

**THE  
CARDIFF  
AND  
VALE OF GLAMORGAN  
PENSION FUND**

**ANNUAL REPORT  
&  
ACCOUNTS**

**2015/2016**

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# EXECUTIVE SUMMARY

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- The total value of the Fund fell slightly over the year and was £1.65 billion as at 31 March 2016.
- Financial markets were volatile over the past twelve months and the Fund achieved a return on investments for 2015/16 of -1.7% (net of fees), -0.6% below the benchmark return of -1.1%.
- The Fund's cashflow position in terms of contributions received and benefits paid was marginally positive over the year.
- The number of active members in the fund rose by 3.0% to over 15,000 whilst the number of pensioners rose by 3.4%.
- At the most recent actuarial valuation, as at 31 March 2013, the funding level was 82%. The 2016 valuation is currently taking place.
- Summary statistics for the Fund are shown in the Appendix 1.

# FOREWORD

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## FOREWORD

The City of Cardiff Council is the Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund which is itself part of the national Local Government Pension Scheme (LGPS) for England & Wales. The regulations for the Scheme are determined by the UK Government.

The Pension Fund's assets fell by 1.6% during 2015/16, from £1.68 billion to £1.65 billion mainly as a result of 2015/16 having been a difficult one for global equity markets, with periods of significant volatility during the year. Over the longer term the Fund's assets have grown, averaging 6.5% per annum over the past three years, but the continuing low interest rates and expectations of lower investment returns in the future are likely to result in increased liabilities at this year's triennial valuation.

In July 2015 the UK Government announced that all LGPS funds in England and Wales must join together to form investment pools. The eight funds in Wales have been working together for several years and had already made significant progress towards collaborative investing. An outline proposal was submitted in February 2016 for a Wales Investment Pool with assets of around £13 billion. The Department for Communities and Local Government (DCLG) have responded positively to the submission and detailed proposals will be submitted in July this year. The pooling arrangement will have a significant impact on how investments are managed in the future but each individual LGPS fund will continue to set its own investment strategy in the light of its specific funding position and liability profile. New investment regulations are expected towards the end of this year.

The Fund's Local Pension Board was established in 2015. The Board comprises three employer representatives, three scheme member representatives and an independent (non-voting) chair. The Board's role is to assist the Council in securing compliance with the LGPS regulations and related legislation. Members were appointed from 1 July 2015 and the Board held its first meeting on 30 July. The Board will meet at least three times a year.

The Fund's key objectives continue to be to deliver an effective and efficient service to the 38,000 contributing employees, pensioners and deferred members, and to minimise the financial burden on contributing employers over the long term.

**Christine Salter**  
**Corporate Director Resources**  
**29 September 2016**

# MANAGEMENT & ADMINISTRATION REPORT

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## SCHEME MANAGEMENT AND ADVISERS

The County Council of the City and County of Cardiff is named in the LGPS Regulations as the Scheme Manager and Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund, the LGPS fund covering the geographical areas of City of Cardiff and the Vale of Glamorgan.

### Investment Advisory Panel

Responsibility for management of the Fund has been delegated by the Council to the Corporate Director Resources. She is advised on investment matters by the Investment Advisory Panel.

Members in the year to 31 March 2016 were:

Cllr G. Hinchey	(Chair) Cabinet Member for Corporate Services and Performance, City of Cardiff Council
Cllr J. Evans	Member, City of Cardiff Council
Cllr. R. McKerlich	Member, City of Cardiff Council
Cllr. F. Johnson	Member, Vale of Glamorgan Council (Observer)
Mr. S. Bates	Independent Adviser
Ms. C. Burton	Independent Adviser
Mrs. C. Salter	Corporate Director Resources, City of Cardiff Council

### Local Pension Board

The Local Pension Board was established on 29 January 2015 in compliance with the Public Service Pensions Act 2013. Members from 1 July 2015 to 31 March 2016 were:

Mr. Michael Prior	Independent Chair
Employer Representatives:	
Mr. David Llewellyn	Director of Finance, Cardiff Metropolitan University
Cllr. Anthony Ernest	Member, Penarth Town Council
Mr. John Williams	Chair of Trustees, Children in Wales (resigned 13 January 2016)
Scheme Member Representatives:	
Mr. Kenneth Daniels	GMB nominee
Mr. Peter King	Unison nominee
Mrs. Hilary Williams	Unison nominee

### Investment Managers

Aberdeen Asset Management	Global Bonds
	Emerging Market Equities
BlackRock Investment Management	UK Equities (indexed)
	UK Property
State Street Global Advisors	UK Equities (indexed)
	North American Equities (indexed)
	European Equities (active)
Invesco Perpetual	UK Equities (active)
JP Morgan Asset Management	UK Equities (active)
Majedie Asset Management	UK Equities (active)
Nikko Asset Management	Japanese Equities (active)

# MANAGEMENT & ADMINISTRATION REPORT

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Schroders Investment Management	Asia-Pacific (ex Japan) Equities (active)
	UK Property
Standard Life	UK Property
UBS	UK Property
CB Richard Ellis	Global Property
Capital Dynamics	Private Equity
HarbourVest	Private Equity
Pantheon	Private Equity
Mesirow	Currency Management

## Professional Advisers

The Fund's professional advisers during the year were:

Actuaries	AON Hewitt Limited
Auditor	Auditor General for Wales
Bankers	Lloyds Bank plc
Custodian	Northern Trust
Performance Reporting	State Street Global Services
Legal Advisers	Chief Legal Services Officer, City of Cardiff Council Sacker and Partners
Investment Advisers	Mr. S. Bates and Ms. C. Burton
Scheme Administration	Corporate Director Resources, City of Cardiff Council
AVC Provider	Prudential Assurance

# FUND ADMINISTRATION

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The LGPS is a Defined Benefit Scheme governed by the Superannuation Act 1972 and the various regulations issued by the DCLG. The Scheme is open to all employees of local authorities except teachers and the Regulations specify that employees of certain other bodies have the same rights of membership as local authority employees. The Regulations also give administering authorities the power to enter into admission agreements with other bodies which provide public services.

The table below summarises the number of active and ceased employers in the Fund as at 31 March 2016:

	Active	Ceased	Total
Scheduled Body	17	12	29
Admitted Body	19	24	43
Total	36	36	72

A full list of contributing employers and the amount of contributions received from each during the year is given in Note 5 to the accounts.

Fund income arises from investment earnings and contributions by employers and employees. Employee rates are set nationally and depend on a member's pensionable pay. During 2015/16 the contribution bands were:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £13,600	5.5%
2	£13,601 to £21,200	5.8%
3	£21,200 to £34,400	6.5%
4	£34,401 to £43,500	6.8%
5	£43,501 to £60,700	8.5%
6	£60,701 to £86,000	9.9%
7	£86,001 to £101,200	10.5%
8	£101,201 to £151,800	11.4%
9	£151,801 or more	12.5%

There will be no change to the contribution bands for 2016/17.

Employers' rates are calculated by the scheme actuary at each triennial valuation. In addition to contributions calculated as a percentage of pensionable pay, for some employers the actuary has also specified cash amounts to be paid during each financial year.

## Pension Increases

Pensions in payment are subject to annual mandatory increases determined by the increase in the Consumer Price Index (CPI) in the twelve months to the previous September. The increases are payable by the Fund and future increases are estimated at each triennial valuation. Any variations are adjusted for at subsequent valuations through the employer's contribution rate of the member's last employer before leaving employment. Increases take effect in the first full week of each financial year. The increase in 2015/16 was 1.2%. There will be no increase in 2016/17 as CPI in September 2015 was negative at -0.1%

CARE benefits accrued by active Fund members since 1 April 2014 are also subject to annual CPI linked adjustments. Pension accounts brought forward from 2014/15 were revalued by 1.2% on 1 April 2015. Unlike pensions already being paid, active CARE account balances can be reduced when inflation is negative and benefits accrued to 31 March 2016 were revalued by -0.1% on 1 April.

# FUND ADMINISTRATION

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## **Additional Voluntary Contributions (AVCs)**

Prudential Assurance continues as the AVC provider for the Fund. Prudential offer information through their web site [www.pru.co.uk/content/schemes/localgovavc](http://www.pru.co.uk/content/schemes/localgovavc) and from time to time offer retirement planning workshops free of charge to Fund members.

## **Administration**

The administration of the Fund is carried out by the Pensions Section of City of Cardiff Council, based in County Hall, Cardiff.

Member records are held on the Altair system provided and hosted by Aquila Heywood. Monthly pensions are paid through the Council's SAP payroll system.



# INVESTMENT MANAGEMENT

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## INVESTMENT POWERS

The principal investment powers of the Fund are found in the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009. The Regulations give the power for administering authorities to delegate investment decisions to external managers conditional upon proper consideration of a reasonable and sufficient diversification of managers. Periodic reviews of the appointment of, and investments made by, managers are also obligatory. Proper advice is required in determining suitable types of investment.

## INVESTMENT OBJECTIVE

The Fund's overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk.

The Fund prudently seeks to fulfil the regulatory requirement to secure the solvency of the Fund over a period of time (i.e. for the value of the Fund's assets to be equal to or greater than its accrued liabilities measured using 'ongoing' actuarial methods and assumptions.) This period together with the funding level is calculated every three years by the actuary following a review of the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its strategic investment advice.

The 2013 actuarial valuation was completed in March 2014. The Valuation Report and Funding Strategy Statement are available on City of Cardiff Council's website [www.cardiff.gov.uk/pensions](http://www.cardiff.gov.uk/pensions) .

The results of the 2016 valuation will be available early in 2017 and the Fund's investment strategy will take into account the latest funding position. The Actuary will advise the Fund on suitable employer contribution rates which will recover funding deficits over reasonable periods and the new rates will be applied from 1 April 2014.

## FUND MANAGEMENT

The Investment Advisory Panel aims to meet each manager with an actively managed portfolio at least annually. It also considers at its quarterly meetings:

- The overall Fund Objective and the level of investment risk
- Overall Fund and individual manager performance
- The Fund's investment management arrangements
- Strategic asset allocation over the major market sectors and geographical areas, including the split between passive and active management

The formal responsibility for investment decisions lies with Christine Salter, Corporate Director Resources, under powers delegated by the Council.

Fund management is structured on a specialist basis, with individual managers allocated particular sectors or geographical areas (see above for a list of managers and their mandates). Where possible, each manager is given a clear performance target, but generally is also given considerable freedom in how this is achieved. The Fund employs a global custodian to ensure the safekeeping of all publicly traded securities, and to manage the settlement of trades and recovery of taxation. Custody of private equity, property unit trusts and cash is managed in-house as these assets are not publicly traded.

Management fees are the main form of investment expenditure and comprise a combination of ad valorem (varying with the value of funds managed) and performance fees. Custody fees vary with the number of investment transactions made by the fund managers. Fees for the Panel's advisers rise in line with Chief Officers' pay. Revised accounting guidelines for 2015/16 require all management fees to be accounted for as investment expenses regardless of whether they are charged directly or offset against investment

# INVESTMENT MANAGEMENT

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returns. Management fees for 2015/16 were £11.5m (£10.0m in 2014/15 – restated). Custodian fees for the year amounted to £124,000 (£124,000 in 2014/15).

During 2015/16 the Fund employed State Street Global Services (formerly the WM Company) to measure the performance of the investment managers and the Fund as a whole. The results were reported to the Investment Advisory Panel and are discussed below in the section on Investment Performance. The effectiveness of panel decisions can be seen by any outperformance through asset allocation and manager selection, whereas the managers also influence performance through stock selection. The Investment Advisory Panel assesses the performance of the investment managers and decides whether any action is required such as amendments to the performance and risk targets or the termination of a manager's mandate.

## STATEMENT OF INVESTMENT PRINCIPLES

A copy of the current Statement of Investment Principles (SIP) is available on Cardiff Council's website via the following link: [www.cardiff.gov.uk/pensions](http://www.cardiff.gov.uk/pensions)

All LGPS funds are required to produce a SIP under the LGPS (Management and Investment of Funds) Regulations 2009. The SIP summarises the Fund's investment objectives and the policies it uses to manage investments. The regulations also require that the SIP is prepared in a format which complies with guidance issued by DCLG. This guidance currently comes from the CIPFA pension panel, which itself incorporates the six Myners principles. The SIP complies with these requirements and the Fund is compliant with each of the Myners principles.

The Fund's investment philosophy is also summarised in the 'Core Investment Beliefs' document which is available on the website.

## FUND BENCHMARK AND STRATEGIC ASSET ALLOCATION

The Fund has agreed its own customised benchmark and Fund Objective, based around a 75/25 Equities/Bonds asset allocation split. This was set to ensure that the Fund's asset allocation policy reflected its own liability characteristics and not the average of a peer group. It is also designed to minimise, or at least stabilise, future employer contributions and to avoid large variations. The Fund's actual asset allocation is therefore maintained close to this benchmark allocation.

Within Equities, the Investment Advisory Panel decided in 2011 to gradually shift the ratio of UK to overseas holdings from a 60/40 split to a more equally weighted position. In 2015 the Panel also agreed to equalise the passive and active equity target allocations, reflecting the expected long term outperformance from the active managers.

A breakdown of the investment portfolio over the last five years is set out in Appendix 1. Changes in market values reflect both changes in investment policy and the relative performance of different markets.

# INVESTMENT PERFORMANCE

During 2015/16 the overall Fund return was -1.7%, 0.6% below the Fund's benchmark return of -1.1%. Market volatility increased during the year and all equity markets, with the exception of North America, produced negative returns. UK equities fell by 4% whilst overseas, Asia Pacific and Emerging Markets were the worst performing regions, losing around 8% of their value in sterling terms. Fixed income performance was subdued with returns ranging from 4% overseas bonds to marginally negative from UK corporate bonds.

The Fund's medium long term returns remain positive both in absolute terms and relative to the benchmark, averaging 6.4% per annum over three years (benchmark average 5.6%) and 7.3% per annum over five years (benchmark 6.6%).

The performance of the manager portfolios during 2015/16 compared with their benchmarks and targets was as follows:

Manager	Mandate (target against benchmark)	Benchmark return (%)	Portfolio Target (%)	Portfolio Return (%)
Aberdeen	Global bonds (+1%)	2.3	3.3	1.3
BlackRock	UK Equities (passive)	-3.9	-3.9	-3.9
State Street	UK Equities (passive)	-3.9	-3.9	-3.7
State Street	North American Equities (passive)	3.6	3.6	3.6
State Street	European equities (+2%)	-4.2	-2.2	-2.0
Nikko	Japanese equities (+3%)	-2.3	0.7	-6.9
Schroders	Asia-Pacific equities (+3%)	-7.8	-4.8	-9.8
Aberdeen	Emerging markets equities (+3%)	-8.8	-5.8	-7.0
Invesco	UK equities (unconstrained)	-3.9	N/A	-2.0
JP Morgan	UK equities (unconstrained)	-3.9	N/A	-1.0
Majedie	UK equities (+2%)	-3.9	-1.9	-7.1
Private Equity Funds (28)	Global Private Equity	-3.9	-3.9	10.7
UK Property Funds (4)	UK property	10.6	10.6	10.3
CBRE	Global property (10% absolute return)	N/A	10.0	12.1

The year was a challenging one for active managers and differences in manager style resulted in varying returns relative to benchmarks. Some managers were successful in mitigating the market losses whilst others underperformed as markets reversed the gains seen in 2014/15.

The Fund's Private Equity and Property holdings all resulted in significant positive returns, averaging over 10% for each asset class, demonstrating the value of these diversifying elements of the strategic asset allocation.

Although it is useful to compare the performance of managers over the past year, the Investment Advisory Panel's reviews focus on the average performance of active managers over three to five years to ensure that market fluctuations are taken into account.

# INVESTMENT PERFORMANCE

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## Longer Term Fund Performance

The Pension Fund's overall return is best measured over the long term. Over the last ten years the Fund's total return has returned an annualised 6.1% compared with rises of 3.0 % in the Retail Prices Index (RPI) and 2.2% in the Index of Average Weekly Earnings (AWE). Using 2015/16 as the base year, comparative returns over different periods are as follows:

	<b>Fund % p.a.</b>	<b>RPI % p.a.</b>	<b>AWE % p.a.</b>
1 Year (2015/16)	-1.7	1.6	1.9
3 Years (2013/16)	6.4	1.6	2.4
5 Years (2011/16)	7.3	2.3	1.7
10 Years (2006/16)	6.1	3.0	2.2

# AUDITOR'S STATEMENT

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To be inserted on completion of the audit.

# ACTUARIAL STATEMENT

## Actuarial Statement

### Cardiff and Vale of Glamorgan Pension Fund

#### 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 Cardiff and Vale of Glamorgan Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

#### Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had improved since the previous valuation, with the market value of the Fund's assets at that date (of £1,369M) covering 82% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions to be paid to the Fund by participating employers with effect from 1 April 2014 was:
  - 15.4% 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.  
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 23 years from 1 April 2014, amounting to £16.9M in 2014/15, and increasing by 3.4% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.  
This would imply an average employer contribution rate of about 22.2% of pensionable pay in total, if the membership remains broadly stable and payroll increases by 3.4% p.a.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt's report dated 28 March 2014 (the actuarial valuation report). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at that time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.
5. The actuarial 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.

Discount rate for periods in service	
Scheduled Bodies	5.6% p.a.
Admission Bodies	5.2% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	5.6% p.a.
Admission Bodies	3.9% p.a.
Rate of pay increases	3.4% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% p.a.

The assets were valued at market value.

# ACTUARIAL STATEMENT

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

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report of the valuation and the Rates and Adjustment Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.
8. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of City and County of Cardiff. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

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

The report on the actuarial valuation as at 31 March 2013 is available on the Fund's website at the following address:

<https://www.cardiff.gov.uk/ENG/Your-Council/Council-finance/Pensions/Documents/Actuarial%20Valuation%20Report%20-%2031%20March%202013.pdf>

**Aon Hewitt Limited**  
**June 2016**

# STATEMENT OF ACCOUNTS

## FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2016

2014/15 Restated £000		2015/16 £000
	<b>CONTRIBUTIONS AND BENEFITS</b>	
	<b>Contributions receivable</b>	
58,471	from employers (note 5)	60,370
16,026	from employees (note 5)	16,360
2,978	Transfers in	5,034
5,134	Other Income (Capitalised Payments and interest on deficit funding)	2,134
<b>82,609</b>		<b>83,898</b>
	<b>Benefits Payable</b>	
(55,983)	Pensions (note 6)	(59,118)
(19,439)	Lump Sums (note 6)	(16,910)
	Payments to and on account of leavers	
(76)	Refunds of contributions	(136)
(3,204)	Transfers out	(8,220)
<b>(78,702)</b>		<b>(84,384)</b>
	Net Additions/(Withdrawals) from dealings with Members of the Fund	
<b>3,907</b>		<b>(486)</b>
	<b>RETURNS ON INVESTMENT</b>	
17,388	Investment Income (note 9)	18,176
176,648	Change in market value of investments (note 10)	(31,716)
(10,929)	Management expenses (note 8)	(12,520)
<b>183,107</b>	Net Returns on Investments	<b>(26,060)</b>
<b>187,014</b>	Net Increase/(Decrease) in the Fund During Year	<b>(26,546)</b>
1,492,503	Opening Net Assets of the Scheme	1,679,517
<b>1,679,517</b>	<b>Closing Net Assets of the Scheme</b>	<b>1,652,971</b>



# STATEMENT OF ACCOUNTS

## NET ASSET STATEMENT AS AT 31 MARCH 2016

2014/15 £000		2015/16 £000
1,616,090	Investments at market value (note 10)	1,599,878
37,061	Cash & investment proceeds due (note 10)	29,002
<b>1,653,151</b>		<b>1,628,880</b>
	<b>Current assets</b>	
121	UK & Overseas Tax	128
4,488	Contributions due from Employers and deficit funding	4,533
793	Sundry Debtors (note 14)	602
3,078	Pension Strain costs due within one year	2,886
<b>8,480</b>		<b>8,149</b>
	<b>Non-current assets</b>	
15,618	Deficit funding (former employers)	13,386
6,253	Pension strain costs due after one year	4,891
<b>21,871</b>		<b>18,277</b>
	<b>Current liabilities</b>	
(3,055)	Unpaid Benefits	(1,550)
(930)	Sundry Creditors (note 14)	(785)
<b>(3,985)</b>		<b>(2,335)</b>
<b>1,679,517</b>	<b>Net Assets of the Scheme</b>	<b>1,652,971</b>

# NOTES TO THE ACCOUNTS

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## NOTES TO THE ACCOUNTS

1. The Statement of Accounts summarises the transactions and net assets of the Pension Fund for the financial year 2015/16. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the administering Authority. They do not take account of obligations to pay pensions and benefits which fall due after the year end. Under IAS26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits". This figure has been calculated by the Actuary as at 31 March 2013 as £2,028.8 million, with a comparator value as at the 31 March 2010 valuation of £1,950.4 million.

The actuarial position is summarised in the Actuarial Statement which is included on pages 105 and 106. This shows that the overall funding level as at 31 March 2013 is 82%.

## 2. Accounting Policies

### (a) Basis of Preparation

Bond and dividend income has been taken into account on the contractual payment date. Property and private equity income is credited on receipt. The Fund does not account for any benefits payable or receivable in respect of members wishing to transfer from one scheme to another until assets (either cash investments or other form) have been received by the receiving scheme. All other income and expenditure has been accounted for on an accruals basis, except the liability to pay pensions and other benefits in the future. As per IAS 26, a disclosure has been made of the Fund's pension liability i.e. the actuarial present value of promised retirement benefits

### (b) Valuation of Investments

Quoted bond and equity investments are valued at bid market value at close of business on the last working day in March 2016 (bid market value is the price at which an investment can be sold at a given date). Private Equity Fund investments are valued at fair value, as determined by the administrators of the Fund, based on valuations provided by the general partners of the underlying investments. Where this is a publicly traded investment the valuation is based upon the closing market prices at the balance sheet date of the Fund. If the investment is not publicly traded, the general partner will consider the operational results of the company or any recent transactions in the company. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end. Pooled vehicles are normally valued at bid prices where available. Overseas investments have been converted at WM/Reuters closing spot rates of exchange. Official SETS prices have been used for FTSE100 securities (plus the reserve list). Derivatives are stated at market value. The value of futures contracts is determined using exchange prices at the reporting date. The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

### (c) Critical judgements in applying accounting policies

Unquoted private equity investments - These are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the International Private Equity and Venture Capital Valuation Guidelines (IPEVCG) outside the US. The value of unquoted private equities at 31 March 2016 was **£83 million** (£87 million at 31 March 2015).

Pension fund liability -This is calculated by the actuary every three years with an annual statement in the intervening years. This is calculated in accordance with IAS19 and the main assumptions used in the calculation are summarised in the actuary's statement on page 105 and 106. This estimate is based on significant variances based on changes to the underlying assumptions.

# NOTES TO THE ACCOUNTS

**(d) Assumptions made about the future and other major sources of estimation uncertainty.**

The Statement of Accounts contains estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actual present value of promised retirement benefits</b>	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase, changes in mortality rates and expected returns on pension fund assets. The actuary provides the fund with advice regarding the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
<b>Private Equity Valuations</b>	Private equity investments are valued at fair value in accordance with international accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £83 million. There is a risk that this investment may be under, or overstated in the accounts.

**(e) Acquisition costs of Investments**

Acquisition costs are included with the original book cost at the time of purchase. At the year end, however, investments on the balance sheet are valued at market value. The difference is recorded in the Accounts as "Change in Market Value of Investments".

**3. Taxation**

**(a) UK Income, Capital Gains Taxes**

The Fund is an exempt approved fund able to recover UK income tax. No Capital Gains Tax is chargeable.

**(b) Value Added Tax**

The accounts are shown exclusive of VAT. As the County Council is the administering Authority, VAT is recoverable on all Fund activities.

**(c) Overseas Withholding Tax**

Foreign investment income usually suffers withholding tax in the country of origin, some of which may be recoverable. Irrecoverable tax is netted off against income.

**4. Titles of Ownership**

Evidences of ownership for the property unit trusts and private equity holdings are held at County Hall. All other evidences of ownership were held at 31 March 2016 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

# NOTES TO THE ACCOUNTS

## 5. Employing Bodies – Contributions

	No. of contributors at 31.03.16	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
<b>SCHEDULED BODIES:</b>						
Barry Town Council	13	27.0%	0	75	18	93
Cardiff and Vale College	374	13.6%	260	1,293	484	1,777
Cardiff City Transport	27	25.4%	480	689	55	744
City of Cardiff Council	9,987	22.9%	0	35,625	9,714	45,339
Cardiff Metropolitan University	743	13.6%	527	3,299	1,390	4,689
Cowbridge Town Council	4	27.0%	0	18	4	22
Dinas Powys Community Council	1	27.0%	0	7	2	9
Lisvane Community Council	1	27.0%	0	3	1	4
Llantwit Major Town Council	4	27.0%	0	18	4	22
Penarth Town Council	14	27.0%	0	78	18	96
Penllyn Community Council	1	27.0%	0	1	0	1
Public Services Ombudsman for Wales	1	32.3%	266	290	6	296
Radyr & Morganstown Community Council	1	27.0%	0	7	1	8
St Davids Sixth Form College	39	13.6%	14	126	51	177
Stanwell School	78	16.4%	13	171	56	227
Vale Of Glamorgan Council	3,317	22.7%	0	13,258	3,672	16,930
Wenvoe Community Council	1	27.0%	0	2	0	2
<b>Sub-total</b>	<b>14,606</b>			<b>54,960</b>	<b>15,476</b>	<b>70,436</b>
<b>ADMITTED BODIES:</b>						
APP Clean UK	5	21.5%	0	6	2	8
Cardiff Business Technology Centre	4	28.7%	0	22	5	27
Cardiff Gypsy & Traveller Project	0	23.4%	0	1	0	1
Cardiff Institute For The Blind	2	20.6%	59	68	3	71
Cardiff University	54	27.3%	1,300	1,654	82	1,736
Careers Wales (Cardiff & Vale)	78	18.1%	0	389	138	527
Children In Wales	25	27.3%	0	153	36	189
Civic Trust For Wales	0	23.4%	8	8	0	8
Colleges Wales	6	19.8%	9	57	19	76
Design Commission for Wales	4	20.3%	0	34	13	47
Mirus Wales	6	23.4%	0	58	22	80
National Trust	9	20.7%	0	34	10	44
One Voice	2	19.4%	6	23	7	30
Play Wales	6	24.0%	8	54	14	68

# NOTES TO THE ACCOUNTS

	No. of contributors at 31.03.16	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
Royal National Eisteddfod	13	25.5%	32	150	36	186
Sport Wales	129	20.2%	1,050	1,866	281	2,147
Wales & West Housing	1	20.6%	105	133	15	148
Welsh Council For Voluntary Action	59	21.4%	36	455	131	586
Workers Education Association	52	22.3%	6	245	70	315
<b>Sub-total</b>	<b>455</b>			<b>5,410</b>	<b>884</b>	<b>6,294</b>
<b>Total</b>	<b>15,061</b>			<b>60,370</b>	<b>16,360</b>	<b>76,730</b>

## Additional deficit funding

There was no additional deficit funding in 2015/16.

## Comparative note for 2014/15

	No. of contributors at 31.03.15	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
<b>SCHEDULED BODIES:</b>						
Barry Town Council	13	27.0%	0	74	18	92
Cardiff and Vale College	392	13.6%	259	1,254	464	1,718
Cardiff City Transport	30	25.4%	480	729	65	794
City of Cardiff Council	9,519	22.9%	0	35,608	9,791	45,399
Cardiff Metropolitan University	790	13.6%	527	3,108	1,288	4,396
Cowbridge Town Council	4	27.0%	0	18	4	22
Dinas Powys Community Council	1	27.0%	0	7	1	8
Lisvane Community Council	1	27.0%	0	1	0	1
Llantwit Major Town Council	4	27.0%	0	18	4	22
Penarth Town Council	14	27.0%	0	73	17	90
Penllyn Community Council	1	27.0%	0	1	0	1
Public Services Ombudsman for Wales	3	32.3%	254	290	9	299
Radyr & Morganstown Community Council	1	27.0%	0	6	1	7
St David's Sixth Form College	39	13.6%	14	114	47	161

## NOTES TO THE ACCOUNTS

	No. of contributors at 31.03.15	Contribution rates (% of pensionable pay)	Additional lump sum (memo)	Employers	Employees	Total
Stanwell School	76	16.4%	13	167	55	222
Vale Of Glamorgan Council	3,253	22.7%	0	12,037	3,332	15,369
Wenvoe Community Council	1	27.0%	0	2	0	2
<b>Sub-total</b>	<b>14,142</b>			<b>53,507</b>	<b>15,096</b>	<b>68,603</b>
<b>ADMITTED BODIES:</b>						
Cardiff Business Technology Centre	3	28.7%	0	14	3	17
Cardiff Gypsy & Traveller Project	1	23.4%	3	8	1	9
Cardiff Institute For The Blind	2	20.6%	57	66	3	69
Cardiff University	57	27.3%	1,300	1,684	89	1,773
Careers Wales (Cardiff & Vale)	83	18.1%	0	397	138	535
Children In Wales	22	24.7%	0	142	38	180
Civic Trust For Wales	0	23.4%	4	4	0	4
Colleges Wales	6	19.8%	9	67	23	90
Design Commission for Wales	4	20.3%	0	30	12	42
Memorial Hall	5	17.8%	0	17	6	23
Mirus Wales	6	23.4%	0	56	20	76
National Trust	11	20.7%	0	43	13	56
One Voice	2	19.4%	3	19	8	27
Play Wales	5	24.0%	4	57	17	74
Royal National Eisteddfod	12	25.5%	32	142	33	175
Sport Wales	130	20.2%	500	1,323	286	1,609
Wales & West Housing	1	20.6%	102	139	16	155
Welsh Council For Voluntary Action	74	21.4%	43	500	149	649
Workers Education Association	50	22.3%	5	256	75	331
<b>Sub-total</b>	<b>474</b>			<b>4,964</b>	<b>930</b>	<b>5,894</b>
<b>Total</b>	<b>14,616</b>			<b>58,471</b>	<b>16,026</b>	<b>74,497</b>

### Additional deficit funding

There was no additional deficit funding in 2014/15

# NOTES TO THE ACCOUNTS

## 6. Employing Bodies - Benefits Paid

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
<b>SCHEDULED BODIES:</b>				
Barry Town Council	84	160	0	0
Cardiff City Transport	2,307	224	0	11
City of Cardiff Council	38,348	7,735	1,220	395
Cardiff and Vale College	640	213	55	2
Cardiff Metropolitan University	1,549	1,124	85	18
Cowbridge Town Council	11	10	0	0
Dinas Powys Town Council	9	0	0	0
Llantwit Major Town Council	18	0	0	0
Mary Immaculate High School	8	0	0	0
Penarth Town Council	43	114	0	0
Probation Service	39	0	0	0
Public Services Ombudsman for Wales	227	35	0	0
Royal Welsh College of Music & Drama	77	0	0	0
S Wales Magistrates Courts	373	173	1	23
St Cyres School	48	16	56	0
St David's Sixth Form College	69	23	0	0
Stanwell School	57	37	0	0
Vale of Glamorgan Council	10,979	4,028	37	99
<b>Sub-total</b>	<b>54,886</b>	<b>13,892</b>	<b>1,454</b>	<b>548</b>
<b>ADMITTED BODIES:</b>				
Cardiff Bay Arts Trust	11	3	0	0
Cardiff Bay Development Corp	502	46	0	0
Cardiff Business Technology Centre	13	0	0	0
Cardiff Gypsy & Traveller Project	11	0	0	0
Cardiff Institute for Blind	71	0	0	0
Cardiff University	1,076	211	0	(9)
Careers Wales (Cardiff & Vale)	348	136	65	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	14	0	0	0
Citizens Advice Bureau (Cardiff)	13	0	0	0
Citizens Advice Bureau (Vale)	12	0	0	0
Civic Trust for Wales	18	0	0	0
Colleges Wales	74	0	0	0
Community Relations	2	2	0	0
Design Commission for Wales	3	0	0	0
Dimensions	10	0	0	0
Glam & Gwent Housing Assoc	58	0	0	0

## NOTES TO THE ACCOUNTS

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
Glamorgan Holiday Hotel	60	47	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	202	30	0	0
Intervol	22	0	0	0
Land Authority for Wales	304	0	0	0
National Eisteddfod	71	0	0	0
National Trust	10	91	0	0
Memorial Hall	12	0	0	0
Mirus Wales (Opportunity Housing Trust)	20	0	0	0
Play Wales	20	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	839	64	0	23
STAR	7	0	0	0
Wales & West Housing	139	(7)	0	0
Wales Youth Agency	56	0	0	0
Welsh Council for Voluntary Action	189	173	0	0
Workers Education Association	28	141	0	0
<b>Sub-total</b>	<b>4,232</b>	<b>937</b>	<b>65</b>	<b>14</b>
<b>TOTAL</b>	<b>59,118</b>	<b>14,829</b>	<b>1,519</b>	<b>562</b>

### Comparative note for 2014/15

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
<b>SCHEDULED BODIES:</b>				
Barry Town Council	77	14	0	0
Cardiff City Transport	2,228	1,012	8	0
City of Cardiff Council	36,222	11,070	1,147	337
Cardiff and Vale College	562	211	0	0
Cardiff Metropolitan University	1,373	657	0	0
Cowbridge Town Council	11	0	0	0
Dinas Powys Town Council	9	0	0	0
Llantwit Major Town Council	18	0	0	0
Mary Immaculate High School	14	0	0	0
Penarth Town Council	42	5	0	0
Probation Service	250	8	0	0
Public Services Ombudsman for Wales	182	75	0	0
Radyr & Morganstown Community Council	17	0	0	0
Royal Welsh College of Music & Drama	76	0	0	0
S Wales Magistrates Courts	316	348	0	34



## NOTES TO THE ACCOUNTS

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
St Cyres School	47	14	0	0
St David's Sixth Form College	63	32	0	0
Stanwell School	43	102	0	17
Vale of Glamorgan Council	10,497	3,066	319	97
<b>Sub-total</b>	<b>52,047</b>	<b>16,614</b>	<b>1,474</b>	<b>485</b>
<b>ADMITTED BODIES:</b>				
Cardiff Bay Arts Trust	11	0	0	0
Cardiff Bay Development Corp	489	15	0	0
Cardiff Business Technology Centre	12	0	0	0
Cardiff Gypsy & Traveller Project	11	0	0	0
Cardiff Institute for Blind	71	0	0	0
Cardiff University	1,014	156	61	10
Careers Wales (Cardiff & Vale)	293	87	0	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	13	0	0	0
Citizens Advice Bureau (Cardiff)	13	0	0	0
Citizens Advice Bureau (Vale)	10	11	0	0
Civic Trust for Wales	16	33	0	0
Colleges Wales	49	180	0	0
Design Commission for Wales	3	0	0	0
Dimensions	9	0	0	0
Glam & Gwent Housing Assoc	58	0	0	0
Glamorgan Holiday Hotel	54	0	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	196	0	0	0
Intervol	22	0	0	0
Land Authority for Wales	318	22	0	0
National Eisteddfod	76	3	0	0
National Trust				
Memorial Hall	3	75	0	0
Mirus Wales (Opportunity Housing Trust)	22	0	0	0
Play Wales	20	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	757	163	3	6
STAR	7	0	0	0
Wales & West Housing	139	7	0	0
Wales Youth Agency	55	0	0	0
Welsh Council for Voluntary Action	164	27	7	0
Workers Education Association	14	0	0	0
<b>Sub-total</b>	<b>3,936</b>	<b>779</b>	<b>71</b>	<b>16</b>
<b>TOTAL</b>	<b>55,983</b>	<b>17,393</b>	<b>1,545</b>	<b>501</b>

# NOTES TO THE ACCOUNTS

## 7. Membership of the Fund

Fund membership at 31 March 2016 is as follows:

	2014/15 (Restated)	2015/16
Contributing Employers	33	36
Contributors	14,616	15,061
Pensioners	10,281	10,626
Deferred pensioners	12,073	12,308
<b>Total membership</b>	<b>36,970</b>	<b>37,995</b>

## 8. Management Expenses

Management Expenses fully charged to the Fund are:

	2014/15 Restated £000	2015/16 £000
Administration Costs	789	912
Investment Management Expenses	10,016	11,484
Oversight & Governance Costs	124	124
<b>TOTAL</b>	<b>10,929</b>	<b>12,520</b>

## 9. Investment Income

	2014/15 £000	2015/16 £000
UK Fixed Interest Securities	5,277	5,098
Overseas Fixed Interest Securities	2,345	2,663
UK Equities & Private Equity Funds	3,105	3,209
Pooled investments	1,278	1,432
Overseas Equities (net of irrecoverable tax)	3,682	3,817
Property Unit Trust Income	1,529	1,700
Interest on UK cash	75	132
Securities Lending	97	125
<b>TOTAL</b>	<b>17,388</b>	<b>18,176</b>

# NOTES TO THE ACCOUNTS

## 10. Investments at Market Value

2014/15 £000		2015/16 £000
	UK Fixed Interest:	
53,976	Public Sector	66,966
129,201	Other (Pooled)	93,423
<b>183,177</b>		<b>160,389</b>
	Overseas Fixed Interest:	
61,913	Public Sector (Pooled)	86,645
<b>61,913</b>		<b>86,645</b>
101,886	UK quoted Equities & Convertibles	95,636
174,678	Foreign quoted Equities	161,746
<b>276,564</b>		<b>257,382</b>
<b>99,211</b>	UK & Global Property (Pooled)	<b>118,632</b>
<b>87,433</b>	Private Equity	<b>83,101</b>
	Pooled Funds	
484,258	UK	470,172
423,534	Overseas	423,557
<b>907,792</b>		<b>893,729</b>
(2,209)	Derivatives: Forward Currency Contracts	(2,273)
<b>(2,209)</b>		<b>(2,273)</b>
	Cash:	
24,110	UK	24,267
13,559	Overseas	5,059
1,601	Net investment proceeds due	1,949
<b>39,270</b>		<b>31,275</b>
<b>1,653,151</b>	<b>TOTAL</b>	<b>1,628,880</b>

Gross purchases in the year (excluding cash and forward currency) were £178.949 million, whilst sales were £177.987 million. From these a net realised loss was accrued to the Fund of £798,000. Profits and losses are calculated on historical costs. When only part of a holding is sold, the average cost method is used.

The managing companies of all the pooled managed Funds are UK registered. Private Equity Funds are not quoted on recognised stock exchanges and may not be realisable as readily as quoted investments. Other than pooled funds, no single investment accounted for more than 5% of the Fund's assets.

## NOTES TO THE ACCOUNTS

	Value at 31/03/15	Purchase at cost	Sale Proceeds	Change in Market Value	Value at 31/03/16
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	245,090	101,156	(98,590)	(622)	247,034
Equities	276,564	63,341	(55,312)	(27,211)	257,382
Pooled Funds	907,792	878	0	(14,941)	893,729
Property unit trusts	99,211	10,305	0	9,116	118,632
Private equity	87,433	3,269	(24,085)	16,484	83,101
<b>Sub total</b>	<b>1,616,090</b>	<b>178,949</b>	<b>(177,987)</b>	<b>(17,174)</b>	<b>1,599,878</b>
Forward Currency	(2,209)	2,709,754	(2,695,045)	(14,773)	(2,273)
Futures	0	0	0	0	0
<b>Total Derivatives</b>	<b>(2,209)</b>	<b>2,709,754</b>	<b>(2,695,045)</b>	<b>(14,773)</b>	<b>(2,273)</b>
Debtors	1,742				1,949
Creditors	(141)				0
Managers' Cash	7,700				5,004
Internal Cash	24,110				24,267
Currency Overlay	5,859				55
<b>Total Cash</b>	<b>39,270</b>			<b>231</b>	<b>31,275</b>
<b>Total Cash and Investment Proceeds Due</b>	<b>37,061</b>			<b>(14,542)</b>	<b>29,002</b>
<b>Total</b>	<b>1,653,151</b>			<b>(31,716)</b>	<b>1,628,880</b>

Comparative data for 2014/15:

	Value at 31/03/14	Purchase at cost Restated	Sale Proceeds	Change in Market Value Restated	Value at 31/03/15
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	220,062	65,699	(57,319)	16,648	245,090
Equities	235,397	66,497	(59,102)	33,772	276,564
Pooled Funds	814,008	784	0	93,000	907,792
Property unit trusts	79,897	5,779	0	13,535	99,211
Private equity	92,925	2,686	(24,878)	16,700	87,433
<b>Sub total</b>	<b>1,442,289</b>	<b>141,445</b>	<b>(141,299)</b>	<b>173,655</b>	<b>1,616,090</b>
Forward Currency	884	2,089,769	(2,098,490)	5,628	(2,209)
Futures	0	286,496	(286,496)	0	0
<b>Total Derivatives</b>	<b>884</b>	<b>2,376,265</b>	<b>(2,384,986)</b>	<b>5,628</b>	<b>(2,209)</b>
Debtors	812				1,742
Creditors	0				(141)
Managers' Cash	9,049				7,700
Internal Cash	12,625				24,110
Currency Overlay	466				5,859
<b>Total Cash</b>	<b>22,952</b>			<b>(2,635)</b>	<b>39,270</b>
<b>Total Cash and Investment Proceeds Due</b>	<b>23,836</b>			<b>2,993</b>	<b>37,061</b>
<b>Total</b>	<b>1,466,125</b>			<b>176,648</b>	<b>1,653,151</b>

# NOTES TO THE ACCOUNTS

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £258,473. In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## Analysis of derivatives

### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement between the fund and the various investment managers.

### Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a proportion of the fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund has a currency management overlay in place managed by Mesirow, which hedges significant long term currency movements to limit losses. The portfolio covers US dollars, Yen and Euro currencies.

## 11. Summary of Manager's Portfolio Values at 31 March 2016

	£000	% of Fund
Aberdeen Asset Management	247,805	15.2
Aberdeen Emerging Markets	54,952	3.4
Blackrock Investment Management	181,088	11.1
Invesco Perpetual	91,944	5.6
J P Morgan	67,666	4.2
Majedie	98,197	6.0
Nikko	88,371	5.4
Schroder Investment Managers	76,851	4.7
State Street Global Advisers	498,078	30.6
Property	118,632	7.3
Private Equity Managers	83,101	5.1
Mesirow currency overlay & cash with custodian	(2,072)	(0.1)
Internally managed (Cash)	24,267	1.5
<b>Total</b>	<b>1,628,880</b>	<b>100</b>

# NOTES TO THE ACCOUNTS

## 12. Financial Instruments

### a) Classification of financial instruments

31/03/2015				31/03/2016		
Fair Value through profit and loss	Loans and Receivables	Financial Liabilities at Amortised Costs		Fair Value through profit and loss	Loans and Receivables	Financial Liabilities at Amortised Costs
£000	£000	£000		£000	£000	£000
			<b>Financial assets</b>			
245,090	0	0	Fixed Interest Securities	247,034	0	0
276,564	0	0	Equities	257,382	0	0
907,792	0	0	Pooled Funds	893,729	0	0
99,211	0	0	Property Unit Trusts	118,632	0	0
87,433	0	0	Private Equity	83,101	0	0
156,416	0	0	Derivatives	168,982	0	0
0	37,669	0	Cash	0	29,326	0
1,601	0	0	Other investments	1,949	0	0
0	30,351	0	Debtors	0	26,426	0
<b>1,774,107</b>	<b>68,020</b>	<b>0</b>		<b>1,770,809</b>	<b>55,752</b>	<b>0</b>
			<b>Financial liabilities</b>			
(158,625)	0	0	Derivatives	(171,255)	0	0
0	0	0	Other investments	0	0	0
0	0	(3,985)	Creditors	0	0	(1,812)
0	0	0	Borrowings	0	0	0
<b>(158,625)</b>	<b>0</b>	<b>(3,985)</b>		<b>(171,255)</b>	<b>0</b>	<b>(1,812)</b>
<b>1,615,482</b>	<b>68,020</b>	<b>(3,985)</b>		<b>1,599,554</b>	<b>55,752</b>	<b>(1,812)</b>

### b) Net gains and losses on financial instruments

31/03/2015		31/03/2016
£000	Financial Assets	£000
294,432	Fair value through profit and loss	(21,259)
0	Loans and receivables	0
	<b>Financial liabilities</b>	
(117,769)	Fair value through profit and loss	(12,630)
(15)	Loans and receivables	2,173
<b>176,648</b>	<b>Total</b>	<b>(31,716)</b>

# NOTES TO THE ACCOUNTS

## c) Valuation of financial instruments carried at fair value

Level 1 - Quoted prices for similar instruments. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2 - Directly observable market inputs other than Level 1 inputs. Where an instrument is traded in a market which is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 - Inputs not based on observable market data. The values of investment in private equity are based on valuations provided by the general partners to the private equity funds. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end.

Values as at 31st March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets at fair value	679,529	718,616	372,664	1,770,809
Loans and receivables	55,752	0	0	55,752
<b>Total financial assets</b>	<b>735,281</b>	<b>718,616</b>	<b>372,664</b>	<b>1,826,561</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value	0	0	(171,255)	(171,255)
Financial liabilities at amortised cost	(1,812)	0	0	(1,812)
<b>Total financial liabilities</b>	<b>(1,812)</b>	<b>0</b>	<b>(171,255)</b>	<b>(173,067)</b>
<b>Net financial assets</b>	<b>733,469</b>	<b>718,616</b>	<b>201,409</b>	<b>1,653,494</b>

### 13. Nature and extent of risks arising from financial instruments

The fund maintains positions in a variety of instruments, as dictated by the Statement of Investment principles (SIP), and is consequently exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risks.

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities and will be unable to pay the promised benefits to members. The aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

The management of risk is a key objective of the Pension Fund. A policy of diversification of its asset classes and investment managers helps the Pension fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures which are put in place in order to manage risk.

# NOTES TO THE ACCOUNTS

## Market Risk

Market risk is the risk that the fair value or future cashflows of an institution will fluctuate because of a change in market price.

In order to manage risk, the Fund invests in a diversified pool of assets, split between a number of managers with different performance targets and investment strategies. In order to mitigate risk, the Fund regularly reviews the pension fund investment strategy together with regular monitoring of asset allocation and investment performance.

**Interest rate risk** is the risk to which the Pension Fund is exposed to fluctuations in interest rates and mainly relates to changes in bonds.

To mitigate the risk, the Fund holds a fixed interest portfolio managed by Aberdeen, the appointed active bond manager.

Interest Rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis below shows the effect of a 100 basis point (1%) movement in interest rates on the net assets available to pay benefits

Asset Type	Carrying amount as at 31.03.2016	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	29,002	290	(290)
Fixed interest securities	247,034	2,470	(2,470)
<b>Total</b>	<b>276,036</b>	<b>2,760</b>	<b>(2,760)</b>

2014/15 Comparative:

Asset Type	Carrying amount as at 31.03.2015	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	37,061	371	(371)
Fixed interest securities	245,090	2,451	(2,451)
<b>Total</b>	<b>282,151</b>	<b>2,822</b>	<b>(2,822)</b>

**Currency risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates.

The Fund's Global Bonds and North American, European and Japanese Equities portfolios are covered by currency hedging arrangements. Fund managers will also take account of currency risk in their investment decisions.

## Currency risk – sensitivity analysis

Following analysis of historical data, the fund's aggregate currency change has been calculated as 6.35%. A 6.35% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:



## NOTES TO THE ACCOUNTS

	Asset value as at 31.03.2016	Change to net assets available to pay benefits	
<b>Currency exposure – asset type</b>		6.35%	-6.35%
	£000	£000	£000
Overseas quoted securities	602,722	640,995	564,449
<b>Total change in assets available</b>	<b>602,722</b>	<b>640,995</b>	<b>564,449</b>

	Asset value as at 31.03.2015	Change to net assets available to pay benefits	
<b>Currency exposure – asset type</b>		3.49%	-3.49%
	£000	£000	£000
Overseas quoted securities	616,984	638,493	595,476
<b>Total change in assets available</b>	<b>616,984</b>	<b>638,493</b>	<b>595,476</b>

**Price risk** is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing specialist managers enables the Fund to benefit from investment expertise.

### Price risk sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of assets over the last three years, applied to the period end asset mix. The total volatility shown for Total Currency incorporates the impact of correlation across currencies, which dampens volatility, therefore the Value on Increase and Value on Decrease figures for the currencies will not sum to the total figure.

Asset type	Value as at 31.03.2016 £000	Percentage change %	Value on increase £000	Value on Decrease £000
<b>Total Assets</b>	<b>1,628,880</b>	<b>7.34%</b>	<b>1,748,440</b>	<b>1,509,320</b>
UK Equities	565,808	9.99%	622,332	509,284
Overseas Equities	585,303	10.05%	644,126	526,480
Total Bonds	247,034	4.74%	258,743	235,325
Cash	29,002	0.01%	29,005	28,999
Alternatives	83,101	3.18%	85,744	80,458
Property	118,632	2.12%	121,147	116,117

Asset type	Value as at 31.03.2015 £000	Percentage change %	Value on increase £000	Value on Decrease £000
<b>Total Assets</b>	<b>1,653,151</b>	<b>6.65%</b>	<b>1,763,086</b>	<b>1,543,216</b>
UK Equities	586,144	9.73%	643,176	529,112
Overseas Equities	598,212	9.68%	656,119	540,305
Total Bonds	245,090	3.78%	254,354	235,826
Cash	37,061	0.01%	37,065	37,057
Alternatives	87,433	3.35%	90,362	84,504
Property	99,211	2.25%	101,443	96,979

# NOTES TO THE ACCOUNTS

## Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The Fund reviews its exposure to credit and counterparty risk through its external investment managers. The Fund is also exposed to credit risk through its securities lending programme. This is run by the Fund's custodian, Northern Trust who manages and monitors the counterparty risk, collateral risk and the overall lending programme.

The Pension Fund's bank account is held with the Lloyds bank. Surplus cash is not invested with Lloyds but is placed with a selection of AAA Money Market institutions. The Fund's cash holding under its treasury management arrangements as at 31.03.2016 was £24.8 million (£24.6 million at 31.03.2015). This was held with the following institutions:

	Rating	Balance at 31.03.2015 £000	Balance at 31.03.2016 £000
<b>Money market funds</b>			
Ignis	AAA	12,000	<b>12,000</b>
Deutsche	AAA	12,000	<b>920</b>
Blackrock	AAA	650	<b>11,950</b>
<b>Bank current account</b>			
Lloyds Bank	A	6	<b>(80)</b>
<b>Total</b>		<b>24,656</b>	<b>24,790</b>

## Liquidity Risk

Liquidity risk represents the possibility that the Fund may not have funds available to meet its financial obligations. The current position of the fund is that it is cash positive, which reflects the fact that contributions into the Fund exceed benefits being paid out. The Pension Fund's cash is kept in a separate bank account and the cash position is monitored on a daily basis. Surplus funds are deposited in money market funds on a short term basis. At an investment level, the Funds' investments are substantially made up of listed securities which are considered readily realisable.

## 14. Sundry Debtors & Creditors

	2014/15 £000	2015/16 £000
<b>Debtors</b>		
Pensions Administration	26	0
Miscellaneous	767	602
	<b>793</b>	<b>602</b>
<b>Creditors</b>		
Management & Custody Fees	(899)	(785)
Miscellaneous	(31)	0
	<b>(930)</b>	<b>(785)</b>
<b>Total</b>	<b>(137)</b>	<b>(183)</b>

## 15. Additional Voluntary Contributions

Scheme members may elect to make additional voluntary contributions to enhance their pension benefits. Contributions are made directly from scheme members to the AVC provider and are therefore not represented in these accounts.

# NOTES TO THE ACCOUNTS

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The amount of AVC contributions paid during the year amounted to £416,000 and the market value of separately invested AVC's as at 31 March 2016 was £3.225 million.

## 16. Commitments

As at 31 March 2016 the Fund had outstanding private equity commitments of a maximum of £38.64 million (£40.57 million at 31 March 2015).

As at 31 March 2016 the Fund had forward currency contracts amounting to £168.98 million of purchases and £171.26 million of sales, showing an unrealised loss of £2.27 million.

## 17. Securities Lending

At the year end the value of quoted equities on loan was £40.42 million (£38.00 million at March 2015) in exchange for which the custodian held collateral of £42.54 million (£40.35 million at March 2015). For the year ending 31 March 2016, the Fund received income of £120,991 from the lending of stock.

## 18. Contingent Liabilities

The Fund has no contingent liabilities.

## 19. Related Party Transactions

The relationship between the employers and the Pension Fund is, by its very nature, close, therefore, each participating employer is considered a related party as shown in [notes 5](#) and [6](#).

Other related party transactions with the Council are:

- Cash invested internally by the Council (for working capital purposes) - see [note 9](#);
- Administration expenses charged to the Fund by the Council are shown in [note 8](#).
- Paragraph 3.9.4.3 of the Code of Practice exempts local Authorities from the key management personnel disclosure requirements of IAS24 on the basis that requirements for officer remuneration and members' allowances is detailed in section 3.4 of the Code and can be found in the main accounts of The County Council of the City and County of Cardiff.

## 20. Post Balance Sheet Events

The United Kingdom held a referendum on 23 June 2016 on future membership of the European Union and the result was a 52% majority in favour of leaving the EU. The result had an immediate impact on financial markets but the long term impact is still unknown. Markets have continued to be volatile in response to the ongoing political and economic uncertainty. The pound has lost value against other major currencies resulting in an increase in the value of overseas investments held by UK investors. The total market value of the Cardiff & Vale of Glamorgan Pension Fund's investment assets has increased since the referendum result but no adjustments have been made to valuations as at 31 March 2016 to reflect this increase.

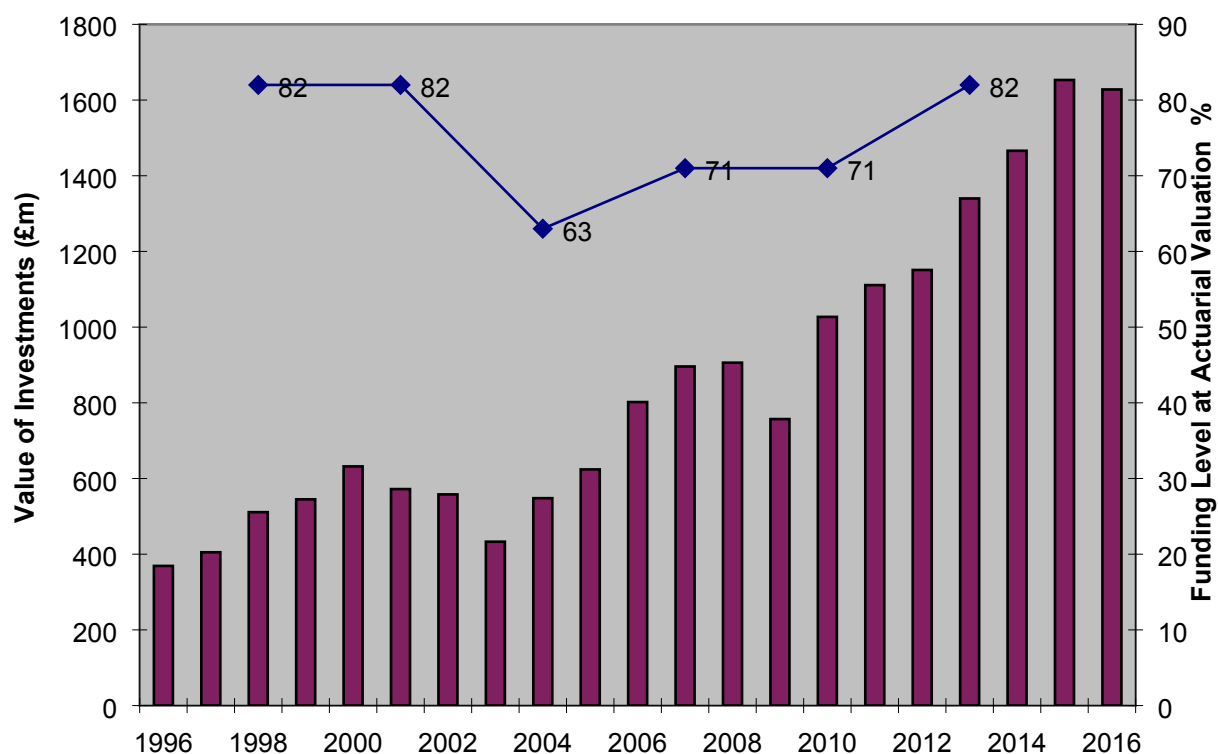
# APPENDIX 1: INVESTMENT DATA

## SUMMARY STATISTICS FOR THE PAST FIVE YEARS

Year End 31st March	2012	2013	2014	2015	2016
<b>MEMBERSHIP</b>					
Contributors	13,343	13,402	13,922	14,616	<b>15,061</b>
Pensioners	9,293	9,552	9,866	10,281	<b>10,626</b>
Deferred Members	10,040	10,658	11,335	12,073	<b>12,308</b>
<b>FINANCIAL DATA</b>					
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross Income (excl Profits on Sales)	95.4	92.9	119.2	100.0	<b>102.1</b>
Gross Expenditure	68.3	70.4	78.8	89.6	<b>96.9</b>
Net New Money	27.1	22.5	40.4	10.4	<b>5.2</b>
Market Value of Investments	1,150.5	1,339.9	1,466.1	1,653.2	<b>1,628.9</b>
<b>INVESTMENT PERFORMANCE</b>					
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Return on Investments – 1 Year	2.4	14.9	8.9	12.6	<b>-1.7</b>
Return on Investments – 3 Year	14.0	8.4	8.7	12.1	<b>6.4</b>
Return on Investments – 5 Year	3.5	7.1	13.2	9.3	<b>7.3</b>
Return on Investments – 10 Year	5.6	10.0	8.6	8.7	<b>6.1</b>
Increase/Decrease in Average Earnings	1.3	-0.4	1.7	4.4	<b>1.4</b>
Annual Pension Increase (applied the following April)	5.2	2.2	2.7	1.2	<b>0.0</b>

# APPENDIX 1: INVESTMENT DATA

## 20 YEAR INVESTMENT MARKET VALUES



Year Ended 31 March		2012	2013	2014	2015	2016
UK Equities	£m	401.3	468.7	539.4	588.4	568.1
	%	34.9	35.0	36.8	35.6	34.9
Overseas Equities	£m	342.4	450.4	510.0	602.9	588.8
	%	29.7	33.6	34.8	36.5	36.1
Global Bonds	£m	191.5	220.0	220.1	244.1	247.9
	%	16.6	16.4	15.0	14.8	15.2
Private Equity	£m	82.4	93.0	92.9	87.4	83.1
	%	7.2	6.9	6.3	5.3	5.1
Property	£m	73.1	75.2	79.9	99.2	118.6
	%	6.4	5.6	5.5	6.0	7.3
Cash	£m	20.4	33.2	23.8	31.2	22.4
	%	1.8	2.5	1.6	1.9	1.4
Active Currency	£m	39.4	0.0	0.0	0.0	0.0
	%	3.4	0.0	0.0	0.0	0.0
<b>Total Value</b>	<b>£m</b>	<b>1,150.5</b>	<b>1,340.5</b>	<b>1,466.1</b>	<b>1,653.2</b>	<b>1,628.9</b>
	<b>%</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## APPENDIX 1: INVESTMENT DATA

<b>TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2016</b>			
	<b>Country</b>	<b>Value £m</b>	<b>% of the Fund</b>
<b>EQUITIES (DIRECTLY OWNED)</b>			
HSBC Holdings	UK	6.0	0.4
BP	UK	5.8	0.4
Royal Dutch Shell	UK	5.6	0.3
Vodafone Group	UK	4.9	0.3
Orange	France	3.7	0.2
Taiwan Semiconductor Manufacturing Co	Taiwan	3.5	0.2
Tesco	UK	3.4	0.2
Sony Corporation	Japan	3.1	0.2
Toyota Motor Corporation	Japan	3.1	0.2
GlaxoSmithKline	UK	2.8	0.2
<b>POOLED FUNDS</b>			
SSGA MPF North American Equities Indexed	USA/Canada	193.5	11.7
BlackRock Aquila Life UK Equities Indexed	UK	181.1	11.0
SSGA MPF Europe ex UK Equities Active	Europe ex UK	175.1	10.6
SSGA MPF UK Equities Indexed	UK	129.5	7.8
Aberdeen Sterling Credit Bonds	UK	93.3	5.6
Invesco Perpetual Income Fund	UK	91.9	5.6
JP Morgan UK Dynamic Fund	UK	68.0	4.1
Aberdeen Global Government Bonds	Global	60.7	3.7
Aberdeen Global Emerging Markets Equities	Emerging Markets	55.0	3.3
CB Richard Ellis Global Alpha Fund	Global	38.2	2.3

# GLOSSARY

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## GLOSSARY

### Active / Passive Management

Active management is the traditional form of investment management involving a series of individual investment decisions that seek to maximise returns by exploiting price inefficiencies i.e. 'beat the market'.

Passive management is a low cost alternative where managers normally hold stocks in line with a published index, such as the FTSE All-Share, not seeking to outperform but to keep pace with the index being tracked.

### Actuary

An independent consultant who advises on the long-term viability of the Fund. Every three years the Fund actuaries review the assets and liabilities of the Fund and report to the Council on the financial position and recommended employer contribution rates. This is known as the actuarial valuation.

### Asset Allocation

Apportionment of investment funds among categories of assets, such as Bonds, Equities, Cash, Property, Derivatives, and Private Equity. Asset allocation affects both risk and return.

### CIPFA

The Chartered Institute of Public Finance and Accountancy, the professional accountancy body for public services in the UK.

### Custodian

Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due, and settles any purchases and sales.

### DCLG

The Department for Communities and Local Government, the department of the UK Government responsible for the LGPS in England and Wales.

### Derivative

A derivative instrument is a contract whose value is based on the performance of an underlying financial asset, index, or other investment.

### Emerging Markets

Relatively new and immature stock markets for equities or bonds. Settlement and liquidity can be less reliable than in the more established 'developed' markets, and they tend to be more volatile.

# GLOSSARY

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## Equities

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and may normally vote at shareholders' meetings.

## Fixed Interest Securities/Bonds

Investments, especially in government stocks, with a guaranteed rate of interest. *Conventional* bonds have fixed rates, whilst *Index Linked* vary with inflation. They represent loans repayable at a stated future date, and which can be traded on a stock exchange in the meantime.

## Fund of Funds

A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry, and thereby aim to lower stakeholder risk with greater diversification than is offered by a single fund.

## LGPS

The Local Government Pension Scheme, governed by regulations issued by the Department for Communities and Local Government

## Myners Principles

The six principles which a LGPS Fund must comply with in its SIP:

1. Effective decision making
2. Clear objectives
3. Risk and liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and reporting

## Pooled Funds

Pooled investment vehicles issue units to a range of investors. Units prices moves in response to changes in the value of the underlying portfolio, and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

## Portfolio

A collective term for all the investments held in a fund, market or sector. A *segregated portfolio* is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

## Private Equity

Investments made by specialist managers in all types of unlisted companies rather than through publicly tradable shares.



# GLOSSARY

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## Return

The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

## Scheme Employers

Local authorities and bodies specified in the LGPS Regulations, whose employees are entitled automatically to be members of the Fund, and Admission Bodies including voluntary, charitable and similar bodies, carrying out work of a public nature, whose staff can become members of the Fund by virtue of an admission agreement with the Council.

## SIP

The Statement of Investment Principles which each LGPS fund is required to prepare and keep under review.

## FURTHER INFORMATION

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Details of membership of the LGPS are provided by individual employers to all relevant employees on appointment. Further information regarding the scheme can also be found on the LGPS website ([www.lgps.org.uk](http://www.lgps.org.uk)). Any significant changes to the scheme are communicated to members by newsletter.

A statement of each individual's benefits is currently provided automatically on retirement. Annual benefit statements are sent to all active and deferred Fund members based on the benefits accrued to 31 March each year.

Copies of this report are sent to all employers and recognised Trade Unions, and are available to all interested parties on request. Copies of the rules currently governing local government pension funds may also be inspected on request.

The Fund's Annual Report, Statement of Investment Principles, Funding Strategy Statement and Communication and Governance Statement are published on Cardiff Council's website [www.cardiff.gov.uk/pensions](http://www.cardiff.gov.uk/pensions). Paper copies are available on request.

Further information on the Pension Fund or any pension matters may be obtained from:

Corporate Director Resources  
Cardiff Council  
County Hall  
Atlantic Wharf  
Cardiff  
CF10 4UW

E-mail enquiries should be sent to: [Pensions@cardiff.gov.uk](mailto:Pensions@cardiff.gov.uk)

Telephone enquiries should be directed as follows:

Scheme Management & Investments:	(029) 2087 2975	Gareth Henson	(Pensions Manager)
Pensions Administration	(029) 2087 2330	Karen O'Donoghue-Harris	(Principal Pensions Officer)
	(029) 2087 2343	Nicola Cumper	(Senior Pensions Officer)
Fund Accounting:	(029) 2087 2290	Nicola Greenwood	(Group Accountant)