outlined above, around 88% of the portfolio is realisable within 1 month and 96% is realisable within 12 months.

#### **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments and the consequential danger that its assets will fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term.

Market risk is comprised of two elements –

- The risks associated with volatility in the performance of the asset class itself (beta);
- The risks associated with the ability of managers, where allowed, to move away from index weights and to generate alpha, thereby offsetting beta risks by exceeding market performance.

The table on the following page sets out an analysis of the Fund's market risk positions at 31 March 2014 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark and the target set for managers against this benchmark.

## CITY & COUNTY OF SWANSEA PENSION FUND

### 23. INVESTMENT RISKS (continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
UK Equities	34% +/- 5%	14% L&G	20% Schroders	FTSE allshare	+3% p.a. over rolling 3year
Overseas Equities	34% +/- 5%	13% L&G	21% JP Morgan & Aberdeen Aberdeen	MSCI World all share (ex UK) MSCI Frontier Markets Index	+3% p.a. over rolling 3year +% p.a. over rolling 3year
Global Fixed Interest	15% +/- 5%	6% L&G	9% Goldman Sachs	Composite benchmark Standard Barclays Capital Aggregate	LIBOR +3% Barclays Capital Aggregate +0.75% over rolling 3year
Property	5% +/- 5%	-	5% Schroders, Partners & Invesco	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	5% +/- 5%	-	5% Blackrock & Fauchier Partners	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% Harbourvest	FTSE allshare	+3% p.a. over 3 year rolling
Global Tactical Asset Allocation	2% +/- 5%	-	2% BGI/Blackrock	LIBOR	+4%
Cash	2% +/- 5%	-	2% In house and cash flows of fund managers	7day LIBID	7day LIBID
<b>TOTAL</b>	<b>100%</b>	<b>33%</b>	<b>67%</b>		

The risks associated with volatility in market values are managed mainly through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund also adopts a specific strategic benchmark (details can be found in the Fund's SIP summarised above) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation, is designed to diversify and minimise risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class.

Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects.

#### Price Risk

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 and derivative 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. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

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

Following analysis of historical data and expected investment return movement during the financial year, and in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31 March 2014 would have been as follows:

### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	453,315	12.59%	510,387	396,243
Overseas Equities	520,997	12.13%	584,194	457,800
Total Bonds & Index-Linked	202,191	2.47%	207,185	197,197
Cash	43,098	0.02%	43,107	43,089
Property	68,723	2.61%	70,517	66,929
Alternatives	89,873	3.00%	92,569	87,177
Other Investment Balances	2,063	0.00%	2,063	2,063
<b>Total Assets*</b>	<b>1,380,260</b>	<b>8.35%</b>	<b>1,495,512</b>	<b>1,265,008</b>

*\*The % change for Total Assets includes the impact of correlation across asset classes*

and as at 31 March 2013:

### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	420,840	13.4%	477,148	364,532
Overseas Equities	479,326	13.1%	542,022	416,630
Total Bonds & Index Linked	192,360	2.6%	197,342	187,378
Cash	35,990	0.0%	35,994	35,986
Property	61,152	3.0%	63,011	59,293
Alternatives	86,834	3.3%	89,726	83,942
Other Investment Balances	1,744	0.0%	1,744	1,744
<b>Total Assets*</b>	<b>1,278,246</b>	<b>8.8%</b>	<b>1,390,220</b>	<b>1,166,272</b>

*\*The % change for Total Assets includes the impact of correlation across asset classes*

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### Currency Risk

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 (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

In consultation with the fund's investment advisors, the council has determined that the following movements in currencies are reasonably possible. The following represents a sensitivity analysis associated with foreign exchange movements as at 31 March 2014:

Currency Risk (by currency)				
Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	5,099	9.80%	5,599	4,599
Brazilian Real	8,090	12.69%	9,117	7,063
Canadian Dollar	9,422	6.04%	9,991	8,853
Danish Krone	1,415	6.26%	1,504	1,326
EURO	89,647	6.31%	95,304	83,990
Hong Kong Dollar	6,029	7.98%	6,510	5,548
Indian Rupee	5,766	10.84%	6,391	5,141
Indonesian Rupiah	2,094	11.05%	2,325	1,863
Israeli Shekel	628	6.94%	672	584
Japanese Yen	36,631	11.54%	40,858	32,404
Mexican Peso	2,357	10.03%	2,593	2,121
Norwegian Krone	745	8.79%	810	680
Singapore Dollar	3,181	5.71%	3,363	2,999
South African Rand	2,236	11.31%	2,489	1,983
South Korean Won	6,251	6.56%	6,661	5,841
Swedish Krona	6,347	7.03%	6,793	5,901
Swiss Franc	27,523	7.42%	29,565	25,481
Taiwan Dollar	4,873	5.63%	5,147	4,599
US Dollar	162,996	8.07%	176,150	149,842
Other	7,091	5.21%	7,460	6,722
North America Basket	76,747	7.61%	82,587	70,907
Europe ex UK Basket	50,213	6.01%	53,231	47,195
Asia Pacific ex Japan Basket	18,817	6.11%	19,967	17,667
Emerging Basket	43,402	6.37%	46,167	40,637
<b>Total Currency*</b>	<b>577,600</b>	<b>5.13%</b>	<b>607,210</b>	<b>547,990</b>

*\*The % change for Total Currency includes the impact of correlation across the underlying currencies*



# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

and as at 31 March 2013:

Currency Risk (by currency)				
Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	4,631	10.0%	5,092	4,170
Brazilian Real	8,367	11.6%	9,339	7,395
Canadian Dollar	7,687	5.6%	8,118	7,256
Danish Krone	423	7.7%	456	390
EURO	71,274	7.8%	76,833	65,715
Hong Kong Dollar	7,197	8.5%	7,812	6,582
Indian Rupee	3,589	9.3%	3,922	3,256
Indonesian Rupiah	1,739	7.1%	1,862	1,616
Japanese Yen	38,999	11.8%	43,589	34,409
Mexican Peso	3,466	9.3%	3,788	3,144
Norwegian Krone	504	9.0%	550	458
Singapore Dollar	3,383	5.8%	3,579	3,187
South African Rand	1,577	12.0%	1,765	1,389
South Korean Won	6,397	7.6%	6,880	5,914
Swedish Krona	5,079	8.1%	5,492	4,666
Swiss Franc	25,052	9.4%	27,397	22,707
Taiwan Dollar	4,725	7.2%	5,063	4,387
Thai Baht	485	7.9%	523	447
Turkish Lira	1,787	8.8%	1,944	1,630
US Dollar	148,583	8.7%	161,569	135,597
Other	10,246	5.3%	10,789	9,703
North America Basket	71,710	8.3%	77,662	65,758
Europe ex UK Basket	43,392	7.2%	46,503	40,281
Asia Pacific ex Japan Basket	20,151	6.3%	21,423	18,879
Emerging Basket	43,021	6.4%	45,787	40,255
<b>Total Currency*</b>	<b>533,464</b>	<b>5.2%</b>	<b>561,462</b>	<b>505,466</b>

*\*The % change for Total Currency includes the impact of correlation across the underlying currencies*

## 24. Further Information

Further information about the fund can be found in Appendices 2 to 4. Information can also be obtained from the Chief Treasury & Technical Officer, Civic Centre, Oystermouth Road, Swansea SA1 3SN or on [www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk).

## 25. Financial Position

The accounts outlined within the statement represent the financial position of the City and County of Swansea Pension Fund at 31st March 2014.

# CITY & COUNTY OF SWANSEA PENSION FUND

Appendix 1

## SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1<sup>ST</sup> APRIL 2013 TO 31<sup>ST</sup> MARCH 2014

Administering Authority	Contributors	Pensioners	Deferred Benefits	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount
	Number @ 31/03/14	Number @ 31/03/14	Number @ 31/03/14	
City & County of Swansea	8,136	4,430	4,207	22.4%
<b>Scheduled Bodies</b>				
Neath Port Talbot County Borough Council	5,341	3,027	3,927	22.0%
Briton Ferry Town Council	0	1	1	-
Cilybebyll Community Council	5	0	1	20.5%
Clydach Community Council	0	0	1	-
Coedffranc Community Council	2	3	1	19.1% (+ £11,600)
Gower College	401	184	373	14.1% (+ £217,000)
Lliw Valley BC	0	260	28	-
Margam Joint Crematorium Committee	2	13	5	19.1% (+ £11,600)
NPTC Group	537	180	305	13.9% (+ £184,000)
Neath Port Talbot Waste Management Co.	0	1	0	-
Neath Town Council	13	13	7	19.1% (+ £14,700)
Pelenna Community Council	2	1	3	17.1% (+ £380)
Pontardawe Town Council	5	1	0	19.3% (+ £230)
Swansea Bay Port Health Authority	2	9	2	19.1% (+ £15,800)
Swansea City Waste Disposal Company	0	18	3	18.3% (+ £30,700)
University of Wales Trinity St Davids	248	106	184	14.4% (+ £290,000)
West Glamorgan County Council	0	2,406	340	-
West Glamorgan Magistrates Courts	0	38	19	-
West Glamorgan Probation Service	0	56	9	-
West Glamorgan Valuation Panel	0	5	0	-
<b>Admitted Bodies</b>				
BABTIE	0	3	11	14.6%
Celtic Community Leisure	119	27	115	11.1%
Colin Laver Heating Limited	2	0	2	19.7%
Swansea Bay Racial Equality Council	2	0	1	23.7% (+ £2,400)
The Careers Business	0	4	11	-
Wales National Pool	52	3	38	14.5%
West Wales Arts Association	0	2	0	-
Capgemini	11	1	4	18.7%
NPT Homes	410	26	34	15.1%
Phoenix Trust	1	1	3	13.9%
Grwp Gwalia	285	14	28	20.4%
<b>Total</b>	<b>15,576</b>	<b>10,833</b>	<b>9,663</b>	

### Legislative Changes in the Local Government Pension Scheme (LGPS)

#### LGPS 2014

A Government review of public sector pension schemes in 2011, chaired by Lord Hutton, recommended that significant reform was required to make them more sustainable and affordable in the long term, fair to public workers and the tax payer.

In response to the review, the Public Services Pensions Act 2013 provides the framework for reform and specifies some of the changes to be reflected in the new public sector schemes.

The majority of public sector schemes will be revised with effect from 1 April 2015; however, as part of the discussions to determine the terms of the new scheme, the Government agreed that the reformed Local Government Pension Scheme in England and Wales would come into effect on 1st April 2014, one year earlier than other public service schemes.

A consultation exercise took place during 2013 and the following regulations issued, which are effective from 1 April 2014.

a) The Local Government Pension Scheme Regulations 2013 were made on 12 September 2013.

The main changes include :

- A Career Average Revalued Earnings (CARE) Scheme where benefits accrue at 1/49th of pensionable pay for each year of membership and will subsequently be revalued by CPI.
- The definition of pensionable pay now includes non-contractual overtime and additional hours.
- Tiered contribution rates have now been extended and range from 5.5% for employees earning less than £13,500 per annum to 12.5% for employees earning more than £150,000 per annum.
- The rate of contribution is matched to actual pensionable pay rather than the whole-time equivalent of pensionable pay which has resulted in many part-time employees paying lower rate contributions.

### **Legislative Changes in the Local Government Pension Scheme (LGPS) (continued)**

- Contribution flexibility has been introduced where members can pay 50% contributions for 50% of pension benefits.
- Normal Pension Age in the LGPS is equal to the individual member's State Pension Age.
- For new contracts commenced on or after 1 April 2014, the amount LGPS members may pay as Additional Voluntary Contributions (AVCs) is increased to 100% of pensionable pay; however, the amount of tax free cash available from the AVC fund at retirement is limited to 25% of the member's total AVC pot (tax implications would apply where the growth in pension benefits, including any AVC's paid, exceeds £40,000 in one year).

#### **b) The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 were made on 5 March 2014 and confirm that :**

- Accrued pension rights built up to 31 March 2014 retain the final salary link for those employees who were LGPS members on 31 March 2014.
- Provide a statutory underpin, to ensure a pension, at least equal to that under the 2008 Scheme for those members who were within 10 years of their Normal Pension Age on 1 April 2012.

### **Consultation - Reform of the LGPS Structure**

In June 2013, the Government launched a call for evidence on the future structure of the LGPS to determine ways of significantly reducing the costs of the Scheme.

Building on the responses to the call for evidence, a consultation was issued on 1 May 2014, to be completed by 11 July 2014, setting out the Government's preferred approach to reform and seeking views, if adopted, how these reforms might be implemented effectively.

### Investment Fund Management

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31st March 2014 comprised of :

- 7 Council Members (one member from Neath Port Talbot CBC representing other scheme members) advised by:
  - Section 151 Officer
  - Chief Treasury & Technical Officer
  - 2 Independent Advisers.

The Committee, after taking account of the views of the independent advisers and appointed actuary to the Fund, is responsible for determining broad investment strategy and policy, with appointed professional fund managers undertaking the operational management of the assets.

The fund has implemented a fully diversified investment approach with a view to reducing the volatility of investment returns, whilst maintaining above benchmark growth. The fund employs the services of specialist managers to outperform in each asset class invested in.

The investment managers are:

- Global Equities - JP Morgan Asset Management and Aberdeen Asset Management
- Global Bonds - Goldman Sachs Asset Management
- Fund of Hedge Funds - BlackRock and Fauchier Partners
- Fund of Private Equity Funds - Harbourvest
- Property - Invesco
- Fund of Property Funds - Partners Group and Schroders Investment Management
- Global Tactical Asset Allocation (GTAA) - BlackRock (ex BGI)

# **CITY & COUNTY OF SWANSEA PENSION FUND**

## **Appendix 4**

### **Other Fund Documents**

The City & County of Swansea Pension Fund is required by regulation to formulate a number of regulatory documents outlining its policy. Copies of the :

- Statement of Investment Principles
- Governance Statement
- Funding Strategy Statement
- Communication Policy

are available on request from the City & County of Swansea Pension Fund website  
<http://www.swanseapensionfund.org.uk/>