

# 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 2018.
- The Notes to The Financial Statements 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:-   | £'000         |  | And where it goes.....  | £'000         |  |       |                             |       |                           |        |                        |               |
|--------------------------------|---------------|--|---|---------------|--|-------|-----------------------------|-------|---------------------------|--------|------------------------|---------------|
| Contributions and transfers in | 90,889        |  | Pensions Payable Lump sum benefits  | 61,207        |  |       |                             |       |                           |        |                        |               |
| Other                          | 180           |  | Refunds and transfers out   | 4,553         |  |       |                             |       |                           |        |                        |               |
|                                | <u>91,069</u> |  | Administrative expenses   | 1,392         |  |       |                             |       |                           |        |                        |               |
|                                |               |  |   | <u>83,354</u> |  |       |                             |       |                           |        |                        |               |
|                                |               |  | <table border="1" style="margin: 20px auto;"> <thead> <tr> <th></th> <th style="text-align: right;">£'000</th> </tr> </thead> <tbody> <tr> <td>Net new money into the Fund</td> <td style="text-align: right;">7,715</td> </tr> <tr> <td>Net return on investments</td> <td style="text-align: right;">50,434</td> </tr> <tr> <td>Increase in Fund value</td> <td style="text-align: right;"><u>58,149</u></td> </tr> </tbody> </table> |               |  | £'000 | Net new money into the Fund | 7,715 | Net return on investments | 50,434 | Increase in Fund value | <u>58,149</u> |
|                                | £'000         |  |   |               |  |       |                             |       |                           |        |                        |               |
| Net new money into the Fund    | 7,715         |  |   |               |  |       |                             |       |                           |        |                        |               |
| Net return on investments      | 50,434        |  |   |               |  |       |                             |       |                           |        |                        |               |
| Increase in Fund value         | <u>58,149</u> |  |   |               |  |       |                             |       |                           |        |                        |               |

**Section 151 Officer's Certificate**

I hereby certify that the statement of accounts on pages 1 to 44 present fairly the position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31st March 2018.

Ben Smith  
Head of Financial Services & Service Centre, Section 151 Officer

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## Fund Account For The Year Ended 31st March

| 2016/17          |   | Notes | 2017/18 |                  |
|------------------|---|-------|---------|------------------|
| £'000            | Contributions and benefits                      |       | £'000   | £'000            |
|                  | Contributions receivable :                      |       |         |                  |
| 64,818           | Employers contribution                          | 3     | 70,032  |                  |
| 16,903           | Members contribution                            | 3     | 17,666  | 87,698           |
| 3,841            | Transfers in                                    | 4     |         | 3,191            |
| 194              | Other income                                    | 5     |         | 180              |
| 85,756           |   |       |         | 91,069           |
|                  | Benefits payable :                              |       |         |                  |
| -58,454          | Pensions payable                                | 6     | -61,207 |                  |
| -17,779          | Lump sum benefits                               | 6     | -16,202 | -77,409          |
|                  | Payments to and on account of leavers :         |       |         |                  |
| -120             | Refunds of contributions                        | 7     | -101    |                  |
| -4,750           | Transfers out                                   | 7     | -4,452  | -4,553           |
| -1,141           | Management Expenses                             | 8     |         | -1,392           |
| <b>3,512</b>     | <b>Net additions from dealing with members</b>  |       |         | <b>7,715</b>     |
|                  | <b>Returns on investments</b>                   |       |         |                  |
| 29,838           | Investment income                               | 9     |         | 30,891           |
| 315,415          | Change in market value of investments           | 12    |         | 25,480           |
| -5,512           | Investment management expenses                  | 8     |         | -5,937           |
| <b>339,741</b>   | <b>Net returns on investments</b>               |       |         | <b>50,434</b>    |
| <b>343,253</b>   | <b>Net Increase in the fund during the year</b> |       |         | <b>58,149</b>    |
| 1,512,629        | Opening Net Assets of the Fund                  |       |         | 1,855,882        |
| <b>1,855,882</b> | <b>Closing Net Assets of the Fund</b>           |       |         | <b>1,914,031</b> |

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## Net Assets Statement As At 31 March

| 31st March<br>2017                              |       | 31st March<br>2018      |
|---|-------|-------------------------|
| £'000   | Notes | £'000                   |
| <b>Investments at market value:</b>             |       |                         |
| 1,780,339 Investment Assets                     | 11    | 1,829,320               |
| 1,664 Cash Funds                                | 12    | 761                     |
| 67,561 Cash Deposits                            | 12    | 77,046                  |
| 3,211 Other Investment Balances - Dividends Due | 12    | 3,672                   |
| <b>1,852,775 Sub Total</b>                      |       | <b>1,910,799</b>        |
| 7,402 Current Assets                            | 16    | 7,499                   |
| -4,295 Current Liabilities                      | 16    | -4,267                  |
| <b><u>1,855,882 Net assets</u></b>              |       | <b><u>1,914,031</u></b> |

The financial statements on pages 1 to 44 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.

## Notes to the Financial Statements

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

The financial statements summarise the fund's transactions for the 2017/18 financial year and its position at year-end 31 March 2018. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18* 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 employees 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. As a result total income is recognised in the Fund Account with amounts outstanding from Employers within debtors.

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.

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## **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 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 accrual 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. Distributions from pooled investment vehicles are automatically reinvested in the relevant fund.

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

### **h) Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net asset statement as 31 March 2018 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

- Actuarial present value of promised retirement benefits

### **i) Critical judgements in applying accounting policies**

The funds liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary. The estimate is subject to significant variances based on changes to the underlying assumptions.

### **j) Other**

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

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## 3. Analysis of Contributions

| Total<br>Contributions                |  | Total<br>Contributions |
|---------------------------------------|--|------------------------|
| 2016/17<br>£'000                      |  | 2017/18<br>£'000       |
| <b><u>Administering Authority</u></b> |  |                        |
| <b>46,623</b>                         | City & County of Swansea                 | <b>50,268</b>          |
| <b><u>Admitted Bodies</u></b>         |  |                        |
| 364                                   | Celtic Community Leisure                 | 412                    |
| 42                                    | Swansea Bay Racial Equality Council      | 11                     |
| 117                                   | Wales National Pool                      | 118                    |
| 2,547                                 | Tai Tarian                               | 2,511                  |
| 676                                   | Pobl Group                               | 553                    |
| 11                                    | Rathbone Training Ltd (CCS)              | 5                      |
| 36                                    | Rathbone Training Ltd (Gower College)    | 31                     |
| <b>3,793</b>                          | <b>Total Admitted Bodies</b>             | <b>3,641</b>           |
| <b><u>Scheduled Bodies</u></b>        |  |                        |
| 8                                     | Cilybebyll Community Council             | 9                      |
| 29                                    | Coedffranc Community Council             | 40                     |
| 1,737                                 | Gower College Swansea                    | 2,246                  |
| 1,699                                 | NPTC Group                               | 2,022                  |
| 71                                    | Neath Town Council                       | 64                     |
| 26,087                                | Neath Port Talbot County Borough Council | 27,662                 |
| 37                                    | Margam Joint Crematorium Committee       | 38                     |
| 5                                     | Pelenna Community Council                | 7                      |
| 16                                    | Pontardawe Town Council                  | 19                     |
| 27                                    | Swansea Bay Port Health Authority        | 16                     |
| 1,584                                 | University of Wales Trinity St Davids    | 1,655                  |
| 2                                     | Briton Ferry Town Council                | 5                      |
| 2                                     | Llanrhidian Higher Community Council     | 3                      |
| 1                                     | Ysalyfera Community Council              | 3                      |
| <b>31,305</b>                         | <b>Total Scheduled Bodies</b>            | <b>33,789</b>          |
| <b>81,721</b>                         | <b>Total Contributions Receivable</b>    | <b>87,698</b>          |



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## 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

| <b>2016/17</b> |                                       | <b>2017/18</b> |
|----------------|---------------------------------------|----------------|
| <b>£'000</b>   |                                       | <b>£'000</b>   |
| Employers      |                                       |                |
| 60,780         | Normal                                | 66,390         |
| 0              | Other                                 | 0              |
| 4,038          | Early Access                          | 3,642          |
| <u>64,818</u>  | <b>Total</b>                          | <u>70,032</u>  |
| Employees      |                                       |                |
| 16,863         | Normal                                | 17,627         |
| 40             | Other                                 | 39             |
| <u>16,903</u>  | <b>Total</b>                          | <u>17,666</u>  |
| <u>81,721</u>  | <b>Total Contributions Receivable</b> | <u>87,698</u>  |

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## 4. Transfers In

Transfers in comprise of:

| 2016/17      |   | 2017/18      |
|--------------|---|--------------|
| £'000        |   | £'000        |
| 0            | Group transfers from other schemes      | 0            |
| 3,841        | Individual transfers from other schemes | 3,191        |
| <u>3,841</u> | <b>Total</b>                            | <u>3,191</u> |

## 5. Other Income

Other income comprise of:

| 2016/17    |                         | 2017/18    |
|------------|-------------------------|------------|
| £'000      |                         | £'000      |
| 200        | Bank Interest           | 180        |
| -6         | Early Access - Interest | 0          |
| <u>194</u> | <b>Total</b>            | <u>180</u> |

## 6. Benefits Payable

By category

| 2016/17       |  | 2017/18       |
|---------------|--|---------------|
| £'000         |  | £'000         |
| 58,454        | Pensions                                     | 61,207        |
| 15,417        | Commutation and lump sum retirement benefits | 14,888        |
| 2,362         | Lump sum death benefits                      | 1,314         |
| <u>76,233</u> | <b>Total</b>                                 | <u>77,409</u> |

## 7. Payments to and on account of leavers

Transfers out and refunds comprise of:

| 2016/17      |                                       | 2017/18      |
|--------------|---------------------------------------|--------------|
| £'000        |                                       | £'000        |
| 120          | Refunds to members leaving service    | 101          |
| 4,750        | Individual transfers to other schemes | 4,452        |
| <u>4,870</u> | <b>Total</b>                          | <u>4,553</u> |

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## 8. Administrative and Investment Management Expenses

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

| 2016/17<br>£'000 |   | 2017/18<br>£'000 |
|------------------|---|------------------|
|                  | <b>Administrative Expenses</b>          |                  |
| 690              | Support Services (SLA) & Employee Costs | 755              |
| 18               | Printing & Publications                 | 18               |
| 169              | Other                                   | 305              |
| <u>877</u>       |   | <u>1,078</u>     |
|                  | <b>Oversight &amp; Governance</b>       |                  |
| 55               | Actuarial Fees                          | 43               |
| 45               | Advisors Fees                           | 123              |
| 50               | External Audit Fees                     | 50               |
| 10               | Performance Monitoring Service          | 14               |
| 6                | Pension Fund Committee                  | 5                |
| 1                | Pension Board                           | 2                |
| 97               | All Wales Pool Fees                     | 77               |
| <u>264</u>       |   | <u>314</u>       |
| <u>1,141</u>     |   | <u>1,392</u>     |
|                  | <b>Investment Management Expenses</b>   |                  |
| 4,894            | Management Fees                         | 4,402            |
| 494              | Performance Fees                        | 1,400            |
| 124              | Custody Fees                            | 135              |
| <u>5,512</u>     |   | <u>5,937</u>     |
| <u>6,653</u>     | <b>Total</b>                            | <u>7,329</u>     |

The above represents direct fees payable to the appointed fund managers, however the following mandates are appointed via a fund of funds/manager of managers approach and the table below represents the fees payable to underlying managers. Returns for these mandates are net of underlying fee costs. However for disclosure purposes the fees incurred were:

| 2016/17<br>£'000 |                         | 2017/18<br>£'000 |
|------------------|-------------------------|------------------|
| 277              | Partners Group          | 997              |
| 678              | Blackrock               | 972              |
| 1,300            | Schroders Property Fund | 1,420            |
| 733              | Permal                  | 633              |
| 715              | HarbourVest             | 678              |
| <u>3,703</u>     | <b>Total</b>            | <u>4,700</u>     |

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## 9. Investment Income

| 2016/17  | 2017/18              |
|--|----------------------|
| £'000  | £'000                |
| 15,596 U.K. Equities                             | 16,349               |
| 9,169 Overseas Equities                          | 10,020               |
| 3,854 Managed Fund - Fixed Interest              | 3,102                |
| 1,289 Pooled Investment vehicles - Property Fund | 1,483                |
| -70 Interest and other Income                    | -63                  |
| <b><u>29,838</u> Total</b>                       | <b><u>30,891</u></b> |

The assets under management by Blackrock 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 2017 |                   |                  | 31st March 2018 |                   |                  |
|--|-----------------|-------------------|------------------|-----------------|-------------------|------------------|
|  | UK<br>£'000     | Overseas<br>£'000 | Total<br>£'000   | UK<br>£'000     | Overseas<br>£'000 | Total<br>£'000   |
| <b>Equities</b>                                      |                 |                   |                  |                 |                   |                  |
| Quoted   | 414,015         | 456,711           | 870,726          | 424,093         | 477,911           | 902,004          |
|  | <b>414,015</b>  | <b>456,711</b>    | <b>870,726</b>   | <b>424,093</b>  | <b>477,911</b>    | <b>902,004</b>   |
| <b>Pooled investment vehicles</b>                    |                 |                   |                  |                 |                   |                  |
| Managed Funds:                                       |                 |                   |                  |                 |                   |                  |
| Quoted:  |                 |                   |                  |                 |                   |                  |
| Equity   | 0               | 16,585            | 16,585           | 0               | 17,226            | 17,226           |
| Fixed Interest                                       | 0               | 118,328           | 118,328          | 0               | 117,508           | 117,508          |
| Unquoted:  |                 |                   |                  |                 |                   |                  |
| Equity   | 149,787         | 315,506           | 465,293          | 152,177         | 326,367           | 478,544          |
| Fixed Interest                                       | 60,643          | 16,349            | 76,992           | 60,950          | 15,633            | 76,583           |
| Index-linked   | 32,282          | 0                 | 32,282           | 32,547          | 0                 | 32,547           |
| Property Unit Trust                                  | 12,053          | 0                 | 12,053           | 15,831          | 0                 | 15,831           |
| Property Fund  | 36,162          | 38,911            | 75,073           | 33,035          | 36,390            | 69,425           |
| Hedge Fund   | 0               | 52,318            | 52,318           | 0               | 54,601            | 54,601           |
| Private Equity                                       | 0               | 60,689            | 60,689           | 0               | 65,051            | 65,051           |
| <b>Total pooled investment vehicles</b>              | <b>290,927</b>  | <b>618,686</b>    | <b>909,613</b>   | <b>294,540</b>  | <b>632,776</b>    | <b>927,316</b>   |
| <b>Total equities and pooled investment vehicles</b> | <b>704,942</b>  | <b>1,075,397</b>  | <b>1,780,339</b> | <b>718,633</b>  | <b>1,110,687</b>  | <b>1,829,320</b> |
| <br>   |                 |                   |                  |                 |                   |                  |
| Cash Funds   |                 |                   | 1,664            |                 |                   | 761              |
| Cash   |                 |                   | 67,561           |                 |                   | 77,046           |
| Other Investment Balances Due                        |                 |                   | 3,211            |                 |                   | 3,672            |
| <b>Total</b>   |                 |                   | <b>1,852,775</b> |                 |                   | <b>1,910,799</b> |

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## 11. Investment Assets (continued)

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

| <b>31st March<br/>2017<br/>£'000</b> | <b>Investment assets</b>       | <b>31st March<br/>2018<br/>£'000</b> |
|--------------------------------------|--------------------------------|--------------------------------------|
| 195,320                              | Fixed interest                 | 194,091                              |
| 32,282                               | Index linked securities        | 32,547                               |
| 563,802                              | U.K. equities                  | 576,270                              |
| 788,802                              | Overseas Equities              | 821,504                              |
| 87,126                               | Property                       | 85,256                               |
| 52,318                               | Hedge Funds                    | 54,601                               |
| 60,689                               | Private Equity                 | 65,051                               |
| 0                                    | Infrastructure                 | 0                                    |
| <b><u>1,780,339</u></b>              | <b>Total investment assets</b> | <b><u>1,829,320</u></b>              |

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## 12. Reconciliation of movements in investments

|  | Value at 31st<br>March 2017 | Purchases      | Sales           | Change in<br>Market<br>Value | Value at 31st<br>March 2018 |
|--|-----------------------------|----------------|-----------------|------------------------------|-----------------------------|
|  | £'000                       | £'000          | £'000           | £'000                        | £'000                       |
| <b>Equities</b>                                      |                             |                |                 |                              |                             |
| Aberdeen   | 130,967                     | 20,036         | -17,083         | 1,685                        | 135,605                     |
| JPM  | 350,252                     | 328,051        | -326,437        | 12,409                       | 364,275                     |
| Schroders  | 406,092                     | 73,080         | -50,834         | -8,988                       | 419,350                     |
| L&G/Blackrock  | 465,293                     | 2,789          | -6              | 10,468                       | 478,544                     |
|  | <u>1,352,604</u>            | <u>423,956</u> | <u>-394,360</u> | <u>15,574</u>                | <u>1,397,774</u>            |
| <b>Property</b>                                      |                             |                |                 |                              |                             |
| <b>UK</b>  |                             |                |                 |                              |                             |
| Schroders  | 48,215                      | 6,357          | -9,448          | 3,742                        | 48,866                      |
| Partners   | 25,089                      | 2,189          | -7,401          | 2,003                        | 21,880                      |
| Invesco  | 13,822                      | 0              | -638            | 1,326                        | 14,510                      |
|  | <u>87,126</u>               | <u>8,546</u>   | <u>-17,487</u>  | <u>7,071</u>                 | <u>85,256</u>               |
| <b>Fixed Interest</b>                                |                             |                |                 |                              |                             |
| <b>Fixed Interest</b>                                |                             |                |                 |                              |                             |
| L&G/Blackrock  | 76,992                      | 0              | 0               | -409                         | 76,583                      |
| Goldman  | 118,328                     | 3,101          | 0               | -3,921                       | 117,508                     |
|  | <u>195,320</u>              | <u>3,101</u>   | <u>0</u>        | <u>-4,330</u>                | <u>194,091</u>              |
| <b>Index-Linked</b>                                  |                             |                |                 |                              |                             |
| L&G/Blackrock  | 32,282                      | 0              | 0               | 265                          | 32,547                      |
|  | <u>32,282</u>               | <u>0</u>       | <u>0</u>        | <u>265</u>                   | <u>32,547</u>               |
| <b>Hedge Funds</b>                                   |                             |                |                 |                              |                             |
| Blackrock  | 27,590                      | 0              | -466            | 1,773                        | 28,897                      |
| Permal   | 24,728                      | 0              | -391            | 1,367                        | 25,704                      |
|  | <u>52,318</u>               | <u>0</u>       | <u>-857</u>     | <u>3,140</u>                 | <u>54,601</u>               |
| <b>Private Equity</b>                                |                             |                |                 |                              |                             |
| HarbourVest  | 60,689                      | 16,053         | -15,446         | 3,755                        | 65,051                      |
|  | <u>60,689</u>               | <u>16,053</u>  | <u>-15,446</u>  | <u>3,755</u>                 | <u>65,051</u>               |
| <b>Infrastructure</b>                                |                             |                |                 |                              |                             |
| First State  | 0                           | 0              | 0               | 0                            | 0                           |
|  | <u>0</u>                    | <u>0</u>       | <u>0</u>        | <u>0</u>                     | <u>0</u>                    |
| <b>Transition</b>                                    |                             |                |                 |                              |                             |
|  | 0                           | 0              | 0               | 0                            | 0                           |
|  | <u>0</u>                    | <u>0</u>       | <u>0</u>        | <u>0</u>                     | <u>0</u>                    |
| <b>Cash funds</b>                                    |                             |                |                 |                              |                             |
| Schroders  | 1,664                       | 0              | -908            | 5                            | 761                         |
|  | <u>1,664</u>                | <u>0</u>       | <u>-908</u>     | <u>5</u>                     | <u>761</u>                  |
| <b>Total</b>   | <u>1,782,003</u>            | <u>451,656</u> | <u>-429,058</u> | <u>25,480</u>                | <u>1,830,081</u>            |
| <b>Cash</b>  | 67,561                      |                |                 |                              | 77,046                      |
| <b>Other Investment Balances -<br/>Dividends Due</b> | 3,211                       |                |                 |                              | 3,672                       |
| <b>TOTAL</b>   | <u>1,852,775</u>            |                |                 | <u>25,480</u>                | <u>1,910,799</u>            |

# CITY & COUNTY OF SWANSEA PENSION FUND

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

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 £842k (2016/17 : £264k). 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 disclosed. During the year, the passively managed assets previously managed by Legal & General Asset Management transitioned to Blackrock Asset Management as part of the collaborative procurement exercise undertaking as a precursor to the Wales Pension Partnership.

## 13. Concentration of Investments

The following investments represented 5% or more of the Fund's net assets at 31st March 2018:

|                                    | Value as at<br>the<br>31st March<br>2017<br>£'000 | Proportion<br>of Net<br>Asset<br>% | Value as at<br>the<br>31st March<br>2018<br>£'000 | Proportion<br>of Net<br>Asset<br>% |
|------------------------------------|---|------------------------------------|---|------------------------------------|
| Blackrock UK Equity Index          | 149,787   | 8.1                                | 152,177   | 8.0                                |
| Goldman Sachs Global Libor Plus II | 118,328   | 6.4                                | 117,508   | 6.1                                |
| Blackrock North America Equity     | 146,379   | 7.9                                | 149,143   | 7.8                                |
| JP Morgan North American Equities  | 198,563   | 10.7                               | 209,177   | 10.9                               |

## 14. Realised Profit on the Sale of Investments

| 2016/17<br>£'000                | 2017/18<br>£'000     |
|---------------------------------|----------------------|
| 9,312 U.K. Equities             | 17,609               |
| 39,557 Overseas Equities        | 56,905               |
| 2,286 Property Fund             | 3,735                |
| 2 Cash Fund                     | 2                    |
| <b><u>51,157</u> Net Profit</b> | <b><u>78,251</u></b> |

## 15. Fixed Interest and Index Linked Investments

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

| 31st March<br>2017<br>£'000 | 31st March<br>2018<br>£'000 |
|-----------------------------|-----------------------------|
| 147,948 UK Public Sector    | 143,791                     |
| 79,654 Other                | 82,847                      |
| <b><u>227,602</u></b>       | <b><u>226,638</u></b>       |



# CITY & COUNTY OF SWANSEA PENSION FUND

## 16. Current Assets and Liabilities

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

| <b>31st March</b>          |  | <b>31st March</b>   |
|----------------------------|--|---------------------|
| <b>2017</b>                |  | <b>2018</b>         |
| <b>£'000</b>               |  | <b>£'000</b>        |
| <b>Current Assets</b>      |  |                     |
| 593                        | Contributions - Employees                    | 629                 |
| 2,594                      | Contributions - Employers                    | 2,430               |
| 2,565                      | Early Access Contributions Debtor            | 2,789               |
| 406                        | Transfer Values                              | 441                 |
| 1,244                      | Other  | 1,210               |
| <u>7,402</u>               |  | <u>7,499</u>        |
| <b>Current Liabilities</b> |  |                     |
| -547                       | Investment Management Expenses               | -529                |
| -1,970                     | Commutation and lump sum retirement benefits | -1,819              |
| -44                        | Lump sum death benefits                      | -40                 |
| -677                       | Transfers to Other Schemes                   | -751                |
| -602                       | Payroll Deductions - Tax                     | -602                |
| -30                        | Payable Control List                         | -34                 |
| -425                       | Other  | -492                |
| <u>-4,295</u>              |  | <u>-4,267</u>       |
| <u><b>3,107 Net</b></u>    |  | <u><b>3,232</b></u> |

Analysed as:

| <b>31st March</b>          |                                | <b>31st March</b>   |
|----------------------------|--------------------------------|---------------------|
| <b>2017</b>                |                                | <b>2018</b>         |
| <b>£'000</b>               |                                | <b>£'000</b>        |
| <b>Current Assets</b>      |                                |                     |
| 511                        | Central Government Bodies      | 701                 |
| 6,039                      | Other Local Authorities        | 6,210               |
| 852                        | Other Entities and Individuals | 588                 |
| <u>7,402</u>               |                                | <u>7,499</u>        |
| <b>Current Liabilities</b> |                                |                     |
| -216                       | Central Government Bodies      | -41                 |
| -739                       | Other Local Authorities        | -661                |
| -3,340                     | Other Entities and Individuals | -3,565              |
| <u>-4,295</u>              |                                | <u>-4,267</u>       |
| <u><b>3,107 Net</b></u>    |                                | <u><b>3,232</b></u> |

# CITY & COUNTY OF SWANSEA PENSION FUND

## 16. Current Assets & Liabilities (continued)

### Early Access Debtor

|                                  | Instalment<br>Due<br>2018/19<br>£'000 | Instalment<br>Due<br>2019/20<br>£'000 | Instalment<br>Due<br>2020/21<br>£'000 | Instalment<br>Due<br>2021/22<br>£'000 | Total<br>£'000 |
|----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|----------------|
| Early Access<br>Principal Debtor | 2,967                                 | 0                                     | 0                                     | 0                                     | 2,967          |
| Early Access<br>Interest Debtor  | 0                                     | 0                                     | 0                                     | 0                                     | 0              |
| <b>Total (Gross)</b>             | <b>2,967</b>                          | <b>0</b>                              | <b>0</b>                              | <b>0</b>                              | <b>2,967</b>   |

## 17. Capital and Contractual Commitments

As at 31st March 2018 the Scheme was committed to providing funding to appointed managers investing in unquoted securities. These commitments amounted to £100.7m (2016/17 : £70.0m).

# CITY & COUNTY OF SWANSEA PENSION FUND

## 18. Statement of the Actuary for the year ended 31 March 2018

### 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 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

### Actuarial Position

- 1 The valuation as at 31 March 2016 showed that the funding ratio of the Fund was broadly similar to the funding ratio as at the previous valuation, with the market value of the Fund's assets at 31st March 2016 (of £1,512.6M) covering 80% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre 1 April 2014 membership for 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 2017 was:
    - 18.0% of pensionable pay. This was 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 (the primary rate).
- Plus**
- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2017 (the secondary rate), equivalent to 7.0% of pensionable pay (or £20.1M in 2017/18, and increasing by 3.5% p.a. thereafter).
- 3 In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (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 or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer was agreed with the administering authority reflecting the employers' circumstances.
  - 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 were as follows.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 18. Statement of the Actuary for the year ended 31 March 2018 (continued)

|  |           |
|--|-----------|
| <u>Discount rate for periods in service</u>  |           |
| Scheduled body employers *   | 4.6% p.a. |
| Orphan body employers  | 4.6% p.a. |
| <u>Discount rate for periods after leaving service</u>                               |           |
| Scheduled body employers *   | 4.6% p.a. |
| Orphan body employers  | 2.5% p.a. |
| Rate of pay increase   | 3.5% p.a. |
| Rate of increase to pension accounts   | 2.0% p.a. |
| Rate of increase in pensions in payment<br>(in excess of Guaranteed Minimum Pension) | 2.0% p.a. |

*\*The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

*In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.*

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) Core Projections Model released with Working Paper 91 with Core assumptions, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were :

|  | Men  | Women |
|--|------|-------|
| Current pensioners aged 65 at the valuation date | 22.8 | 24.3  |
| Future pensioners aged 45 at the valuation date  | 24.4 | 26.1  |

The assets were valued at 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 2016. 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 2017 to 31 March 2020 were signed on 31 March 2017. Other than as permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material.

In addition, amendment Regulations have been laid which provide for exit credits to be repaid to employers on exit, effective from 14 May 2018. It is anticipated that the Administering Authority will consider whether its Funding Strategy Statement should be revised on account of these changes but it is not expected that any surplus repayable to employers on exit will be material.

9. This Statement has been prepared by the current Actuary to the Fund, Aon, 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 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

## 18. Statement of the Actuary for the year ended 31 March 2018 (continued)

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 does not accept any responsibility or liability to any party other than our client, the City and County of Swansea, the Administering Authority of the Fund, in respect of this Statement.

10. The report on the actuarial valuation as at 31 March 2016 is available from the Fund's website at the following address:

<http://www.swanseapensionfund.org.uk/investment-and-fund/actuarial-valuations/>

Aon Hewitt Limited  
May-18

### Actuarial Present Value of Promised Retirement Benefits

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 2016 is £2,249.7m (31st March 2013 £1,936.8m), which compares the market value of the assets at that date of £1,512.6m (31st March 2013 £1,277.6m).

### 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 liabilities.

**18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2018 (continued)**

**Rates & Adjustment Certificate**

Actuarial certificate given for the purposes of Regulation 62 of the Local Government Pension Scheme Regulations 2013.

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), we certify that contributions should be paid by Employers at the following rates for the period 1st April 2017 to 31st March 2020.

- i) An aggregate primary rate of 18.0% pa of Pensionable Pay.
- ii) Individual adjustments (i.e. secondary contribution rates) which, when added to or subtracted from the primary rate, produced the following minimum 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 2018 (continued)

| Employer   | Primary contribution rate % pensionable pay | Secondary contributions (% Pensionable pay and £s) in year commencing 1 April |                    |                    | Total contributions (% Pensionable pay and £s) in year commencing 1 April |                     |                     |
|--|---|---|--------------------|--------------------|---|---------------------|---------------------|
|  |   | 2017  | 2018               | 2019               | 2017  | 2018                | 2019                |
| <b>Schedule 2 Part 1 bodies/ Schedule 2 Part 2 bodies (Scheduled bodies)</b> |   |   |                    |                    |   |                     |                     |
| City & County of Swansea   | 17.9%                                       | 5.5%  | 6.5%               | 7.9%               | 23.4%   | 24.4%               | 25.8%               |
| Neath Port Talbot County Borough Council                                     | 17.8%                                       | 7.7%  | 8.5%               | 9.3%               | 25.5%   | 26.3%               | 27.1%               |
| Cilybebyll Community Council   | 27.6%                                       | -4.7%   | -2.3%              | 0.1%               | 22.9%   | 25.3%               | 27.7%               |
| Coedffranc Community Council   | 20.3%                                       | -0.1% plus £5,300   | -0.1% plus £5,500  | -0.1% plus £5,700  | 20.2% plus £5,300   | 20.2% plus £5,500   | 20.2% plus £5,700   |
| Neath Town Council   | 20.3%                                       | -0.1% plus £16,200  | -0.1% plus £16,800 | -0.1% plus £17,400 | 20.2% plus £16,200  | 20.2% plus £16,800  | 20.2% plus £17,400  |
| Pelenna Community Council  | 27.0%                                       | £1,200  | £1,200             | £1,300             | 27.0% plus £1,200   | 27.0% plus £1,200   | 27.0% plus £1,300   |
| Pontardawe Town Council  | 23.0%                                       | £800  | £800               | £900               | 23.0% plus £800   | 23.0% plus £800     | 23.0% plus £900     |
| Gower College  | 17.9%                                       | 3.8%  | 3.9%               | 3.9%               | 21.7%   | 21.8%               | 21.8%               |
| NPTC Group   | 17.7%                                       | £168,400  | £174,300           | £180,400           | 17.7% plus £168,400   | 17.7% plus £174,300 | 17.7% plus £180,400 |
| Margam Joint Crematorium Committee   | 20.3%                                       | -0.1% plus £9,400   | -0.1% plus £9,700  | -0.1% plus £10,100 | 20.2% plus £9,400   | 20.2% plus £9,700   | 20.2% plus £10,100  |
| Swansea Bay Port Health Authority  | 5.8%  | 16.6% plus £0   | 16.6% plus £4,400  | 16.6% plus £9,000  | 22.4% plus £0   | 22.4% plus £4,400   | 22.4% plus £9,000   |
| <b>Schedule 2 Part 3 bodies (Admission bodies)</b>                           |   |   |                    |                    |   |                     |                     |
| Celtic Community Leisure   | 13.2%                                       | -   | -                  | -                  | 13.2%   | 13.2%               | 13.2%               |
| Gnwp Gwallia Cyf   | 22.0%                                       | -1.6%   | -1.6%              | -1.6%              | 20.4%   | 20.4%               | 20.4%               |
| Neath Port Talbot Homes Ltd  | 17.0%                                       | £62,300   | £218,500           | £374,700           | 17.0% plus £62,300  | 17.0% plus £218,500 | 17.0% plus £374,700 |
| Rathbone Training Ltd (City & County of Swansea)                             | 22.4%                                       | 2.8%  | 2.8%               | 2.8%               | 25.2%   | 25.2%               | 25.2%               |
| Rathbone Training Ltd (Gower College)  | 24.3%                                       | -   | -                  | -                  | 24.3%   | 24.3%               | 24.3%               |

|                                     |              |                               |                               |                                 |                                |                                |                                  |
|-------------------------------------|--------------|-------------------------------|-------------------------------|---------------------------------|--------------------------------|--------------------------------|----------------------------------|
| Swansea Bay Racial Equality Council | 37.0%        | -1.8% plus<br>£600            | -0.9% plus<br>£1,300          | £2,000                          | 35.2% plus<br>£600             | 36.1% plus<br>£1,300           | 37.0% plus<br>£2,000             |
| Trinity St Davids                   | 28.0%        | £389,400                      | £542,300                      | £686,100                        | 28.0% plus<br>£389,400         | 28.0% plus<br>£542,300         | 28.0% plus<br>£686,100           |
| Wales National Pool                 | 14.2%        | -                             | -                             | -                               | 14.2                           | 14.2                           | 14.2                             |
| <b>Total</b>                        | <b>18.0%</b> | <b>5.5% plus<br/>£653,600</b> | <b>6.3% plus<br/>£974,800</b> | <b>7.3% plus<br/>£1,287,600</b> | <b>23.5% plus<br/>£653,600</b> | <b>24.3% plus<br/>£974,800</b> | <b>25.3% plus<br/>£1,287,600</b> |

The contribution rates for the City & County of Swansea, Neath Port Talbot County Borough Council and Gower College have been set as a percentage of pay. However, minimum monetary contribution amounts for these employers have been agreed with the Administering Authority, and if the contributions actually received fall below this minimum level additional payments will be required. These minimums are such that the total contributions in aggregate must be no less than :

City & County of Swansea      17.9% of pensionable pay plus £8.18M in 2017/18, 17.9% of pensionable pay plus £9.53M in 2018/19, 17.9% of pensionable pay plus £11.37M in 2019/20.

Neath Port Talbot County Borough Council      17.8% of pensionable pay plus £6.18M in 2017/18, 17.8% of pensionable pay plus £6.82M in 2018/19, 17.8% of pensionable pay plus £7.47M in 2019/20

Gower College      17.9% of pensionable pay plus £250,000 in 2017/18, 17.9% of pensionable pay plus £259,000 in 2018/19, 17.9% of pensionable pay plus £268,000 in 2019/20

The contributions shown above 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.

Where payments due from an Employer are expressed as monetary amounts, the amounts payable by that Employer may be adjusted to take account of any amounts payable, in respect of surplus or shortfall to which those monetary 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.

Additional contributions may be required in respect of any additional liabilities that arise under the provisions of Regulations 30, 31, 35 and 38 of the 2013 Regulations and Employers will be notified of such contributions separately by the Administering Authority.



Additional contributions may be payable by any Employers which have ceased to participate in the Fund since 31 March 2016 and these will be certified separately.  
Contribution rates for Employers commencing participation in the Fund after 31 March 2016 will be advised separately.  
This certificate should be read in conjunction with the notes overleaf.

Signed on behalf of Aon Hewitt Limited



Chris Archer FIA  
Fellow of the Institute and Faculty of Actuaries

30 March 2017

Aon Hewitt Limited  
25 Marsh Street  
Bristol BS1 4AQ



Laura Hamilton FIA  
Fellow of the Institute and Faculty of Actuaries

## 19. Related party transactions

£755k (£690k 2016/17) was paid to the City & County of Swansea for the recharge of Administration, I.T., Finance and Directorate & Legal Services during the year.

Contributions received from admitted and scheduled bodies as detailed on page 8.

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

### Key Management Personnel

The key management personnel of the Fund are the Chief Executive and the Head of Financial Services & Service Centre, Section 151 Officer. As required by 3.9.4.2 of the CIPFA code of practice 2016/17, the figures below show the change in value of post-employment benefits provided to these individuals over the accounting year based on the percentage of time on matters relating to the Pension Fund. The value of the benefits has been calculated consistently with those of the whole Fund disclosure provided in Note 18, albeit the figures below have been calculated at different dates to those used for the whole fund disclosure.

|  | Increase/(decrease) in IAS19 liability to 31 March 2018 |                                      | Increase/(decrease) in IAS19 liability to 31 March 2017 |                                      |
|--|---|--------------------------------------|---|--------------------------------------|
|  | Amount (£)  | Percentage (%) of year end liability | Amount (£)  | Percentage (%) of year end liability |
| Chief Executive  | 81,000  | 5.2                                  | 333,000   | 28.1                                 |
| Head of Financial Services & Service Centre, Section 151 Officer | 64,000  | 30.7                                 | 28,000  | 16.1                                 |

# CITY & COUNTY OF SWANSEA PENSION FUND

## 19. Related Party Transactions Cont'd

|  | Short Term Benefits to 31 March<br>2018               |  | Short Term Benefits to 31 March<br>2017               |  |
|--|---|--|---|--|
|  | Remuneration<br>(Including Fees<br>& Allowances)<br>£ | Pension<br>Contributions<br>(23.4%)<br>£ | Remuneration<br>(Including Fees<br>& Allowances)<br>£ | Pension<br>Contributions<br>(22.4%)<br>£ |
| Chief Executive (i)  | 142,814   | 33,418                                   | 162,667   | 31,108                                   |
| Head of Financial Services & Service<br>Centre, Section 151 Officer (ii) | 71,951  | 16,764                                   | 6,181   | 1,385                                    |

**Notes in relation to 2016/17**

(i) The Chief Executive retired on the 31st May 2016. The Director of Place became the Chief Executive on 1st June 2016 but was remunerated from 1st May 2016 in a one month handover period prior approved by Council decision.

(ii) The Head of Financial Services & Service Centre (previously Head of Finance & Delivery) was the Director of Resources from 28th April 2016.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 19. Related Party Transactions Cont'd

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.

## 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 2017 | Purchases at Cost (Contributions In/Out) | Sale Proceeds | Change in Market Value | Value of Funds at 31st March 2018 |
|----------------|----------------------------------|--|---------------|------------------------|-----------------------------------|
|                | £'000                            | £'000                                    | £'000         | £'000                  | £'000                             |
| Prudential     | 5,226                            | 1,604                                    | -1,305        | 137                    | 5,662                             |
| Aegon          | 1,124                            | 27                                       | -77           | 32                     | 1,106                             |
| Equitable Life | 279                              | 1  | -37           | 6                      | 249                               |
| <b>Totals</b>  | <b>6,629</b>                     | <b>1,632</b>                             | <b>-1,419</b> | <b>175</b>             | <b>7,017</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 2018 there were 19,671 contributors, 12,763 pensioners and 11,394 deferred pensioners.

| Membership statistics | 31st March 2014 | 31st March 2015 | 31st March 2016 | 31st March 2017 | 31st March 2018 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                       | Number          | Number          | Number          | Number          | Number          |
| Contributors          | 15,576          | 16,285          | 17,469          | 17,903          | 19,671          |
| Pensioners            | 10,833          | 11,261          | 11,745          | 12,200          | 12,763          |
| Deferred Pensioners   | 9,663           | 9,801           | 11,226          | 11,583          | 11,394          |
| <b>Total</b>          | <b>36,072</b>   | <b>37,347</b>   | <b>40,440</b>   | <b>41,686</b>   | <b>43,828</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 2017 and 2018 based upon this hierarchy:

# CITY & COUNTY OF SWANSEA PENSION FUND

## 22. Fair Value of Investments (continued)

|  | 31 March 2017         |                  |                  | 31 March 2018    |                       |                  |                  |                  |
|--|-----------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|------------------|
|  | Market Value<br>£'000 | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | Market Value<br>£'000 | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 |
| <b>Equities</b>                              |                       |                  |                  |                  |                       |                  |                  |                  |
| UK Equities                                  | 414,015               | 414,015          | -                | -                | 424,093               | 424,093          | -                | -                |
| Overseas Equities                            | 456,711               | 456,711          | -                | -                | 477,911               | 477,911          | -                | -                |
| <b>Pooled Investment Vehicles</b>            |                       |                  |                  |                  |                       |                  |                  |                  |
| Fixed-Interest Funds                         | 118,328               | 118,328          | -                | -                | 117,508               | 117,508          | -                | -                |
| UK Equity                                    | 149,787               | -                | -                | 149,787          | 152,177               | -                | -                | 152,177          |
| Overseas Equity                              | 332,091               | 16,585           | -                | 315,506          | 343,593               | 17,226           | -                | 326,367          |
| Fixed Interest                               | 76,992                | -                | -                | 76,992           | 76,583                | -                | -                | 76,583           |
| Index-linked                                 | 32,282                | -                | -                | 32,282           | 32,547                | -                | -                | 32,547           |
| Property Unit Trust                          | 12,053                | -                | -                | 12,053           | 15,831                | -                | -                | 15,831           |
| Property Fund                                | 75,073                | -                | -                | 75,073           | 69,425                | -                | -                | 69,425           |
| Hedge Fund                                   | 52,318                | -                | -                | 52,318           | 54,601                | -                | -                | 54,601           |
| Private Equity                               | 60,689                | -                | -                | 60,689           | 65,051                | -                | -                | 65,051           |
| Infrastructure                               | -                     | -                | -                | -                | -                     | -                | -                | -                |
| Cash   | 69,225                | 69,225           | -                | -                | 77,807                | 77,807           | -                | -                |
| Other Investment Balances -<br>Dividends Due | 3,211                 | 3,211            | -                | -                | 3,672                 | 3,672            | -                | -                |
| <b>Total</b>                                 | <b>1,852,775</b>      | <b>1,078,075</b> | <b>-</b>         | <b>774,700</b>   | <b>1,940,799</b>      | <b>1,418,217</b> | <b>-</b>         | <b>792,582</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.

## 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 £117,508k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2018, the Fund's exposure to non-investment grade paper was 6.3% 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 £65,051k 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 2018 is set out below with their relative exposure to credit risk.

|           | <b>March 2018</b> | <b>Credit Exposure</b> |
|-----------|-------------------|------------------------|
|           | <b>£'000</b>      |                        |
| Permal    | 25,704            | 0.15%                  |
| Blackrock | 28,897            | 25.0%                  |

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 85.0% 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 2018 by liquidity profile.

|  | Amounts at                  |                            |                        |                         |                   |
|--|-----------------------------|----------------------------|------------------------|-------------------------|-------------------|
|  | 31st March<br>2018<br>£000s | Within 1<br>month<br>£000s | 1-3<br>months<br>£000s | 4-12<br>months<br>£000s | > 1 Year<br>£000s |
| <b>Equities</b>                                      |                             |                            |                        |                         |                   |
| UK Equities  | 424,093                     | 424,093                    | 0                      | 0                       | 0                 |
| Overseas Equities                                    | 477,911                     | 477,911                    | 0                      | 0                       | 0                 |
| <b>Pooled Investment Vehicles</b>                    |                             |                            |                        |                         |                   |
| Fixed-Interest Funds                                 | 117,508                     | 117,508                    | 0                      | 0                       | 0                 |
| UK Equity  | 152,177                     | 152,177                    | 0                      | 0                       | 0                 |
| Overseas Equity                                      | 343,593                     | 343,593                    | 0                      | 0                       | 0                 |
| Fixed Interest                                       | 76,583                      | 76,583                     | 0                      | 0                       | 0                 |
| Index-linked   | 32,547                      | 32,547                     | 0                      | 0                       | 0                 |
| Property Unit Trust                                  | 15,831                      | 0                          | 0                      | 15,831                  | 0                 |
| Property Fund  | 69,425                      | 0                          | 0                      | 33,035                  | 36,390            |
| Hedge Fund   | 54,601                      | 0                          | 0                      | 54,601                  | 0                 |
| Private Equity                                       | 65,051                      | 0                          | 0                      | 0                       | 65,051            |
| Infrastructure                                       | 0                           | 0                          | 0                      | 0                       | 0                 |
| Deposits with banks and other financial institutions | 77,807                      | 77,807                     | 0                      | 0                       | 0                 |
| Other Investment Balances - Dividends Due            | 3,672                       | 3,672                      | 0                      | 0                       | 0                 |
| <b>Total</b>   | <b>1,910,799</b>            | <b>1,705,891</b>           | <b>0</b>               | <b>103,467</b>          | <b>101,441</b>    |

## 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 89% of the portfolio is realisable within 1 month and 95% 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 2018 by showing the percentage 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%<br>L&G/Blackrock | 20%<br>Schroders                                    | FTSE allshare   | +3% p.a. over rolling 3 year                              |
| Overseas Equities     | 34% +/- 5%       | 13%<br>L&G/Blackrock | 21%<br>JP Morgan & Aberdeen<br>Aberdeen             | MSCI World all share (ex UK)<br>MSCI Frontier Markets Index | +3% p.a. over rolling 3year<br>+% p.a. over rolling 3year |
| Global Fixed Interest | 15% +/- 5%       | 6%<br>L&G/Blackrock  | 9%<br>Goldman Sachs                                 | Libor   | LIBOR +3%   |
| Property              | 5% +/- 5%        | -                    | 5%<br>Schroders, Partners & Invesco                 | IPD UK Pooled Property Fund Index                           | + 1% p.a. over rolling 3 year, 8% absolute return         |
| Hedge Funds           | 5% +/- 5%        | -                    | 5%<br>Blackrock & EnTrustPermal (formerly Fauchier) | LIBOR   | +4%   |
| Private Equity        | 3% +/- 5%        | -                    | 3%<br>Harbourvest                                   | FTSE allshare   | +3% p.a. over 3 year rolling                              |
| Infrastructure        | 2% +/- 5%        | -                    | 2%<br>First State                                   | 10% Absolute  | 10% Absolute  |
| Cash                  | 2% +/- 5%        | -                    | 2%<br>In house and cash flows of fund managers      | 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 ISS 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.

Due to volatility in the equity markets, there was an imbalance of 4.0% over allocation to overseas equities as at 31st March 2018.

The investment strategy was revised in March 2018. Rebalancing in line with the parameters will be implemented in line with the transition timetable of the Wales Pension Partnership (WPP) transition timetable.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### 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.

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 2018 would have been as follows:

#### Price Risk

| Asset Type                 | Value (£'000)    | % Change       | Value on Increase | Value on Decrease |
|----------------------------|------------------|----------------|-------------------|-------------------|
| UK Equities                | 576,270          | 9.3846%        | 630,351           | 522,189           |
| Overseas Equities          | 821,504          | 9.8587%        | 902,494           | 740,514           |
| Total Bonds & Index-Linked | 226,638          | 6.7384%        | 241,910           | 211,366           |
| Alternatives               | 119,652          | 3.6489%        | 124,018           | 115,286           |
| Cash                       | 77,807           | 0.6851%        | 78,340            | 77,274            |
| Property                   | 85,256           | 2.8684%        | 87,701            | 82,811            |
| Other Investment Balances  | 3,672            | 0.0000%        | 3,672             | 3,672             |
| <b>Total Assets*</b>       | <b>1,910,799</b> | <b>6.7433%</b> | <b>2,039,651</b>  | <b>1,781,947</b>  |

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

and as at 31st March 2017:

#### Price Risk

| Asset Type                 | Value (£'000)    | % Change     | Value on Increase | Value on Decrease |
|----------------------------|------------------|--------------|-------------------|-------------------|
| UK Equities                | 563,802          | 9.10%        | 615,108           | 512,496           |
| Overseas Equities          | 788,802          | 9.70%        | 865,316           | 712,288           |
| Total Bonds & Index-Linked | 227,602          | 6.00%        | 241,258           | 213,946           |
| Cash                       | 69,225           | 4.50%        | 72,340            | 66,110            |
| Property                   | 87,126           | 1.20%        | 88,172            | 86,080            |
| Alternatives               | 113,007          | 3.20%        | 116,623           | 109,391           |
| Other Investment Balances  | 3,211            | 0.00%        | 3,211             | 3,211             |
| <b>Total Assets*</b>       | <b>1,852,775</b> | <b>6.50%</b> | <b>1,973,205</b>  | <b>1,732,344</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

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 (£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 2018:

#### Currency Risk (by currency)

| Currency                     | Value (£'000)  | % Change       | Value on Increase | Value on Decrease |
|------------------------------|----------------|----------------|-------------------|-------------------|
| Australian Dollar            | 12,754         | 11.9590%       | 14,279            | 11,229            |
| Brazilian Real               | 6,448          | 19.5325%       | 7,707             | 5,189             |
| Canadian Dollar              | 14,915         | 10.1648%       | 16,431            | 13,399            |
| Danish Krone                 | 8,519          | 9.0295%        | 9,288             | 775               |
| EURO                         | 98,462         | 9.0253%        | 107,349           | 89,576            |
| Hong Kong Dollar             | 10,385         | 9.7118%        | 11,394            | 9,376             |
| Indian Rupee                 | 7,010          | 9.9899%        | 7,710             | 6,310             |
| Indonesian Rupiah            | 2,721          | 11.7331%       | 3,040             | 2,402             |
| Israeli Shekel               | 2,381          | 8.6439%        | 2,587             | 2,175             |
| Japanese Yen                 | 76,578         | 15.0243%       | 88,083            | 65,073            |
| Malaysian Ringgit            | 3,012          | 12.8014%       | 3,398             | 2,626             |
| Mexican Peso                 | 2,557          | 11.2462%       | 2,845             | 2,269             |
| Norwegian Krone              | 3,135          | 10.9104%       | 3,477             | 2,793             |
| Chinese Renminbi Yuan        | 13,249         | 8.7271%        | 14,405            | 12,093            |
| Philippine Peso              | 540            | 9.6360%        | 591               | 488               |
| Russian Rouble               | 368            | 17.1503%       | 431               | 305               |
| Singapore Dollar             | 7,038          | 9.2831%        | 7,691             | 6,385             |
| South African Rand           | 2,149          | 18.0691%       | 2,537             | 1,761             |
| South Korean Won             | 10,096         | 11.7641%       | 11,284            | 8,908             |
| Swedish Krona                | 14,153         | 9.6884%        | 15,524            | 12,782            |
| Swiss Franc                  | 14,336         | 10.3255%       | 15,816            | 12,856            |
| Taiwan Dollar                | 5,611          | 9.2155%        | 6,128             | 5,094             |
| Thai Baht                    | 4,942          | 10.0781%       | 5,440             | 4,444             |
| Turkish Lira                 | 1,029          | 15.3513%       | 1,187             | 871               |
| US Dollar                    | 291,249        | 9.7245%        | 319,572           | 262,926           |
| North America Basket         | 149,143        | 9.5450%        | 163,379           | 134,907           |
| Europe Basket                | 66,567         | 6.5784%        | 70,946            | 62,188            |
| Asia Pacific ex Japan Basket | 29,622         | 9.1550%        | 32,334            | 26,910            |
| Emerging Basket              | 63,976         | 9.4406%        | 70,016            | 57,936            |
| <b>Total Currency*</b>       | <b>922,945</b> | <b>8.9006%</b> | <b>1,005,093</b>  | <b>840,797</b>    |

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

and as at 31 March 2017:

### Currency Risk (by currency)

| Currency                     | Value (£'000)  | % Change     | Value on Increase | Value on Decrease |
|------------------------------|----------------|--------------|-------------------|-------------------|
| Australian Dollar            | 7,178          | 11.20%       | 7,982             | 6,374             |
| Brazilian Real               | 5,592          | 20.90%       | 6,761             | 4,423             |
| Canadian Dollar              | 5,607          | 9.10%        | 6,119             | 5,095             |
| Danish Krone                 | 2,928          | 9.00%        | 3,191             | 2,665             |
| EURO                         | 100,483        | 9.00%        | 109,118           | 91,184            |
| Hong Kong Dollar             | 12,098         | 8.90%        | 13,180            | 11,016            |
| Indian Rupee                 | 2,602          | 9.60%        | 2,852             | 2,352             |
| Indonesian Rupiah            | 2,134          | 12.30%       | 2,396             | 1,872             |
| Israeli Shekel               | 2,364          | 8.40%        | 2,563             | 2,165             |
| Japanese Yen                 | 75,520         | 14.90%       | 86,758            | 64,282            |
| Mexican Peso                 | 3,165          | 11.40%       | 3,527             | 2,803             |
| Norwegian Krone              | 1,138          | 10.60%       | 1,259             | 1,017             |
| Chinese Renminbi Yuan        | 15,645         | 8.50%        | 16,972            | 14,318            |
| Russian Rouble               | 4,366          | 23.80%       | 5,406             | 3,326             |
| Singapore Dollar             | 3,692          | 8.80%        | 4,017             | 3,367             |
| South African Rand           | 3,556          | 16.50%       | 4,144             | 2,968             |
| South Korean Won             | 12,650         | 10.40%       | 13,970            | 11,330            |
| Swedish Krona                | 5,828          | 8.80%        | 6,340             | 5,316             |
| Swiss Franc                  | 25,258         | 11.90%       | 28,272            | 22,244            |
| Taiwan Dollar                | 7,167          | 8.60%        | 7,782             | 6,552             |
| Thai Baht                    | 1,891          | 9.70%        | 2,074             | 1,708             |
| Turkish Lira                 | 1,203          | 14.60%       | 1,378             | 1,028             |
| US Dollar                    | 286,399        | 9.00%        | 309,938           | 258,866           |
| North America Basket         | 146,379        | 8.70%        | 159,165           | 133,593           |
| Europe ex UK Basket          | 64,782         | 8.70%        | 70,445            | 59,119            |
| Asia Pacific ex Japan Basket | 29,736         | 8.60%        | 32,283            | 27,189            |
| Emerging Basket              | 59,041         | 9.20%        | 64,463            | 53,619            |
| <b>Total Currency*</b>       | <b>888,402</b> | <b>8.40%</b> | <b>963,028</b>    | <b>813,776</b>    |

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

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 represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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.

## 24. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified :

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of those events and their estimated financial effect.

There are no known events that would have a material impact on these accounts.

## 25. 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).

## 26. Financial Position

The accounts outlined within the statement represent the financial position of the City and County of Swansea Pension Fund at 31st March 2018.

# CITY & COUNTY OF SWANSEA PENSION FUND

Appendix 1

## SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1<sup>ST</sup> APRIL 2017 TO 31<sup>ST</sup> MARCH 2018

| Contributors                          | Pensioners           | Deferred<br>Benefits | Employer<br>Contribution Rate<br>(% of Pensionable<br>Pay) plus<br>additional annual<br>monetary amount |                    |
|---------------------------------------|----------------------|----------------------|---|--------------------|
| Administering Authority               | Number @<br>31/03/18 | Number @<br>31/03/18 | Number @<br>31/03/18  |                    |
| City & County of Swansea              | 11,997               | 5,584                | 5,343   | 23.4%              |
| <b>Scheduled Bodies</b>               |                      |                      |   |                    |
| Neath Port Talbot County Borough      | 5,540                | 3,767                | 4,426   | 25.5%              |
| Briton Ferry Town Council             | 1                    | 1                    | 1   | 20.2% (+£1,200)    |
| Cilybebyll Community Council          | 7                    | 1                    | 0   | 22.9%              |
| Clydach Community Council             | 0                    | 0                    | 1   | -                  |
| Coedffranc Community Council          | 9                    | 3                    | 1   | 20.2% (+£5,300)    |
| Gower College Swansea                 | 564                  | 257                  | 417   | 21.7%              |
| Llanrhidian Higher Community Council  | 1                    | 0                    | 0   | 18.2%              |
| Lliw Valley BC                        | 0                    | 225                  | 20  | -                  |
| Margam Joint Crematorium Committee    | 8                    | 13                   | 5   | 20.2% (+ £9,400)   |
| NPTC Group                            | 528                  | 232                  | 414   | 17.7% (+ £168,400) |
| Neath Port Talbot Waste Management    | 0                    | 1                    | 0   | -                  |
| Neath Town Council                    | 12                   | 17                   | 6   | 20.2% (+ £16,200)  |
| Pelenna Community Council             | 2                    | 2                    | 3   | 27.0% (+£1,200)    |
| Pontardawe Town Council               | 5                    | 1                    | 0   | 23.0% (+£800)      |
| Swansea Bay Port Health Authority     | 2                    | 11                   | 1   | 22.4%              |
| Swansea City Waste Disposal Company   | 0                    | 15                   | 3   | -                  |
| University of Wales Trinity St Davids | 151                  | 149                  | 225   | 28.0% (+ £389,400) |
| West Glamorgan County Council         | 0                    | 2,092                | 229   | -                  |
| West Glamorgan Magistrates Courts     | 0                    | 37                   | 15  | -                  |
| West Glamorgan Valuation Panel        | 0                    | 4                    | 0   | -                  |
| Ystalyfera Community Council          | 1                    | 0                    | 0   | 18.2%              |
| <b>Admitted Bodies</b>                |                      |                      |   |                    |
| BABTIE                                | 0                    | 3                    | 13  | -                  |
| Celtic Community Leisure              | 215                  | 164                  | 36  | 13.2%              |
| Colin Laver Heating Limited           | 0                    | 2                    | 2   | -                  |
| Swansea Bay Racial Equality Council   | 1                    | 1                    | 2   | 35.2% (+£600)      |
| The Careers Business                  | 0                    | 6                    | 9   | -                  |
| Wales National Pool                   | 64                   | 3                    | 66  | 14.2%              |
| West Wales Arts Association           | 0                    | 2                    | 0   | -                  |
| Capgemini                             | 0                    | 1                    | 4   | -                  |
| Tai Tarian                            | 403                  | 86                   | 74  | 17.0% (+£62,300)   |
| Phoenix Trust                         | 0                    | 3                    | 1   | -                  |
| Pobl Group                            | 155                  | 80                   | 75  | 20.4%              |
| Rathbone CCS                          | 1                    | 0                    | 2   | 25.2%              |
| Rathbone Gower College                | 4                    | 0                    | 0   | 24.3%              |
| <b>Total</b>                          | <b>19,671</b>        | <b>12,763</b>        | <b>11,394</b>   |                    |



### Legislative Changes in the Local Government Pension Scheme (LGPS) during 2017/18

**August 2017** - Ministry of Housing, Communities and Local Government (MHCLG) have confirmed that they have sought legal advice and the current stance is, that there is no need for LGPS (Benefits, Membership and Contributions) Regulations 2007 to be amended in light of the Brewster case.

**September 2017** - MHCLG are currently reviewing the Draft LGPS (Amendment) Regulations 2016; there is no indication as to when the consultation will be published.

#### Other Impacting Legislation

**November 2017** - The Finance (No.2) Act 2017 received royal assent and the passage of the Act has two main impacts (a) A reduction of the money purchase annual allowance from £10,000 to £4,000. (b) Changes to the Income Tax (Earnings and Pensions) Act 2003 to mean that a pensions advice allowance payment of up to £500 under the Registered Pensions Schemes (Authorised Payments) (Amendments) Regulations 2009 is exempt from income tax.

**November 2017** - Further to the introduction of The Small Business, Enterprise and Employment Act 2015, which enables the £95k exit payment cap to be introduced; there is no indication as to when the consultation will be published.

**November 2017** - Local Government Association (LGA) published a legal opinion from Squire Patton Boggs on the implications of the European Unions General Data Protection Regulation (GDPR) for the LGPS Administrating Authorities when it comes into effect in May 2018.

**February 2018** - The Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018 - the Government published its response to the consultation of the draft regulations, which are due to come into effect on the 6th April 2018. The regulation will introduce a new option that will enable employers in multi-employer pension schemes to defer the requirement to pay an employer debt on ceasing to employ an active member. The deferred debt arrangement will be subject to a condition that the employer retains all their previous responsibilities to the scheme.

**February 2018** - The Scheme Advisory Board (SAB) agreed at its meeting of the 26th February 2018 to amend the Code of Transparency (7A) to include provision for alternative investment managers signing up on the basis that cost data substantially similar in scope and detail to that covered by existing templates is submitted to LGPS clients. Under this provision, investment managers must adopt and make use of relevant Code templates as they become available.

### Wales Pension Partnership

In July 2015 the Chancellor announced the Governments' intention to work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance.

The Wales Pension Partnership (WPP) comprises the 8 LGPS funds in Wales, namely Cardiff & Vale of Glamorgan Pension Fund, City & County of Swansea Pension Fund, Clwyd Pension Fund, Dyfed Pension Fund, Greater Gwent Pension Fund, Gwynedd Pension Fund, Powys Pension Fund and RCT Pension Fund.

The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.

The submission in respect of the 8 welsh pension funds to create a Wales Investment Pool was approved by Pension Fund Committee on the 4th July 2016.

The Pool will not be a merger of the 8 funds. Each fund will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS regulations and pension legislation in respect of their members. Annual Statement of Accounts and triennial Actuarial valuations will be prepared for each individual pension fund and each fund will determine its own funding strategy. The Pool will have limited remit and its objectives, as set out in the submission document, will be :

- To provide pooling arrangements which will allow individual funds to implement their own investment strategies
- To achieve material cost savings for participating funds while improving or maintaining investment performance fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

The Wales Investment Pool proposal includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is also proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the 8 funds.

Following extensive work by the Authorities, a legally binding Inter-Authority Agreement has now been signed by all 8 funds.

Following an extensive public procurement exercise, Link Asset Services with investment advisory services provided by Russell Investments were appointed in January 2018. Transition of the first WPP assets is expected in Q4 2018.

### Investment Fund Management

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31st March 2018 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.
  - Investment Consultancy Service

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 currently are:

- Global Equities - JP Morgan Asset Management, Blackrock and Aberdeen Asset Management
- UK Equities - Schroders Investment Management & Legal & General
- Global Balanced Index Tracking - Blackrock
- Global Bonds - Goldman Sachs Asset Management and Legal & General
- Fund of Hedge Funds - BlackRock and Permal
- Fund of Private Equity Funds - Harbourvest
- European Property Fund - Invesco
- Fund of Property Funds - Partners Group and Schroders Investment Management
- Fund of Infrastructure Funds - First State Investments (UK) Ltd

### **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 :

- Investment Strategy Statement
- 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/>