Greater Gwent (Torfaen) Pension Fund

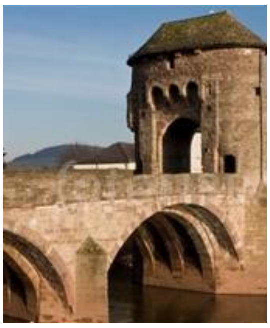
Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2013/2014

Nigel Aurelius, CPFA
Assistant Chief Executive Resources



lgps look forward with confidence

ft blank for printing purposes

TORFAEN COUNTY BOROUGH

BWRDEISTREF SIROL TORFAEN

Index

Contents	Page Number

INTRODUCTION

1.1 Pension Funds are seldom out of the news these days and whilst the fundamental principle of saving for a pension remains, the options, the choices and the factors that individuals now have to consider are more bewildering than ever. It used to be you put money aside, hopefully your employer did as well and you had a defined pension at retirement based on service and pay; or, your pension pot provided you with an income stream in retirement (through the purchase of an annuity). The choices now however are endless and changes around the taxation of pensions, the levels of allowances and tax relief, the contracting out status and state pension changes all influence the choice of whether to opt out of your employers pension scheme (having been auto-enrolled automatically into it) or how to use your money on retirement, either in a lump sum form or as an income stream. One thing remains clear however amongst this sea of change. The Local Government Pension Scheme remains a high quality and highly valued defined benefit pension scheme for public sector workers that we should work hard to retain by ensuring it is both affordable and sustainable in the face of substantial change. This is the challenge for the Pensions Committee in shaping changes for the future that not only protect the well being of the Fund but ensure a transparency and accountability to all stakeholders.

1.2 In recent years, my introduction has tended to focus on the global economic impact on pension funds and national developments in this context. Whilst these factors remain important, it appears we have entered a period when markets generally are a little more resilient to the political upheavals and global economic events that have continued to provide the backdrop in 2013/14. This therefore enables Funds to focus more precisely in how they can flourish within this newer world of what some might call “benign turbulence” where uncertainty remains but at less volatile levels than in recent years. In this environment and in a year where markets have traded both up and down, the Fund has achieved a positive annual investment return of 7.49% with a positive increase in its market value from £1,924 million to £2,081 million. Our investment performance return for the year was an out-performance against our benchmark (7.28%) that we set ourselves of 0.21%. This now places the Fund ahead of its benchmarks over both short and longer term performance measurement periods. This has not been easily achieved. The Pensions Committee have kept a close eye on investments resulting in the ending of the relationship with one manager and the appointment of two new managers following an exhaustive search. The Pensions Committee have however also focussed on both the actual and proposed changes for the LGPS brought about by national Government legislation and consultations.

1.3 The passage of the Public Sector Pensions Act 2013 provided the map for the introduction of National Boards for the major public sector pension schemes such as the LGPS. The LGPS Shadow Board has thus been in existence for almost 12 months and advises the Secretary of State on the Scheme and its administration. Councillor Mary Barnett, Chair of the Greater Gwent Fund acts as the Welsh representative on the Shadow Board and thus ensures that there is a Welsh perspective at the highest levels.

1.4 The new Local Government Pension Scheme was introduced in April 2014 as a Career Average Revaluation of Earnings (CARE) scheme where pension benefits are based on average pay over an individual’s working life rather than the level of final salary at the point of retirement. The introduction of the new scheme design has proved difficult with late publication of Regulations and both Software and Actuarial challenges resulting in a difficult environment for some Funds with certain key tools still awaited. Communication to employers and employees alike has been a massive task and employer data requirements have created additional work for all which is still bedding in. This has inevitably placed disproportionate additional workloads on pension teams.

1.5 I mentioned last year that there is increased attention being paid to how individual Funds can most effectively deliver their services and that collaboration and/or merger of organisational structures was being considered by Government. In recent weeks Central Government have launched a consultation that strikes at the core of how Funds manage their investments and could in due course alter the tapestry of how Funds achieve investment returns with a reduced cost base. The essence is that mergers should not be considered further at this time, collaboration through collective investment Funds should be the norm, and that Funds should move their active investments to an entirely passive approach thereby tracking market movements through index related funds. The collaborative approach shares the same conclusion as reached by the Welsh Treasurers' study the previous year but the proposed move to entirely passive management is somewhat of a surprise but can be understood in that it would immediately reduce investment costs. There remains considerable on-going debate however, as to whether Pension Funds can still achieve a similar level of return through passive rather than active investment. Many would argue that there is an appropriate place for both types of management but unless clearly understood and justifiable, then passive should be the default position. This will present challenges to Funds such as our own where active management currently accounts for 80% of the assets under management and has certainly added value over the last 10 years. We will await the final Government decisions but certainly there will be ramifications on how the Fund adapts its approach to investing.

1.6 Amidst all the above, further changes are due for the LGPS in terms of how the future Governance of individual funds should be undertaken. Whatever the finer detail, there is no doubt that a "governance premium" can be created through sound and transparent governance of Fund matters that help to build quality processes in support of sound decision making. The Fund will welcome any proposals aimed to achieve this result.

1.7 The combined effect of Public Sector Pensions reform, wider Central Government policy on pay and pensions, auto enrolment, collaboration, moves to passive management and governance initiatives, together with increasing workloads all provide for challenging and difficult times. In this context I can only thank and pay tribute to colleagues within the wider pensions team who have had to cope in the face of these changes whilst attempting to maintain, and indeed improve, the service provided to our scheme members. I would like to formally place on record my specific thanks to them for their hard work, perseverance and commitment throughout the year. They continue to place the scheme members first and I know how much this is valued by our customers.

1.8 Finally, I end on a somewhat sad note. For the first time in 25 years, the name of Mike Lewis no longer appears in this report as the Fund's independent investment advisor. Mike passed away prematurely in April 2014 having been part of the Gwent and then Torfaen Pension Fund family since the late 1980's. Mike's insight into all investment related matters, and his experience and wealth of knowledge made him an integral part of what the Fund has achieved and his support and advice have been invaluable in building the position the Fund has to-day. He will be sadly missed by all connected with the Fund.

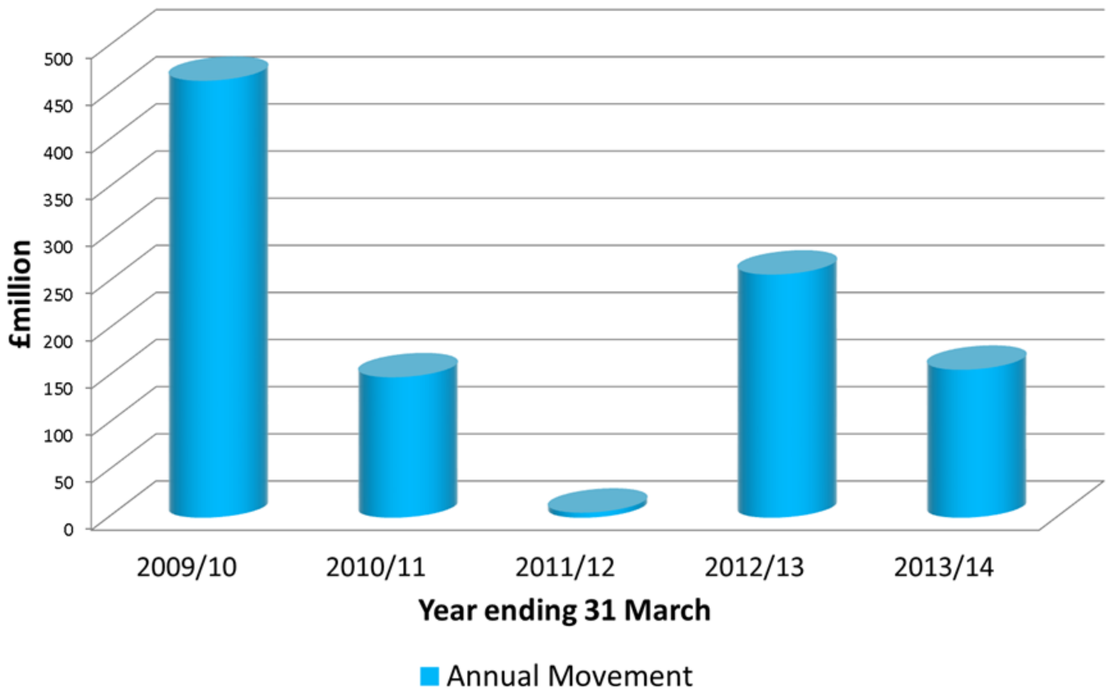
NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES
TORFAEN COUNTY BOROUGH COUNCIL
JUNE 2014

OVERVIEW

1. 2013/2014 In Summary

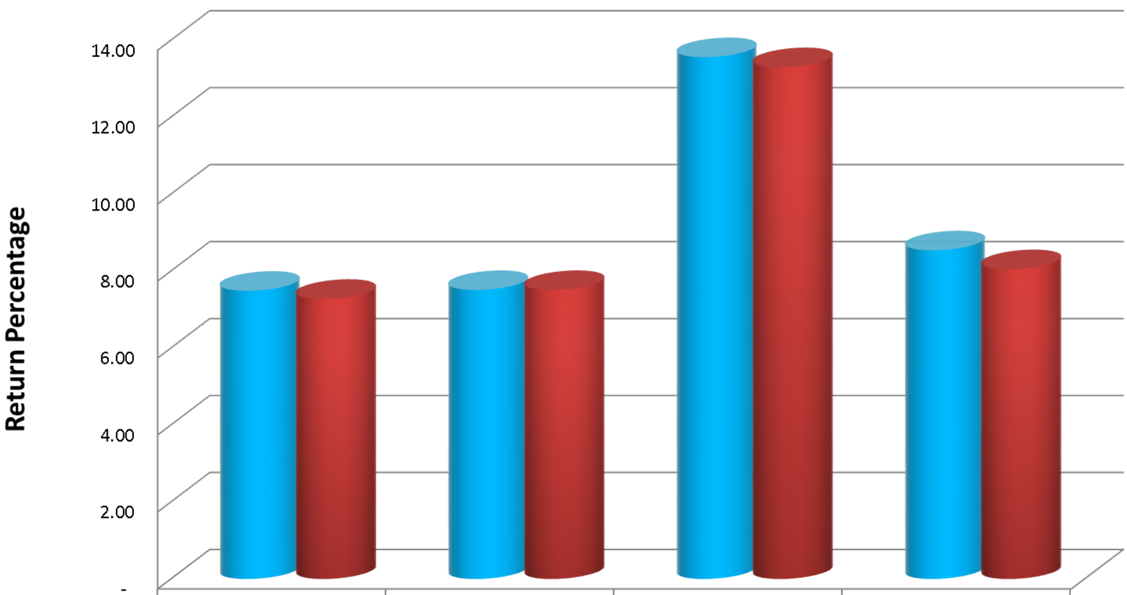
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
51,614	**£2.081bn**	**£95.175m**	**£109.666m**

Annual Increase in the Net Assets of the Fund



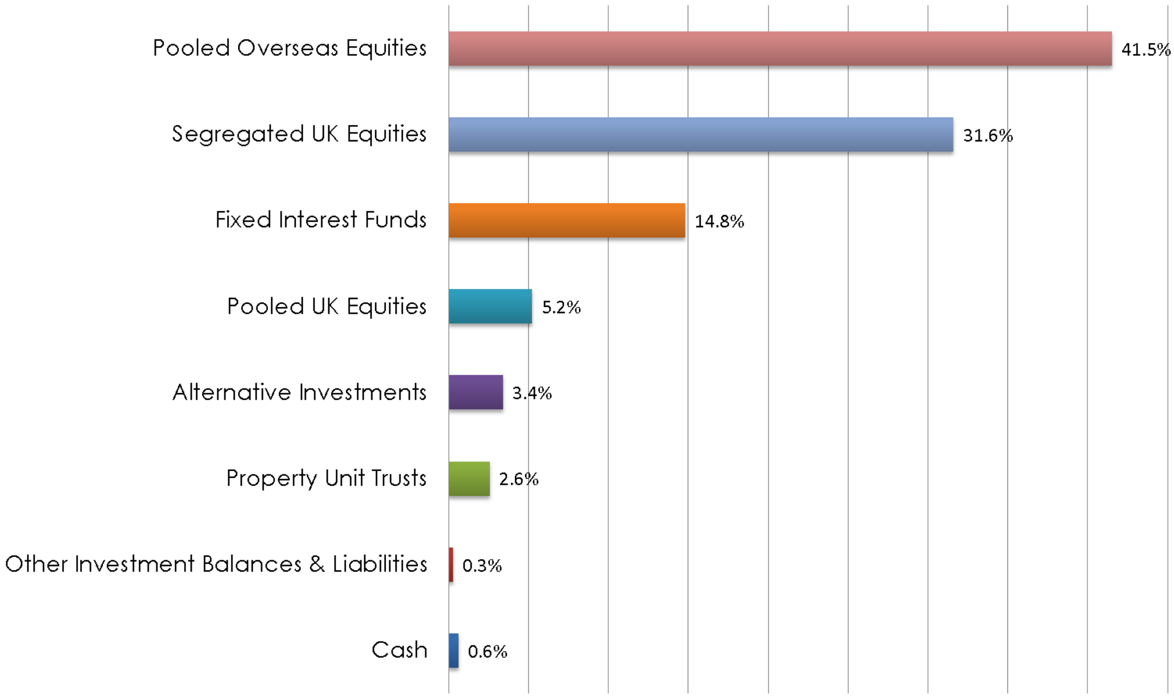
2. Investments

Periodic Performance to 31 March 2014



	1 Year	3 Years	5 Years	10 Years
Fund	7.49	7.51	13.56	8.54
Benchmark	7.28	7.51	13.30	8.05

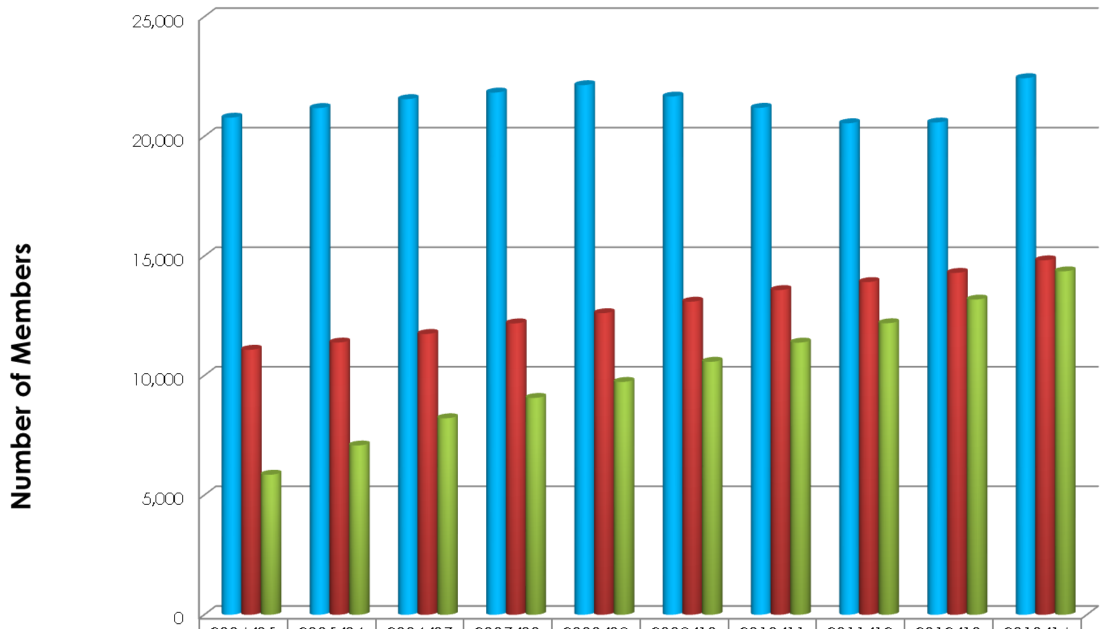
Portfolio distribution as at 31 March 2014



3. Membership

Contributing Members	Members in Receipt of Pension	Members with Preserved Benefits
22,435	14,820	14,359

Split of Fund Membership as at 31 March



	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Contributors	20,785	21,187	21,559	21,834	22,143	21,667	21,196	20,550	20,582	22,435
Pensioners	11,081	11,383	11,740	12,183	12,610	13,091	13,576	13,910	14,296	14,820
Number of Preserved Benefits	5,856	7,080	8,216	9,067	9,735	10,577	11,378	12,189	13,180	14,359

MANAGEMENT STRUCTURE

1.1 The Greater Gwent (Torfaen) Pension Scheme is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (The Benefit Regulations), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (The Administration Regulations) and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended) (The Transitional Regulations). It is the appropriate occupational pension scheme for employees of local authorities in the Greater Gwent area with the exception of teachers and lecturers, who have a separate scheme which applies to them. In addition, the employees of certain bodies providing public services are admitted to the Fund. Details of the authorities covered by the scheme are given on page 39.

1.2 Torfaen has established a Pensions Committee to discharge the duties of the Council as Administering Authority of the Fund. The Pensions Committee has been established and operates within the Council's constitutional arrangements.

1.3 This committee deals with all matters relating to the fund. As at 31 March 2014 the structure of the Pensions Committee was as follows:-

Chair

County Borough Councillor - Mary Barnett

Committee Members

County Borough Councillor - Huw Bevan
County Borough Councillor - Stephen Brooks KSS JP
County Borough Councillor - Pamela Cameron
County Borough Councillor - Stuart Evans
County Borough Councillor - Maria Graham

Chair
County Borough Councillor
Mary Barnett

Assistant Chief Executive Resources
Nigel Aurelius

The Pensions Committee is supported in their operation by the following professional advisors:-

Assistant Chief Executive Resources

Nigel Aurelius, CPFA

Head of Human Resources and Pensions

Graeme Russell, B Com (Hons.), CPFA

Consulting Actuary
Mercer Limited

Independent Investment Consultant
Mercer Limited

Investment Fund Managers
Aberdeen Asset Management
BlackRock
Fidelity Worldwide Investment
Invesco Perpetual
Lazard Asset Management
Nomura Asset Management
Standard Life Investments

Global Custodian
BNY Mellon Asset Servicing

1.4 Mercers are the appointed actuary to the Fund. They also provide investment advice where required. Torfaen's Chief Legal Officer and Monitoring Officer is the legal advisor to the Fund.

1.5 The Fund's secondary committee, the Pension Fund Management Group (PFMG), provides wider stakeholder representation and communication in matters relating to the Fund. This group is made up of representatives of the Greater Gwent Unitary Authorities, a number of other significant employers and trade unions. It has also, since April 2011, included pensioner representation. The PFMG meets twice each year to consider the annual report, together with other matters related to the fund.

1.6 The management of Fund investments is the responsibility of the Pensions Committee. Day to day investment decisions are made by the external fund managers who are paid a percentage management fee. The managers' fees are calculated in relation to the market value of the Fund, with a performance element also included for Fidelity Worldwide Investment. Fees are also payable to the fund's global custodian and other advisors.

1.7 When the Pensions Committee was formed by the Council in early 2009, Committee members commenced a programme of training aimed to provide them with the necessary knowledge and skills to undertake the fundamental requirements of their role and to help equip them to take effective decisions. Since this time Member training has been developed, monitored and reviewed on an individual member basis via regular inclusion on Committee meeting agendas, allowing members to discuss training received and identify further training required. The year under review has, once more, seen some changes in Committee membership, including a new Chair in Cllr Mary Barnett. 2013/14 has therefore again been predominantly a year of "refresh" of previous fundamental training now made available to the new Committee membership, combined with some considerable practical knowledge and skill acquisition during the appointment process for two new investment managers that took place during the year. The training programme will continue, as with the previous Committee membership, to develop to reflect suitable and necessary areas of advancement in knowledge and skills identified in conjunction with individual members and the Committee as a whole.

1.8 The Chartered Institute of Public Finance and Accountancy (CIPFA) has published a Code of Practice relating to Pensions Knowledge and Skills, which the Fund has adopted. Pension Funds are encouraged to adopt this framework and support the Code to demonstrate their commitment to providing the necessary training to decision makers and practitioners. In addition to the training needs of the Pensions Committee, the PFMG and officers who support the Fund will all be considered within further phases of training. Updates on training undertaken and knowledge and skills development will continue to be included within the Pensions Committee workplan and meeting agendas. An annual review will continue to be provided within future Pension Fund Annual Reports.

FINANCIAL REPORT

1.1 The annual financial statements of the Fund have been influenced by a number of factors over the last year including investment growth and a changing national pension and LGPS landscape. The number of Fund pensioner and deferred members has continued to rise, however it has been encouraging to see the number of active contributors to the Fund increase by 9% to reach a ten year high, as the impact of auto enrolment is more widely felt.

1.2 The Fund Account (page 31) indicates a considerable net increase in the net assets of the scheme available to fund benefits during the year of £157.087 million for 2013/14, following the £257.636 million increase in the Fund in 2012/13. The summarised figures are shown in the table below.

Fund Account 31 March 2014	
	£000
Employees/employers contributions	109,666
Payments and Refunds	(95,183)
Net transfer values	4,769
Returns on Investments	145,451
Other income/expenses	(7,616)
Net Increase/(decrease) in the Fund	**157,087**

1.3 Contributions to the Fund from members and employers have increased by £8.638 million from £101.028 million in 2012/13 to £109.666 million in 2013/14.

1.4 Transfer values received have increased from £4.942 million to £7.946 million and those paid out have decreased from £6.303 million to £3.177 million. The 2012/13 transfers out figure included an accrual for an agreed group transfer (note 10, page 40).

1.5 Payments to beneficiaries in respect of pensions have increased by £6.319 million from £88.856 million in 2012/13 to £95.175 million in 2013/14.

1.6 The net assets of the Fund are represented primarily by investments (see below and page 41). Appendix 1 (page 61) illustrates the movement in the market value of investments since March 2005 and the tactical asset allocation.

Net Assets 31 March 2014		
	£000	**£000**
Fixed interest	305,854	
UK equities	758,710	
Overseas equities	857,159	
Property unit trusts	53,802	
Alternative investments	69,588	
Cash	11,500	
Other investment balances	204,707	2,261,320
Investment liabilities		(198,837)
Current assets		22,305
Current liabilities		(3,901)
Net Assets of the Fund		**2,080,887**

INVESTMENT REPORT

1. Investment Objectives

1.1 From an investment perspective this report reflects on a year that has, despite some periods of market uncertainty and volatility, generally seen a continuation of the post financial crisis global economic recovery. This has been reflected in another generally good period for global investment markets. The news has not been universally good however. Markets in developed countries have done well but less developed markets in Asia and the Emerging World have seen negative overall returns for the year. This demonstrates the need for a diversified investment strategy to spread investment risk as far as is possible within the constraints of return required by the Fund to help meet its long term funding target of 100% cover for member benefits payable into the future.

1.2 The objective in investing Fund monies is thus the maximisation of the return on the money entrusted to the Fund, consistent with acceptable levels of risk. The portfolio's investment performance directly influences the contribution employers need to make to the Fund to pay for the statutory benefits payable from it. However, two particular factors need to be borne in mind. Firstly, the Fund's liabilities are very long term and secondly, those liabilities will increase with inflation and the rising level of employees' salaries and wages to the time of retirement. The need to ensure liquidity to pay benefits as they fall due is also a consideration in determining investment strategy. At present Fund income is exceeding expenditure and so the Fund has not been faced with the prospect of enforced realisation of investment. This requires regular monitoring however as the Fund will not remain cash-positive forever as the profile of its membership and liabilities will change over time.

1.3 The objectives of the Fund's investment strategy can therefore be summarised as to:-

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the tax payers and employers;
- manage employers' liabilities effectively;
- ensure sufficient resources are available as they fall due; and
- maximise the returns from investments within reasonable risk parameters.

The Pensions Committee attempts to meet its objectives by securing, in the light of the economic climate, the most advantageous mixture of cash, fixed interest investments, equity, property and alternative investments. More details are contained in the Funding Strategy Statement (see page 24). The principal powers to invest, and the regulations governing fund investments, were most recently consolidated within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1st January 2010.

1.4 In addition to setting the Fund's investment strategy via the most appropriate asset allocation, the Committee, in conjunction with the Fund's advisors, also determines the most appropriate mix of investment management arrangements for the Fund. This enables an appropriate and diversified blend of passive (market matching) and active (aiming to out-perform markets) management. It also enables managers to be appointed with varying performance targets, risk targets, investment philosophies and investment styles. This allows for even further diversification of investment risk for the Fund.

1.5 The reporting period has seen some change in the Fund's management arrangements. The Fund's Emerging Market and Far Eastern equity mandates were managed by Barings for over 10 years with an excellent working relationship enjoyed during that time. The Fund regularly reviews its manager performance but also believes that stability is important over the long term. Occasionally however the Fund will choose to "review and refresh" its arrangements to improve investment return and in the case of Barings, performance, consistency and team changes all combined and resulted in a decision to change.

The Fund did however maintain the level of asset allocation to both regions and launched a European procurement exercise in September 2013 for manager(s) to operate two new, but similar, regional equity mandates for the Fund in Asia Pacific ex Japan and Global Emerging Markets. Following appropriate evaluation, advice and due diligence, in February 2014 the Pensions Committee appointed Invesco Perpetual to manage a £100million Asia Pacific (ex Japan) mandate and Fidelity Worldwide Investment to manage a £50million Global Emerging Markets mandate. Both mandates have become operational from the 26 March 2014 and the Fund very much looks forward to also working with Invesco and Fidelity into the future.

1.6 Following the above changes, as at the reporting date, the Fund's assets were primarily held with seven external fund managers namely Aberdeen Asset Managers, BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management, Nomura Asset Management and Standard Life Investments. As noted above however the appointments of Invesco and Fidelity became operational right at the end of the reporting period. During the period therefore, investment management arrangements in Asian and Emerging Market equities have been in a period of "transition". Barings managed both mandates until early September 2013 on an active basis but from this time until the period end (and the new appointments), both equity regions were passively managed as an element of the Fund's mandate with BlackRock. For this reason investment performance in both regions should be viewed from the perspective of "transitional arrangements" rather than attributing performance to a particular manager over the period.

2. Asset Allocation

2.1 The following table shows the Fund's investment management arrangements reflecting the Fund's Strategy. The percentage values are therefore strategic allocations and do not reflect current marginal tactical allocations across the portfolio to other asset classes:-

Greater Gwent (Torfaen) Pension Fund
Strategic Asset Allocation as at 31 March 2014

Mandate	Approach	Manager	%
UK Equities			
UK Equities	Passive	BlackRock	13.8
UK Equities	Active	Lazard	19.6
UK Equities	Active	Standard Life	4.6
Overseas Equities			
US Equities	Passive	BlackRock	7.0
European Equities	Active	BlackRock	14.0
Japanese Equities	Active	Nomura	3.0
Far East Equities	Active	Invesco	4.0
Emerging Markets	Active	Fidelity	2.0
Global Equities	Active	Aberdeen	9.0
Fixed Interest			
Government Bonds	Active	BlackRock	7.0
Corporate Bonds	Active	BlackRock	7.0
Alternative Investments			
Diversified Alternatives	Active	Standard Life	3.0
Other	Active	M&G	1.0
Other (via TCBC)			
Cash	Active	TCBC	3.0
Property Unit Trusts	Active	TCBC	2.0
Total			100

2.2 At 31 March 2014 the net investment assets of the Fund (measured at bid-price market value) were administered as follows:-

	Investments at Market Value £000	%	Cash & Other Balances £000	%	Investment Liabilities £000	%	Net Investment Assets £000	%
BlackRock	1,019,247	49.4	100,806	4.9	(98,837)	(4.8)	1,021,216	49.5
Lazard	402,120	19.5	5,547	0.3	-	-	407,667	19.8
Aberdeen	185,982	9.0	-	-	-	-	185,982	9.0
Standard Life	162,497	7.9	-	-	-	-	162,497	7.9
Invesco	101,064	4.9	100,000	4.8	(100,000)	(4.8)	101,064	4.9
Nomura	59,332	2.9	-	-	-	-	59,332	2.9
Fidelity	50,207	2.4	-	-	-	-	50,207	2.4
TCBC	64,664	3.1	9,854	0.5	-	-	74,518	3.6
Total	**2,045,113**	**99.1**	**216,207**	**10.5**	**(198,837)**	**(9.6)**	**2,062,483**	**100**

To comply with reporting requirements, any creditors in respect of investment transactions and other liabilities directly connected with investment transactions are shown separately within the Net Assets Statement as an investment liability, rather than reducing the cash at fund manager figure within the investment assets. The other investment balances and investment liabilities as at 31 March 2014 include large transitional transfers between BlackRock, Invesco and TCBC on settlement date 1 April 2014 from trades in Asia Pacific ex Japan and Global Emerging Markets that were placed on 26 March 2014.

3. Investment Performance Summary

3.1 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2014 the Fund made an overall investment return of 7.49% compared with 7.28% for the benchmark return.

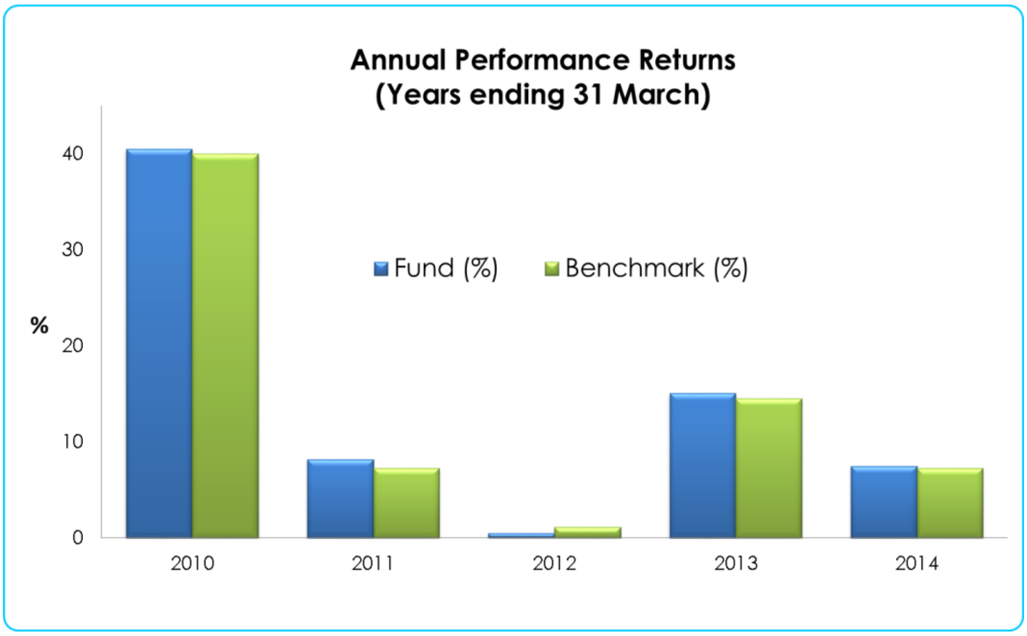
3.2 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's strategic asset allocation weightings of 38% UK Equities, 30% Overseas Equities, 9% Global Equities, 14% Fixed Interest, 2% UK Property Unit Trusts, 4% Alternative Investments and 3% Cash.

3.3 The +0.21% out-performance for 2013/14 means that the Greater Gwent Fund has achieved an above average performance in 4 out of the last 5 years.

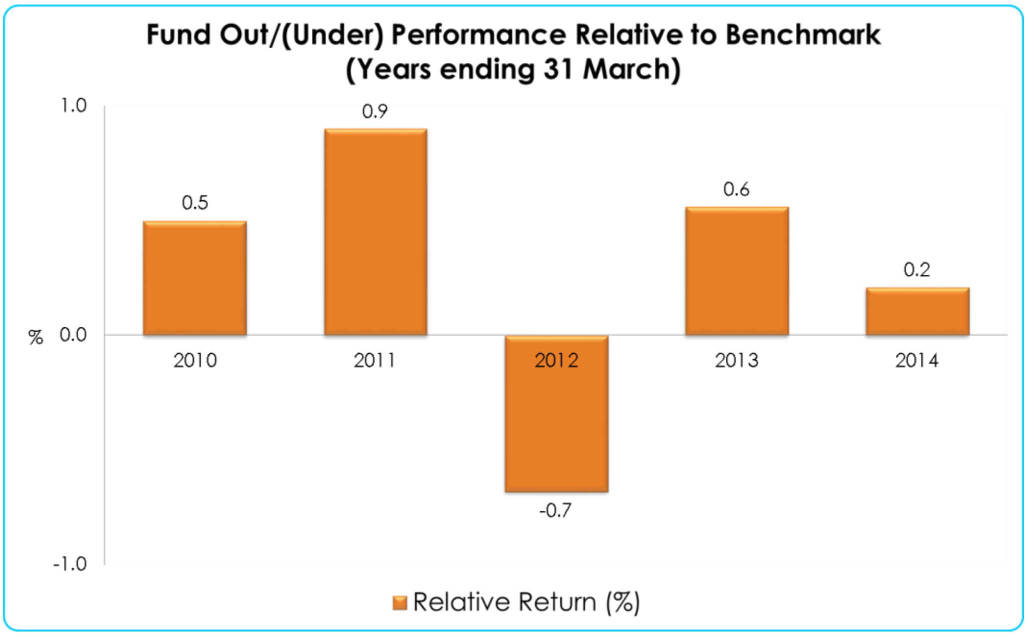
3.4 The Fund also subscribes to the WM State Street Local Authority performance service, which shows that the return for the average Local Authority fund for the year ending 31 March 2014 was 6.4%. We therefore outperformed the 1 year average by 1.09% and we remain in excess of this average over the longer term.

3.5 The following graphs illustrate the Greater Gwent (Torfaen) Pension Fund annual performance returns as compared to the BNY Mellon benchmark return over the last five financial years. The absolute return is simply whatever an asset or portfolio returned over a certain period. Relative return is the difference between the absolute return and the performance of the market, which is gauged by a benchmark, or index. Longer term returns can be seen in the graph on page 3.

a) Absolute Performance Returns



b) Relative Performance Returns



4. Economic Background And How The Markets Performed

4.1 Global Overview

Last year's Annual Report noted a period of predominantly strong performance across world markets. The strong 2012/13 was however still punctuated by periods of volatility as the more muted aftershocks of the global financial crisis required governments and central banks across the globe to act forcefully to keep the financial wheels turning amidst varying speeds of regional economic recovery and lingering sovereign debt issues. There is little doubt that such a major and far reaching financial crisis will require a protracted period of recovery and healing but there has been some further evidence during 2013/14 that this is continuing to happen. The following provides a flavour of the year's economic and political events and the impact on markets as the year developed.

2013 had started on a largely positive note with greater optimism evident across world markets regarding the prospects for global growth and risk asset performance. The start of the 2013/14 reporting period (**2013 Q2**), however was a largely disappointing one for markets with many equity regions and fixed interest investments producing negative market returns. The broadly positive trend in equities especially that had been evident since the start of the year continued until the penultimate week in May. At this point, concerns that the US might begin to 'taper' its stimulus policies, particularly quantitative easing (QE), sooner than had been expected, unsettled global markets. This drove a sell-off across core government bond markets and profit-taking across several global equity markets and outflows from emerging market assets. By the end of the quarter, policymakers' assurances that markets may have "got ahead of themselves" in expecting tighter monetary policy appeared to have restored some sense of equilibrium and ensured that many markets had regained their poise by quarter-end. Global economic data remained mixed however, with the Euro-zone economies in particular continuing to lag and signs that economic growth in China might be moderating proving of particular concern for some emerging market and commodity-related assets in particular.

There was however a generally upward direction in equity markets during **2013 Q3** as concerns eased somewhat, though uncertainty was still evident at times generally, and in certain regions specifically, resulting in somewhat muted overall market performance. Global equity markets were volatile during the quarter, continuing to move in reaction to speculation surrounding the tapering of QE in the US. After rebounding in July, following reassuring comments from the Federal Reserve, markets fell in August as concerns over the timing of any reduction resurfaced. Markets recovered slightly in September but US budgetary concerns meant that gains were relatively subdued. Despite muted returns from most major indices, the recovery in global economic growth continued, albeit at a slow pace. The US continued to lead the way, with business and consumer confidence improving during the quarter. In the UK, manufacturing grew for the sixth consecutive month, while house building activity rose at its fastest pace in nearly ten years. Meanwhile the Euro-zone pulled out of recession, with second quarter GDP growth of +0.3%. Better domestic data boosted the Chinese market, with a range of economic indicators coming in ahead of expectations.

As 2013 drew to a close, (**2013 Q4**) was a strong quarter overall with developed equity markets doing generally well but a divergence of performance evident with Far East, Japanese and Emerging equity market performance very muted and marginally negative overall. Equity markets were helped by positive economic data, particularly from the US. In addition, the decision by the US Federal Reserve (Fed) in December to maintain its highly accommodative monetary policy was well received by investors. Its decision was to reduce its US asset-purchase programme, or quantitative easing (QE), by $10 billion to $75 billion per month. As a result of the positive sentiment, many benchmark indices enjoyed strong gains into the end of the year and developed market indices finished 2013 either close to, or at, record levels.

The reporting period ended however with a quarter (**2014 Q1**) in which global equity markets were generally disappointing. 2014 got off to a shaky start as concerns over emerging markets led to falls in global equities and consequently an unexpected rally in global bonds. Worries over a slowdown in China also resurfaced while inflation and balance of payment deficits concerns in emerging markets continued to dominate investors' minds. There were signs of renewed confidence following January's lows as investors took advantage of the sell-off to drive the US market to a new high. Sentiment towards emerging markets remained weak however. Uncertainty once again returned to markets towards the end of the quarter, as geopolitical concerns in Ukraine brought renewed volatility and tempered market returns.

4.2 **Market Performance Summary**

Against the above predominantly positive backdrop global Equity Markets performed well overall but there was a noticeable divergence of performance over the reporting period between the developed and less developed markets in which the Fund invests. European equities led the way with the index returning just over 18% in the year, buoyed by improving economic data. The continuing recovery in the United States led to market returns of just above 11% and the improving UK picture generated returns of almost 9%. The picture was very different elsewhere however. Japan had seen some periods of very strong returns in 2012/13 but 2013/14 was actually negative overall for the region at around -1%. Far Eastern and Emerging Market equities however suffered much worse with the Fund's benchmark returns for the regions being close to -6% and -10% respectively.

Fixed Interest investments were generally under pressure over the period as a generally improving global economic picture led to expectations of future interest rate rises; rising yields and thus lowering of price for government bonds. Though the start of 2014 saw a reversal of this, with yields generally falling back, the pressure throughout much of 2013 was enough to see negative returns of around -2.5% from the Fund's gilt benchmark. Corporate bonds did better, but still only generated returns of around +1.5% over the reporting period.

Within other asset classes in which the Fund invests, the UK Commercial Property had a strong period. Benchmark returns from the sector were positive in each of the quarters of 2013 and this carried on into the start of 2014, with the market recording an overall return for the period of almost +10%.

The consolidated performance of all the above asset classes and regions in which the Fund invests has produced an overall market (benchmark) return for the Fund during the period of +7.28%.

5. How did our Managers Perform?

In addition to the above market (benchmark) performance, the Fund looks to generate returns across the majority (almost 80%) of its asset allocation via active management where the Fund's investment managers look to out-perform the respective market returns. **In aggregate, active management has enabled the Fund to out-perform the above market return of +7.28% by +0.21% over the period and thus generating the overall 7.49% investment return for the Fund during the reporting period.** On face value, this may not seem a great deal of additional (active) return, but longer term performance returns show that the Fund has generated, on average, around 0.5% per annum for the last 10 years from its active management. In cash terms therefore this additional active performance has generated a significant amount (on average of maybe upwards of £5million per annum) to pay the Fund's administration costs and support the payment of member benefits each year.

Active management has therefore been successful in overall terms for the Fund during the period and over recent years. With the significant levels of diversification employed across the Fund we would not expect all our managers to perform identically and indeed, though some active allocations and managers have performed very well, there have been one or two exceptions during the year – in Far East and Emerging Equities (as noted above) but also within the Fund's Global equities mandate managed by Aberdeen, who provide their views on this within the manager sections later in this report.

The following shows detailed performance for the Fund by Asset Type, Region and Manager:-

Asset Class / Region	Manager	Share of Fund at Year end %	Fund Performance for Year %	Benchmark Performance for Year %	Relative Performance for Year %
Equities					
UK (Passive)	BlackRock	12.3	8.94	8.81	**+0.13**
UK (Active)	Lazard	19.5	10.87	8.81	**+2.06**
UK (Active)	Standard Life	5.0	19.50	8.81	**+10.69**
US (Passive)	BlackRock	8.4	11.34	11.32	**+0.02**
European (Active)	BlackRock	13.9	22.50	18.28	**+4.22**
Japanese (Active)	Nomura	2.9	-1.16	-1.41	**+0.25**
Asia (ex Japan)	In transition	4.9	-9.09	-5.82	**-3.27**
Emerging Markets	In transition	2.4	-12.31	-9.90	**-2.41**
Global (Active)	Aberdeen	9.0	1.27	9.04	**-7.77**
Fixed Interest					
Gilts	BlackRock	7.3	-1.89	-2.56	**+0.67**
Corporate Bonds	BlackRock	7.5	2.20	1.55	**+0.65**
Other					
Alternatives	Standard Life / In house	3.4	4.08	0.60	**+3.48**
Property	Various	2.6	10.10	9.53	**+0.57**
Cash and other investment balances	Various	0.9	0.30	0.36	**-0.06**
CONSOLIDATED		**100.0**	**7.49**	**7.28**	**+0.21**

Performance data supplied by BNY Mellon Asset Servicing

6. A Word or Two Direct From Our Managers………

BLACKROCK

Active European Equities

"The European fund outperformed its benchmark over the review period with effective macro positioning underpinning the strong result for the period. This was first established early in the year as Industry Selection models captured the increasing negative momentum in metals and mining shares. Thereafter, signals tracking company exposure to changing growth expectations and currency movements began to position the portfolio with a positive stance towards improving Eurozone economies versus an increasingly negative stance towards emerging market exposure.

At the country level an aggregate underweight position in French names also contributed with French stocks generally lagging the sharp rally in other European markets. Throughout much of the period our models generally preferred the more rapid improvement of the Spanish economy. The changing macro backdrop also played out in the performance of more traditional value, quality and sentiment stock selection signals which ensured that the portfolio maintained exposure to key market themes across a number of different dimensions throughout the year. "

Gilt Bond Fund

"The Gilt Fund outperformed its benchmark in the review period. 2013 had started well but the Fund under-performed its benchmark in the second quarter when, despite asset allocation decisions adding value, there was a drag on performance from long-duration positions as gilt yields increased on expectations of an early withdrawal of asset purchases in the US. Also positioning based on valuation and supply considerations underperformed as the sharp directional moves in markets dominated these factors. The Fund returned to benchmark outperformance in the third quarter however. Asset allocation positioning favoured risk assets throughout making a positive contribution; mortgage positioning added value; foreign exchange strategies performed well, and security selection, reflecting valuation and the timing of supply, also added value. The fund again outperformed its benchmark in the final quarter of 2013. Interest rate positions made a positive contribution and security selection continued to work well as did currency positions and security selection in high yield names. The fund ended the period under review by again out-performing in the first quarter of 2014 with asset allocation and mortgage strategies adding value but interest rate decisions detracted as short duration positions under-performed."

Corporate Bond Fund

"The Corporate Bond fund also outperformed its benchmark in the review period. 2013 had also started well for the fund, but the fund under-performed its benchmark marginally in the second quarter with interest rate and asset allocation decisions adding value whilst security selection, currency and mortgage positions detracted. The Fund returned to benchmark out-performance in the third quarter however, again benefitting from holding overweight positions in corporates in an environment where risk assets outperformed. The Fund again outperformed its benchmark in the final quarter of 2013. Credit, interest rate and currency positions added value, whilst asset allocation detracted, in a period of continuing stronger risk asset performance. Security selection in high yield names was also a positive contributor during the quarter. The fund ended the period under review by again out-performing in the first quarter of 2014 with credit, asset allocation and mortgage positions adding value, though interest rate strategies detracted and currency strategies were only a marginal contributor."

LAZARD
ASSET MANAGEMENT

UK Equities

"UK equities made significant gains despite some share price weakness at the beginning and end of the year. Improving macroeconomic data in the UK and the rest of the developed world, including signs of stabilisation in the Eurozone economy, was apparent throughout the period under review. Over the period, the portfolio made strong gains and outperformed the FTSE All-Share Index. Stock selection, the foundation of our investment process, was positive and the largest contributor to the outperformance for the financial year. Our sector positioning also contributed positively to relative returns.

Despite a mixed earnings season and a volatile first quarter, primarily as a result of geopolitical risks, we do not believe there is a need to be too bearish when it comes to the UK equity market. With the exception of the market's reaction to events in Crimea, investors have become more discerning, punishing and rewarding stocks depending upon their earnings, creating an environment that favours stock pickers. In addition, economic growth is strengthening, so companies that missed expectations this time round could benefit in the coming months and given that valuations are not far off their average, expectations have not run too far ahead of the economic reality. We believe the appetite for risk remains and it is growth businesses that have continued to perform well through the recent earnings season.

Against a background where positive results are rewarded and negative results punished, we believe it is adept stock pickers who will thrive, as the market becomes more scrupulous when picking those companies in the UK that exhibit a competitive advantage."

Aberdeen

Global Equities

"The economic backdrop continued to be heavily influenced by the developed economies, and the persistence of easy monetary policy via the US Fed's quantitative easing and similar strategies being employed by Japan, the UK and across Europe. Shifts in expectations for changes to US policy and interest rates early in the period reaffirmed investors' unease, which in turn meant that the developing markets remained out of favour, currencies under pressure and economic growth at lower levels than those seen historically.

Global equity Investment returns were respectable, up 9%, but the relative performance for the Fund has been weak against benchmark and the target. Our strategy through the previous year had been cautious, which we maintained for the period under review. This meant that we did not subscribe to the continued market enthusiasm for some of the less robust investment themes which have pushed share prices and valuations in some markets and sectors to exceptional levels. Within our more balanced approach, we have continued to have a broad exposure to some of the higher growth regions, such as Asia and Latin America, even though the economic story is less strong than it has been; we still anticipate better growth prospects and can find some financially strong and well managed companies, despite the less optimistic headlines.

For the year ahead, the route is still uncertain, with a delicate path towards unwinding quantitative easing likely to throw up challenges for investors; we will continue to focus on a diversified portfolio of businesses that we know and have confidence in, and offer good long term value."

STANDARD LIFE INVESTMENTS

UK Equities

"In a strong year for the fund, the position in International Consolidated Airlines Group was the largest contributor with strong traffic on its North Atlantic routes and greater stability at Iberia the key drivers. Elsewhere, engineering company GKN rose strongly in response to positive US and Asian automotive production data and stabilising European markets. Electrical retailer Darty was also a notable outperformer due to better-than-expected half-year results. On the downside, Essar Energy reported higher losses than expected and outsourced services business Serco similarly lagged. The Fund's mining exposure also weighed on performance, with holdings in London Mining, Glenore Xstrata and Vedanta Resources all detracting from relative returns as metal and mineral prices in general declined in response to growth concerns surrounding China.

While global events clearly still have the potential to affect investor sentiment in the short term, the underlying improvement in domestic economic growth will support profitability and earnings longer term. Following the progress made in 2013, investors are likely to be increasingly selective as valuations are now at more reasonable levels. Consequently, a greater focus on those attractively valued businesses demonstrating sustainable earnings growth is likely. In addition, some areas of the market have been overlooked in the recent rally, with certain emerging market-related equities in particular offering strong upside potential when sentiment towards those regions improves. Meanwhile, selected consumer and economically sensitive stocks continue to demonstrate value. With such ample investment opportunity, we believe the environment will remain positive for equity investors as 2014 progresses."

Global Absolute Return Strategies (GARS)

"The Fund out-performed its index over the review period. The fund lost ground during the risk sell-off in May 2013 to finish marginally lower in the first three months. Our direct equity exposures detracted from performance, as did our credit and duration positions. In the three months to end of September, news that QE would continue for the time boosted most of our equity and credit market positions. However, continued QE and fears over the US budget crisis drove weakness in the US dollar, hurting our positions preferring the US dollar against other major currencies. The following three months saw solid performance from our long equity strategies. The prospect of tapering buoyed the majority of our long US dollar positions, which delivered robust returns. The exception was the US dollar versus euro strategy, as the euro continued to strengthen. Reflecting a greater focus by investors on economic fundamentals, our relative value equity strategies were mostly profitable and our credit and global listed real estate exposures also made positive contributions despite rising global interest rates. In the final three months, our global equity positions were mostly flat, apart from European equity which was buoyed by encouraging economic data. Our European versus US and Japanese duration strategy made a strong contribution, benefiting from both declining European sovereign yields and the growing expectation of rising US interest rates. Our credit and real estate positions were also supportive.

Our central expectation is still for a modest global recovery, albeit with regional variations. On-going tapering of quantitative easing and the gradual opening up of the Chinese economy will both be powerful forces shaping asset returns. Central bank actions continue to buffet markets and, on many metrics, asset prices appear expensive. We will navigate these waters by exploiting our broad base of investment opportunities and seeking a rationalisation of valuations to align with economic fundamentals."

NOMURA

Japanese Equities

"For the Japanese equity market the last 12 months was a story of two contrasting periods. For most of 2013 the market was in a bullish mood as investors drove the market higher on hopes for the success of 'Abenomics', propelled by the most tangible effect, the weakness in the yen, and the resulting uplift in corporate earnings prospects. However, as the first quarter of 2014 unfolded, investors grew increasingly cautious in the face of perceived growing geopolitical risks centring on the standoff between Russia and the Ukraine over Crimea and a succession of weak economic releases at home and from around the world.

The portfolio outperformed the benchmark over the period with both sector allocation and stock selection positive. 2013 proved to be a very fruitful year for the strategy as investors focused on corporate earnings reports and forecasts. However, the latter part of the first quarter of 2014 proved more challenging for the fund as the sell down inspired by 'big picture' concerns was more pronounced in those stocks which had performed particularly well in the latter part of 2013, seemingly regardless of their fundamentals.

Looking ahead, there are currently three main topics of immediate concern to investors in Japan. These are the future direction of personal consumption in the light of the recent consumption tax increase; the trend in corporate earnings, which is in turn linked to the level of the yen, and the details of the long awaited growth strategy of the government – the so called third 'arrow' of 'Abenomics'. Although the Japanese market clearly has some important issues to deal with in the near-term we believe that the longer-term investment outlook remains positive given attractive valuations and a solid corporate earnings outlook.

The Japan Strategic Value strategy aims to outperform over the long-term by investing in those companies which we believe have the right combination of business potential and attractive valuations. We look for companies that are in industries with good fundamentals and that are growing their market shares with improving profitability, possibly exploiting changing industrial structures. An important consideration is the quality of company management and we look for management teams that understand the risks and opportunities for their businesses and which put shareholder interests at the top of their agendas. "

ADMINISTRATION REPORT

1. The Pension Administration Team

This has been a busy and challenging year for The Pension Team with a number of aspects impacting on our core work.

1.1 In recognition of the challenges we were facing, a major restructuring exercise was carried out in the early part of last year. The outcome of this restructuring was an increase in the staffing level of the Pension Team from 20 to 24 which included a designated systems manager, a designated communications and training officer, a re-organisation of the work of the Benefits Team and a strengthening of the Support Team. The restructuring was implemented on 1st June 2013 and impacted on the majority of posts as all members of staff were given new job descriptions and working practices, and procedures were amended to reflect new ways of working and the increased use of electronic communication. I am pleased to report that both the existing staff, who saw changes in their roles and responsibilities, and the new staff have risen to the challenges they are facing.

1.2 The Pension Fund has invested in an electronic interface which facilitates the transfer of membership data from each of the employers' payroll systems to the pension administration system. This facility is continuing to be rolled out to the employers to assist them with meeting their Automatic Enrolment responsibilities as well as meeting the challenges of the complexities surrounding the 2014 Scheme and the desire to move away from paper forms. This facility has enabled information to be transferred to the pension administration system on a monthly basis which eliminates the year end submission and cleansing of data. We are actively encouraging all employers to sign up for this facility, which will provide benefits for both the Pension Fund and employers. This will also help in meeting the Central Government desire for increased frequency and quality of data reporting and comply with the Pension Regulator requirements in relation to the accuracy of data held by the Pension Fund.

1.3 The wider economic environment and in particular, budget reductions by employers who participate in the Scheme, continues to impact on the work of the Pension Section in relation to increased enquiries from employers with regard to potential redundancies, staff reduction exercises and the out-sourcing of services.

2. Administration Service and Current Developments

2.1 **Core Work**

The work undertaken by the pension section in relation to the main 'core service' statistics is illustrated on the following table. The table illustrates the work outstanding as at 1st April 2013, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2014. Work completed has risen by some 42.6% during the year (7,863 tasks completed in 2012/13).

	Work outstanding 1 April 2013	New	Total	Completed	Work in progress 31 March 2014
Retirements processed	353	1,817	2,170	1,699	471
Deferred processed	415	2,155	2,570	2,224	346
Retirement estimates	400	3,308	3,708	3,076	632
Deaths processed	187	581	768	621	147
Transfers in/out	714	1,376	2,090	1,032	1,058
New Starters	664	2,782	3,446	2,559	887
Total	**2,733**	**12,019**	**14,752**	**11,211**	**3,541**

The Pension Team has continued to review our working practices and procedures in light of changes to the Regulations and the increasing requirements of the job. Staff members have increasingly demonstrated their flexible attitude and approach, which has enabled the successful implementation of the restructuring exercise and for work to be reallocated within the section to manage workload priorities and developments effectively.

Virtually all employees of relevant employers (including temporary and casual workers) aged under 75 can now join the scheme, other than those covered by other statutory schemes (for example, teachers, police officers and fire-fighters). Membership is automatic for all employees other than those with a Contract of Employment of less than three months, who can elect to join, employees of admitted bodies and those who have opted out in the past.

2.2 **Other Activity**

In common with all of the LGPS funds, the GG(T)PF carried out an Actuarial Valuation of the Pension Fund as at 31st March 2013. The purpose of the Valuation is to assess the overall funding level of the Pension Fund required to ensure that there are sufficient assets in the Pension Fund to cover the pension benefits accrued in respect of all active, deferred, pensioner and dependent members of the Pension Fund and to set the Employer contribution rate for the three year period commencing on 1st April 2014.

In carrying out the Valuation the Actuary took into account the impact of the 2014 Scheme, which was introduced with effect from 1st April 2014. Whilst the 2014 Scheme is designed to provide savings in the long run, the impact of the transitional protections for existing members means that the savings will not in effect materialise for a number of years. In addition the change from a 60th accrual rate based on final salary to a 49th accrual rate based on actual salary means that the cost of providing benefits for older members is more expensive. For part time staff the change from an employee contribution rate based on a full time equivalent salary to an employee contribution rate based on the actual part time salary will result in part time staff paying lower contributions, which also has an impact on the cost to the employer.

2.3 **Other Activity**

In addition to our core service we have also undertaken additional work including: -

- Preparations for the 2014 Scheme including organising and delivering road-shows for scheme members and providing a newsletter on the new scheme changes.
- Facilitating training for employers, including the production of Newsletters and Bulletins, further development of the Pension Fund web site and carrying out a review of all letters documents and forms.
- Providing employers with guidance in relation to the interaction of Automatic Enrolment Regulations and the Local Government Pension Scheme.
- Providing employers with guidance in relation to the Restriction of Pension Tax Relief, including carrying out individual assessments for members who are at risk of incurring a tax charge.
- Participation in Club Vita to provide a bespoke analysis of the longevity of the members of the Greater Gwent (Torfaen) Pension Fund.
- Participation in the National Fraud Initiative (NFI) and utilising the services of a tracing agency.
- Continuing collaboration with the other seven Local Government Pension Funds within Wales to improve communication and administration systems.
- Participation in the All Wales Collaboration Project Working Groups looking at future efficiency of LGPS provision in Wales.
- Participation at a National level with regard to the reform of the Local Government Pension Scheme and the establishment of a new scheme with effect from 1st April 2014.
- Contributing to Government Consultation exercises in relation to the 2014 Scheme, the Call for Evidence and Governance.

2.4 **Current Challenges**

The main challenge facing the Pension Team relates to the 2014 Scheme. The delay in enacting the Transitional Regulations until 10th March 2014 and the delays in the provision of the Government Actuary Department guidance have had a major impact on our ability to provide estimates to employers and to members relating to the new early retirement options.

The 2014 Scheme Regulations provide more flexibility to members as to when they retire and draw their pension. Under the previous scheme a member could only elect to retire and draw their pension from age 60. Under the 2014 scheme they can leave their employment and elect to draw their pension from age 55. This will increase the number of estimate requests which we receive from members.

The vesting period to qualify for a pension has been increased from three months to two years. The effect of this change is that the number of refund calculations will increase whereas the number of deferred calculations will decrease. Under the transitional provisions a member who has more than 3 months and less than 2 years membership across the 2008 and the 2014 scheme will have the choice of either a deferred benefit or a refund, and both calculations will need to be provided during the next 2 years.

3. Future Challenges

3.1 The Pensions environment continues to change and the Pension Fund needs to be able to adapt to reflect these changes. The changes which will occur over the next few years will have an impact on the work of the Pensions Team.

3.2 The Public Service Pension Scheme Act 2013 will be implemented in full in April 2015. This Act covers all public service pension schemes including the LGPS.

3.3 The Pension Regulator will have a statutory role in respect of the LGPS. The Government has issued Draft record keeping Regulations and the Pension Regulator has issued a Draft Code of Practice which the Pension Fund will be required to comply with.

3.4 The removal of Contracting out will have an impact on the Pension Fund funding and employer costs as the rebate currently paid will cease.

3.5 The new Governance arrangements are likely to impose more prescriptive reporting requirements on the Pension Fund.

3.6 The Pension Fund will continue to develop its policies and procedures to meet these challenges and will continue to work with Scheme Employers to ensure compliance with the new requirements.

FUND POLICIES

1. Statement of Investment Principles

1.1 Background

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, publish and review from time to time a written Statement recording the investment policy of the Pension Fund; they also stipulate certain key issues that must be covered within the Statement.

1.2 Main Objectives

The Investment Policy of the Pension Fund is designed to:-

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.
- Manage employers' liabilities effectively.
- Ensure that sufficient resources are available to meet all liabilities as they fall due.
- Maximise the returns from investments within reasonable risk parameters.
- Ensure that all statutory payments made from the Pension Fund are at minimal cost to local tax payers.
- Achieve a funding level within the range of 95% to 105% liabilities.
- Aim for upper quartile investment returns over rolling 3 year periods.

1.3 Types of Investments

Investments are made in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Pensions Committee attempts to meet its objectives by securing, in the light of the economic climate, the most advantageous mixture of cash, fixed interest investments, equity, property and alternative investments. Assets may be invested in the UK and/or overseas.

1.4 Realisation of Investments

General principles for investment require the issues of liquidity and marketability be considered in making any investment decision. The vast majority of the Pension Fund's assets are readily marketable. Some investments however, such as property and some alternative investments, are less easy to realise in a timely manner but these constitute a small portion of the Fund and is not considered to have any adverse consequence.

1.5 Investment Management Arrangements

Investment managers have been appointed to manage virtually all assets of the Fund. There are seven external managers who manage the Fund's assets and who make day to day investment decisions. These are Aberdeen Asset Managers, BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management, Nomura Asset Management and Standard Life Investments. Management agreements are maintained with each of the investment managers which set out the benchmark asset allocation ranges, performance target and any restrictions placed on the manager. The investment managers' actions and performance are monitored each quarter including either face to face or video conference meetings. The managers' fee structure is based on a percentage of the market value of the managed assets, with performance elements also included for Fidelity. Though investments are predominantly externally managed, just over 3% of the Fund is currently managed internally.

Cash is managed via deposits with approved counterparties and the Fund's allocation to property is also managed internally utilising a number of property unit trusts. Additionally the Fund's internal portfolio includes two limited partnership investments, with M&G Investments, in their UK Companies Financing Funds, providing FTSE listed companies with an alternative to the banks in sourcing their financing requirements.

1.6 Risk

The Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising returns and to limit risk to acceptable levels. This is achieved through a variety of actions and is detailed more fully in the complete version of the SIP available on the Pension Fund's website via the link on Page 26 of this document.

1.7 Compliance

Organisations and individuals involved with the management of the Fund have a duty to ensure compliance with the Fund's Statement of Investment Principles. The Pensions Committee and Pension Fund Management Group will review the Statement with the advice of the investment advisor, actuary and the Assistant Chief Executive Resources and will record compliance at the appropriate meeting.

1.8 Feedback and Review

The Statement will be subject to regular review for any material change that could affect the policy, and appropriate consultation. Feedback is also welcomed on the Statement of Investment Principles as detailed within the document.

2. Socially Responsible Investing & Corporate Governance

2.1 Socially Responsible Investment

The Fund has considered how Social, Environmental and Ethical factors should be taken into account in the selection, retention and realisation of investments. This was initially considered under the Fund's previous governance arrangements by its Investment Panel when members considered that they should, in all circumstances, act in the best financial interests of the Beneficiaries. In view of the Investment Strategy adopted by the Fund, where this primary consideration is not prejudiced, Investment Managers are required to take account of Social, Environmental or Ethical factors to the extent that they consider it appropriate. Within its current governance arrangements the Fund's Pensions Committee has also reviewed the Fund's approach to Socially Responsible Investment and formed a separate Environmental Social and Corporate Governance (ESG) working group, to specifically consider the Fund's current approach to environmental, social and corporate governance matters within its investment decision making process. The group met throughout 2011/12 and reported back to Pensions Committee following completion of the initial phase of its work programme, reviewing the Fund's current approach and considering options for change. The Group's report to Committee was a positive one and welcomed by the Pensions Committee as they were generally impressed with the extent of engagement, monitoring and reporting carried out by the Fund's investment managers and content with the Fund's approach to promoting wider representation across LGPS Funds. The Group and the Committee also recognises within its report that ESG consideration is an area of significant focus for many Funds presently and that there are other areas of the Fund's approach where further consideration of options for change may be appropriate when the Group re-convenes during 2014 to continue with its review.

2.2 **Myners Compliance**

In accordance with LGPS Regulations, the Fund is required to state the extent to which it complies with the principles of investment practice issued by the Government in response to the recommendations of a review of institutional investment in the UK originally undertaken by Sir Paul Myners. The original review by Myners prompted the Government in 2001 to issue 10 principles of investment practice and earlier versions of the Fund's Statement of Investment Principles showed the extent of the Fund's compliance against these.

However, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 now require the Fund to state the extent of compliance with a newly revised set of 6 Myners principles covering pension fund investment; scheme governance; consultation and disclosure. The Fund fully supports and endorses both the original and revised Myners principles that have influenced various sections of the Fund's Statement.

As part of its on-going review of good practice and compliance with the principles, the Fund will be giving further consideration to these and related issues each year. A detailed position statement showing the extent of the Fund's compliance with the revised set of principles is contained within the full Statement of Investment Principles available via the link on Page 26 of this document.

3. Funding Strategy Statement

3.1 The requirement for Local Government Pension Funds to produce a Funding Strategy Statement was introduced by the Local Government Pension Scheme (Amendment) Regulations 2004. Under the regulations, the administering Authority must prepare, maintain and publish a written statement setting out their Funding Strategy. The Statement includes:-

- The purpose of the Funding Strategy Statement in policy terms.
- Aims and purpose of the Pension Fund.
- Responsibilities of the key parties.
- Solvency issues and target funding levels.
- Links to the investment policy set out in the Statement of Investment Principles.
- Identification of risks and counter measures.

Within these headings, the Statement sets out to establish a clear and transparent strategy, specific to the Fund, which will identify how employers' pension liabilities are best met going forward. The Strategy is geared to:-

- Ensure that sufficient resources are available to meet all liabilities as they fall due.
- Manage employers' liabilities effectively.
- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost, and
- Maximise the returns from investments within reasonable risk parameters.

Further details are contained in the Fund's full Funding Strategy Statement, which reflects the results of the Fund's most recent triennial actuarial valuation, and is available via the link on Page 26 of this document.

4. Communications Strategy

4.1 The Fund aims to provide excellent high quality services to all our service users in a timely and accurate manner. An effective approach to Communications therefore lies at the heart of this and is essential if we are to provide consistent standards of service to all.

- The Fund recognises the different needs of its stakeholders who we have identified as follows:-

  - Employers
  - Employees
  - Pensioners
  - Early leavers
  - Staff
  - External bodies
  - Non Fund members
  - (Quasi) Trustees

- The Fund aims to:-

  - Provide a well respected, quality driven, timely and accurate service
  - Treat all our customers with respect
  - Answer queries quickly and efficiently
  - Inform members of changes
  - Inform members of relevant developments
  - Provide sufficient information opportunities for members and potential members to make informed decisions

- The Strategy is designed to:-

  - Demystify 'Pensions' to Employers and Employees
  - Increase membership
  - Encourage the use of creative literature to engage interest
  - Promote regular communications to all Stakeholders
  - Educate & inform Employers
  - Encourage change in the attitude of Employers to service requirements
  - Result in a better quality of timely & relevant information, in times of rapid change
  - Introduce standard procedures across all the employers in the Fund
  - Develop IT Communication
  - Streamline & produce tighter control of the service
  - Set contingency plans to enable us to react to immediate changes
  - Promote a strong personal image
  - Promote Plain English documentation

4.2 The Fund aims to use the most appropriate communications medium for the service users requiring the information. This is set out in greater detail in our communications matrix and may include one or more of a range of mechanisms that currently include:-

- Telephone
- Written means
- Publications
- Meetings, Surgeries, Presentations (and one to one)
- Electronic means

5. Pension Fund Annual Report

5.1 The LGPS (Amendment) (No.3) Regulations 2007 introduced the formal requirement for an administering authority to publish a pension fund annual report; something we have always done. The regulations also prescribe their content in legislation. The purpose of the new provision is to provide external auditors with the means to undertake separate audits of LGPS pension funds. Advice from the Department for Communities and Local Government is that in meeting this policy objective, care has been taken to ensure that as far as possible, the way in which administering authorities already prepare and publish fund annual reports can continue as before. With this in mind, although regulation 76B (1) requires an administering authority to prepare a document including the items listed in regulation 76(B) (a) to (k), primarily for the use of external auditors, new regulation 76(B) (2) also refers to the reports being published which, in the context of the regulation as a whole, enable an authority to "signpost" the individual items in a simpler document, as an alternative to the hard copy report.

5.2 The Fund has therefore included in the annual report a summary of the following required key documents which are available in full via the hyperlinks on the Pension Funds web site shown below:-

- **2010 Actuarial Valuation**
  http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/ActuarialValuationReportasat31March2010.pdf

- **2013 Actuarial Valuation**
  http://www.greatergwentpensionsfund.co.uk/wp-content/uploads/2012/02/RpS_CA_Torfaen-AVR-FINAL.pdf

- **Governance Policy & Compliance Statement**
  http://www.greatergwentpensionsfund.co.uk/wp-content/uploads/2012/02/Governance-Policy-Compliance-Statement-2014-15.pdf

- **Funding Strategy Statement**
  http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/FundingStrategyStatement.pdf

- **Statement of Investment Principles**
  http://www.greatergwentpensionsfund.co.uk/wp-content/uploads/2012/02/Statement-of-Investment-Principles-2014-15.pdf

- **Communications Strategy Statement**
  http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/CommunicationsStrategy2005-2006.pdf

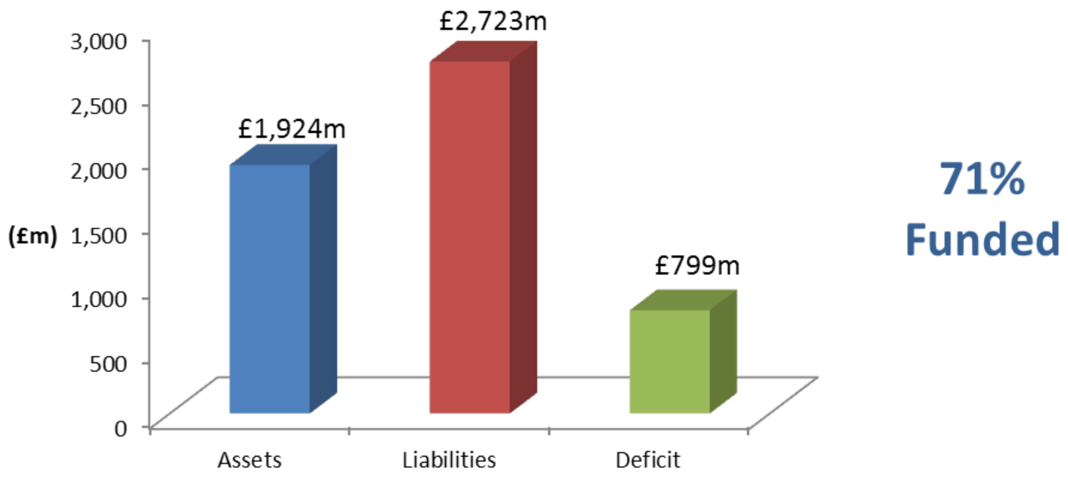
MERCER

GREATER GWENT (TORFAEN) PENSION FUND

Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Greater Gwent (Torfaen) Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017. On the basis of the assumptions adopted, the Fund's assets of £1,924 million represented 71% of the Fund's past service liabilities of £2,723 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £799 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014. After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 76% with a resulting deficit of £625 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £29 million per annum increasing at 4.1% per annum (equivalent to approximately 7.8% of projected Pensionable Pay at the valuation date) for 25 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.8% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of that valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes. To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £3,085 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£211 million. Adding interest over the year increases the liabilities by a further c£130 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£22 million. Finally, allowing for actual vs. expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£55 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £2,971 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2014

Audit report of the Appointed Auditor to the Members of the Administering Authority of Greater Gwent (Torfaen) Local Government Pension Fund

I have examined the pension fund accounts and related notes contained in the 2013/14 Annual Report of Greater Gwent (Torfaen) Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Torfaen County Borough Council for the year ended 31 March 2014 which were authorised for issue on 23 September 2014. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Independent Auditor

The Administering Authority, Torfaen County Borough Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on the consistency of the pension fund accounts and related notes contained in the Annual Report with the pension fund accounts and related notes included in the Statement of Accounts of the Administering Authority. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts. This other information comprises the administration of the fund report, management and investment report, fund manager investment report and the statement by the consulting actuary.

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

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Greater Gwent (Torfaen) Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Torfaen County Borough Council for the year ended 31 March 2014 which were authorised for issue on 23 September 2014 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the Authority's Statement of Accounts, 24 September 2014, and the date of this statement.

Anthony Barrett
Appointed Auditor

Date: 24 September 2014

Address: **Wales Audit Office**
24 Cathedral Road
Cardiff CF11 9LJ

Electronic publication of financial statements

The maintenance and integrity of the Torfaen County Borough Council website is the responsibility of the Council. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Pension Fund Annual Report since it was initially presented on the web site.

Pension Fund Accounts

Fund Account for the Year Ended 31 March 2014

	Note	2012/2013 £000	2013/2014 £000
Contributions and benefits			
Contributions receivable	6	(101,028)	(109,666)
Transfers in	7	(4,942)	(7,946)
Other income	8	-	(7)
		(105,970)	(117,619)
Benefits payable	9	88,856	95,175
Payments to and on account of leavers	10	6,308	3,185
Other payments	11	3	3
Administrative expenses	12	1,582	2,027
		96,749	100,390
Net additions from dealing with members		**(9,221)**	**(17,229)**
Returns on investments			
Investment income	13	(20,659)	(26,088)
Profit and losses on disposal of investments and changes in value of investments	15(a)	(232,813)	(119,363)
Investment management expenses	14	5,057	5,593
Net returns on investments		**(248,415)**	**(139,858)**
Net increase in the net assets available for benefits during the year		**(257,636)**	**(157,087)**
Net assets of the Scheme			
At 1st April		1,666,164	1,923,800
Net increase in the net assets available for benefits during the year		257,636	157,087
Closing net assets of the Scheme at 31st March		**1,923,800**	**2,080,887**

Net Assets Statement for the Year Ended 31 March 2014

	Note	As at 31 March 2013 Bid Price basis £000	As at 31 March 2014 Bid Price basis £000
Investment assets	15	1,914,795	2,261,320
Investment liabilities	15	(7)	(198,837)
Current assets	20	14,867	22,305
Current liabilities	21	(5,855)	(3,901)
Net assets of the Scheme available to fund benefits at 31st March		**1,923,800**	**2,080,887**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the financial year.

NOTES TO THE ACCOUNTS

1. Description of Fund

The Greater Gwent (Torfaen) Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Torfaen County Borough Council.

The following description of the Fund is designed to be a summary only. For more detail, reference should be made to the 'signposting' to the Fund statutory documentation on page 26.

1.1 General

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

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

The Fund is an occupational, contributory, defined benefit pension scheme for pensionable employees of local authorities in Greater Gwent, except for teachers who have a separate scheme. Employees of a range of other organisations providing public services in Greater Gwent are also allowed to join the fund as scheduled or admitted bodies. The scheme is financed by contributions paid by the employees, their employers and earnings from the investment of the Fund's money. The type of investment is decided by legislation and not by the local authorities.

As administering authority, Torfaen County Borough Council is responsible for interpreting all pension laws, keeping accurate records, calculating and paying benefits, and providing information to employees, employers and other relevant bodies. Torfaen County Borough Council has established within its Constitution a Pensions Committee to discharge its duties as administering authority of the Fund. The Council has also established a Pension Fund Management Group to provide wider stakeholder representation and communication in matters relating to the Fund.

1.2 Membership

Membership of the scheme is voluntary with employees free to choose whether to join the scheme, remain in the scheme or make their own personal pension arrangements outside of the scheme.

There are 54 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table in appendix 3 (page 63) provides some further details in terms of membership.

1.3 Benefits

Pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as at 31 March 2014 but from 1 April 2014 pensions will be worked out in a different way as the scheme becomes a career average scheme. This summary of benefits table incorporates the changes to the LGPS from 1 April 2014 as referred to in the Administration Report on page 19.

	Service pre 1 April 2008	Service from 1 April 2008 to 31 March 2014	Service post 31 March 2014 (LGPS 2014)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year, the member will build up a pension at a rate of 1/49 of the amount of pensionable pay they received in that scheme year.
Lump Sum	Automatic lump sum of 3 x annual pension. In addition, part of the annual pension can be exchanged for a one off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

1.4 **Funding**

Benefits are funded by contributions and the earnings on the Fund's investments.

Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ended 31 March 2014. Contributions are additionally made by Fund employers which are set by the Fund's triennial actuarial valuations. The valuation that affects these accounts was at 31 March 2010 and during the year ended 31 March 2014 employer contribution rates ranged from 0% to 55.4% of pensionable pay. The latest valuation as at 31 March 2013 will affect the 2014/15 accounts.

In terms of funding via investment earnings then the Fund's assets are invested in accordance with its investment strategy, which is set out within the Fund's Funding Strategy Statement. Investment management policy, principles and arrangements are detailed within its Statement of Investment Principles.

2. Basis of Preparation

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

2.2 The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 19, page 56.

2.3 The accounts have been prepared in accordance with IAS26 (Accounting and Reporting by Retirement Benefit Plans) except where interpretations or adaptations to fit the public sector are detailed in the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14'.

3. Summary of Significant Accounting Policies

3.1 **Fund Account – Revenue Recognition**

The Fund Account is prepared on an 'accruals basis' unless otherwise stated below. That is, it takes account of payments that are committed but have not yet been made or received.

i) Contribution Income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary.

Early retirement strain costs due from employers are accounted for in the period in which the liability arises, with any amount due in year but unpaid classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

ii) Transfers To and From Other Schemes

Transfer values are accounted for on a cash basis due to the liabilities not transferring until payments are actually made or received.

Group transfers are accounted for on an accruals basis in accordance with the terms of the agreement.

iii) Investment Income

- Income from cash deposits is accounted for on an accruals basis.
- Income from equities is accounted for on the date stocks are quoted ex-dividend.
- Income on pooled investments is accumulated and reflected in the valuation of units. The exceptions to this are the Prudential/M&G UK Companies Financing Funds (Funds I and II), which are in the form of Limited Liability Partnerships and do make income distributions. We also receive income distributions from the Property pooled funds.
- Any accrued dividend entitlements and tax reclaims receivable as at 31 March are included in 'other investment balances' and disclosed in the investment assets.
- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

3.2 **Fund Account – Expense Items**

i) Benefits Payable

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the financial year.

Pensions and lump-sum benefits payable include all amounts due as at 31 March in any year. The Fund does not normally account for, or disclose the effects on, benefits payable of any former employee decisions that occur post April 30 in any year, unless the total value is material.

The Fund's financial statements do not include CAY (Compensated Added Years) and the related pension increases as the pension fund acts as an agent for the employing authority when making these payments.

ii) Administrative Expenses

This includes two types of expenses:-

- Administration and processing

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration section are re-charged to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with council policy.

- Actuarial & investment fees and performance service

The cost of obtaining actuarial advice, audit fees (internal and external) and global custodian fees are included here. We also pay fees for performance measurement and for external Consultants.

iii) Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external managers are agreed in the respective mandates governing their appointments. The managers' fee structure is based on a percentage of the market value of the managed assets. The fees therefore increase or reduce as the value of these investments change. The exception to this arrangement is Fidelity Worldwide Investment whose fees will be calculated on a performance related basis. As this manager was only appointed in late March 2014 (with performance records starting from 1st April 2014) no fees were due to this manager at year end.

iv) Taxation

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Since July 1997 the Fund has been unable to reclaim tax credits on UK dividend income but can reclaim the tax deducted from UK property unit trusts. Investment income in the accounts is, however, shown gross of UK tax with a corresponding amount for irrecoverable UK tax in accordance with FRS16 Current Tax. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit. Although the Fund does not have a mandate for segregated overseas investments, some holdings in UK equities are FTSE All Share stocks registered overseas and are therefore eligible for reclaims.

The Fund operates in the VAT registration for Torfaen County Borough Council and the accounts are shown exclusive of VAT. We can recover VAT input tax on all Fund activities.

3.3 **Net Assets Statement**

i) Financial Instruments

The Fund is required to recognise a financial asset or a financial liability in its Net Assets Statement when, and only when, the Fund becomes a party to the contractual provisions of the instrument. The assets and liabilities held by the Greater Gwent Torfaen Pension Fund are classified as designated at fair value through profit and loss, loans and receivables and financial liabilities at amortised cost.

- Financial instruments at fair value through profit or loss

A Financial asset or liability at fair value through profit or loss is a financial asset or liability that is either classified as held for trading, or upon initial recognition it is designated by the Fund as at fair value through profit or loss. The Fund's financial instruments at fair value through profit or loss comprise of investment assets and investment liabilities (excluding cash deposits).

- Loans and receivables

  Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

  The Fund's loans and receivables comprise of current assets and cash deposits.

- Financial liabilities at amortised cost

  Financial liabilities at amortised cost are the default category for financial instruments that do not meet the definition of financial liabilities at fair value through profit and loss.

  The Fund's financial liabilities at amortised cost are the current liabilities.

ii) Valuation of Investment Assets

The fair values of investments included in the Net Assets Statement as at 31 March 2014 have been determined as follows:-

- Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the bid price at the close of business on 31 March 2014. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market. Unquoted investments are valued by the fund manager at year end in accordance with generally accepted guidelines.

- Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing on 31 March 2014.

- Pooled investment vehicles are valued at the closing price under single pricing system, or bid price under dual pricing system. Where securities do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment vehicle.

- Pooled property investments are in unit trusts and are valued by the fund managers.

- BlackRock can use Exchange Traded Futures (ETF) in the management of their segregated UK equity portfolio for the purpose of efficient portfolio management. There are currently no futures used in the portfolio.

- In 2013/14 cash was held partly by fund managers and partly by the administering authority. The administering authority has the option of investing fixed term in specified investments or alternatively in instant access money market fund accounts, in accordance with the Fund's Cash Management Strategy which is reviewed and approved annually by the Pensions Committee. (The lending party is the Pension Fund rather than Torfaen County Borough Council as administering authority).

iii) Investment Liabilities

Any creditors in respect of investment transactions and other liabilities directly connected with investment transactions are shown separately within the Net Assets Statement as an investment liability, rather than reducing the cash at fund manager figure within the investment assets.

3.4 **Actuarial Present Value of Promised Retirement Benefits**

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 19, page 56).

3.5 Additional Voluntary Contributions

The Greater Gwent (Torfaen) Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. There are no employers' contributions to an AVC. Members of the pension fund can chose to have their AVCs paid to various funds administered by Standard Life or Clerical Medical. Some AVC contributions from prior years are also held with Equitable Life. The purpose of AVCs is to provide additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year. AVCs are not included in the accounts in accordance with section 4(2)b of the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 22, page 58).

4. Critical Judgement in Applying Accounting Policies

4.1 Pension Fund Liability

The triennial formal valuation of the Fund per the LGPS Regulations 1997 (as amended) differs from the IAS19 annual valuations of the promised retirement benefits at the Balance Sheet date. The Pension Fund Valuation is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 18, page 55. This estimate is subject to significant variances based on changes to the underlying assumptions. The Code requires disclosure of the actuarial value of promised retirement benefits for the whole Fund at Balance Sheet date. See paragraph 3.4 above and note 19, page 56. Since this depends upon a number of complex judgements, an actuary advises on the assumptions employed and carries out the calculation. The assumptions employed for IAS19 accounting purposes can differ from those employed for the triennial valuation of the Fund and could affect the value calculated.

5. Events after the Balance Sheet Date

The accounting statements are required to reflect the conditions applying at the end of the financial year, however, the pension fund investment assets will move in line with the value of securities quoted on world stock exchanges which could increase or decrease. As the pension fund time horizon is long term and the true value of investments is only realised when investments are sold, no adjustments are made for any changes in the fair value of investments between 31 March 2014 and the date that the accounting statements are authorised for issue. This is known as a non-adjusting post balance sheet event.

During 2012/13 Welsh Government plans led to an announcement that there would be a merger between University Wales Newport (UWN) and Glamorgan University. This took place on 11th April 2013 with the creation of the University of South Wales. The transfer date for the employees was 1st July 2013. On the 6th February 2014, the Department for Communities and Local Government sent confirmation of the Direction decision that all the assets and liabilities for active, deferred and pensioner members formally employed by the University Wales Newport be transferred out of the pension fund to the University of South Wales section in the Rhondda Cynon Taff (RCT) Pension Fund with effect from the 1st April 2014. This means that after the balance sheet date the fund will be liable to transfer assets to the RCT fund with the final transfer to be determined by agreement between the Actuaries to each Fund. The likely value is of the order of £40 million.

6. Contributions Receivable

The assessed rate for the Fund as a whole for 2013/14 was 11.1% of pensionable pay with individual adjustments applicable to individual Authorities (as shown on Appendix 2 on page 62).

The 'rates paid' percentages reflect the fact that during the year some employers have paid additional contributions over and above the rate set for them by the Actuary (as shown on Appendix 3 on page 63). The Deficit Funding contains employers' contributions paid over the 11.1%.

2012/13 £000		2013/14 £000
	From Employers	
(41,510)	Normal contributions	(42,247)
(32,996)	Deficit funding	(39,917)
(2,600)	Augmentation	(3,262)
	From Members	
(23,905)	Normal contributions	(24,229)
(17)	Additional Contributions	(11)
(101,028)	**Total**	**(109,666)**

2012/13 £000		2013/14 £000
(92,480)	Scheduled Bodies	(94,538)
(237)	Deemed Bodies	(198)
(8,311)	Admitted Bodies	(14,930)
(101,028)	**Total**	**(109,666)**

7. Transfers in from Other Pension Funds

2012/13 £000		2013/14 £000
(4,942)	Individual transfers in from other schemes	(7,946)
(4,942)		**(7,946)**

8. Other Income

2012/13 £000		2013/14 £000
-	LGPS 2014 Employer workshops	(7)
-		**(7)**

9. Benefits Payable

2012/13 £000		2013/14 £000
49,118	Pensions - statutory	51,788
19,868	Pension increases	20,762
16,925	Commutation of pensions and lump sum retirement benefits	19,047
2,272	Lump sum death benefits	2,515
673	Additional allowances	1,063
88,856		**95,175**

2012/13 £000		2013/14 £000
83,211	Scheduled Bodies	89,535
1,302	Deemed Bodies	1,400
4,343	Admitted Bodies	4,240
88,856		**95,175**

Analysis of Benefits Payable and Contributions Receivable by Employing Body in 2013/2014

Authorities		Benefits Payable £000	Contributions Receivable £000
Administering Authority	Torfaen CBC	13,031	(14,629)
Scheduled Bodies	Blaenau Gwent CBC	13,822	(14,228)
	Caerphilly CBC	18,772	(27,340)
	Monmouthshire CC	9,352	(11,805)
	Newport City Council	15,439	(16,539)
	Caldicot & Wentloog LDB	53	(80)
	Valuation Panel	30	(40)
	University of Wales, Newport	1,836	(2,175)
	Coleg Gwent	1,192	(2,431)
	Chepstow Town Council	6	(16)
	Brynmawr Town Council	-	(8)
	Gwent Police Authority	2,059	(5,010)
	Central Supplies	160	-
	Silent Valley Waste Disposal	131	(26)
	Caldicot Town Council	-	(11)
	Nantyglo & Blaina Town Council	7	(5)
	Monmouth Town Council	1	(6)
	Gwent Cremation Committee	47	(37)
	Cwmbran Community Council	12	(38)
	Pontypool Community Council	10	(29)
	Tredegar Town Council	-	(8)
	Rogerstone Community Council	2	(17)
	Bargoed Town Council	11	(3)
	Portskewett Community Council	-	(2)
	Shirenewton Community Council	-	(1)
	Henllys Community Council	-	(2)
	Magor with Undy Community Council	-	(4)
	Former Rhymney Valley DC	1	-
	Welsh Water and Hartshead	5	-
Previously Scheduled Bodies	Gwent County Council	12,117	-
	Commission for New Towns	1,029	-
	DHSS	16	-
	Gwent Magistrates Courts	394	-
Deemed Bodies	Islwyn Transport	190	-
	Newport Transport	1,210	(198)

Authorities		Benefits Payable £000	Contributions Receivable £000
Admitted Bodies	Big Pit (Blaenafon) Trust	33	-
	Melin Homes (formerly EVHA)	4	(287)
	Careers Wales Gwent	458	(590)
	Citizen Advice Bureau Caerphilly	1	(47)
	Mitie (formerly Ballast)	7	(6)
	CWVYS	19	(3)
	Capita Gwent Consultancy	1,036	(7,900)
	Hafod Care	162	(56)
	Monitor	3	-
	Archives	33	(45)
	OCS Ex Monmouth CC & Ex UWN	33	(21)
	United Response	16	-
	Monmouthshire HA	358	(662)
	Bron Afon	557	(1,914)
	Newport City Homes	862	(1,042)
	Tai Calon	463	(1,146)
	Manpower UK Ltd	3	15
	DRIVE	4	(14)
	Regent Ex Monmouth CC, Ex Newport CC & Ex Monmouth Cluster	8	(26)
	Vinci	1	(3)
	Compass Catering	133	(205)
	National Trust	-	(28)
	Barnardo's	13	(17)
	Education Achievement Service	-	(725)
	Caterlink	10	-
	Churchill	-	(14)
	Monwell Ltd	-	(46)
	Torfaen Leisure Trust	23	(193)
	Borough Theatre	-	(3)
Total		**95,175**	**(109,666)**

10. Payments to and on Account of Leavers

2012/13 £000		2013/14 £000
5	Contributions returned to employees	7
-	Payments in lieu of graduated pension contributions	1
4,303	Individual transfers out to other schemes	3,177
*2,000	Group transfers out to other schemes	-
6,308		**3,185**

*2012/13 figure includes an accrual of £2.0m in respect of the Probation group transfer

11. Other Payments

2012/13 £000		2013/14 £000
3	Printing costs and review of Welsh LGPS	3
3		**3**

12. Administrative Expenses

2012/13 £000		2013/14 £000
1,322	Administration and processing	1,697
260	Actuarial & investment fees and performance service	330
1,582		**2,027**

13. Investment Income

2012/13 £000		2013/14 £000
(20,633)	Equity dividends	(25,666)
(432)	Pooled investments (M&G)	(453)
(1,351)	Pooled property investments	(1,649)
(150)	Interest on cash deposits	(54)
1,907	UK tax, irrecoverable	1,734
(20,659)		**(26,088)**

14. Investment Expenses

2012/13 £000		2013/14 £000
5,057	Fund management fees	5,593
5,057		**5,593**

15. Investments

Value at 31.03.13 bid price £000		Value at 31.03.14 bid price £000
	Investment assets	
607,181	Equities	650,995
1,252,450	Pooled investments	1,340,316
40,400	Pooled property investments	53,802
10,760	Cash deposits	11,500
3,770	Investment income due	3,869
234	Amounts receivable for sales	200,838
1,914,795	**Total investment assets**	**2,261,320**
	Investment liabilities	
(7)	Amounts payable for purchases	(198,837)
(7)	**Total investment liabilities**	**(198,837)**
1,914,788	**Net investment assets**	**2,062,483**

a) Reconciliation of movements in investments

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £1.086 million (£0.987 million in 2012/13). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Debtors and creditors arising as a result of investment management are included within 'other Investment balances'.

Major asset class	Market Value 1 April 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2014 £000
Equities	**607,181**	184,266	(176,758)	36,306	**650,995**
Pooled investments	**1,252,450**	296,961	(286,076)	76,981	**1,340,316**
Pooled property investments	**40,400**	9,006	-	4,396	**53,802**
	1,900,031	490,233	(462,834)	117,683	**2,045,113**
Other investment balances:					
• Cash deposits	**10,760**			1,680	**11,500**
• Investment income due	**3,770**				**3,869**
• Amounts receivable for sales of investments	**234**				**200,838**
• Amounts payable for purchases of investments	**(7)**				**(198,837)**
Net investment assets	**1,914,788**			**119,363**	**2,062,483**

Major asset class	Market Value 1 April 2012 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2013 £000
Equities	**514,552**	164,607	(142,340)	70,362	**607,181**
Pooled investments	**1,089,807**	3,069	(1,217)	160,791	**1,252,450**
Pooled property investments	**35,626**	5,000	-	(226)	**40,400**
	1,639,985	172,676	(143,557)	230,927	**1,900,031**
Other investment balances:					
• Cash deposits	**29,791**			1,886	**10,760**
• Investment income due	**3,858**				**3,770**
• Amounts receivable for sales of investments	**-**				**234**
• Amounts payable for purchases of investments	**(122)**				**(7)**
Net investment assets	**1,673,512**			**232,813**	**1,914,788**

b) Analysis of investments

Major Asset Class	31 March 2013 £000 Bid Price		%	31 March 2014 £000 Bid Price		%
Equities						
UK						
Quoted	607,181	**607,181**	**31.7**	650,995	**650,995**	**31.6**
Unquoted Pooled funds – additional analysis						
UK						
Unit Trusts						
Gilt Fund	110,113			129,222		
Corporate Bond Fund	51,172	**161,285**	**8.5**	72,299	**201,521**	**9.8**
Unitised Insurance Policies						
UK Equities Smaller Companies Fund	3,233			3,944		
UK Equities Fund	86,840	**90,073**	**4.7**	103,771	**107,715**	**5.2**
Other Managed Funds						
M&G Limited Partnership	9,728	**9,728**	**0.5**	10,862	**10,862**	**0.5**
Overseas						
Unit Trusts						
Gilt Fund	44,176			22,153		
Corporate Bond Fund	99,981	**144,157**	**7.5**	82,180	**104,333**	**5.0**
Unitised Insurance Policies						
European Equities Fund	234,550			287,436		
US Equities Fund	155,510			173,138		
Global Equities Fund	183,654			185,982		
GARS Fund	56,428	**630,142**	**32.9**	58,726	**705,282**	**34.2**
Other Managed Funds						
Far East Equities Fund	109,367			101,064		
Emerging Markets Equities Fund	47,846			50,207		
Japanese Equities Fund	59,852	**217,065**	**11.3**	59,332	**210,603**	**10.2**
Unquoted Pooled Property Investments						
UK Property Unit Trusts	40,400	**40,400**	**2.1**	53,802	**53,802**	**2.6**
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	2,296			4,361		
Cash on deposit with financial institutions	8,464	**10,760**	**0.6**	7,139	**11,500**	**0.6**
Other Investment Balances and Liabilities						
Other investment balances	4,004	**4,004**	**0.2**	204,707	**204,707**	**9.9**
Investment liabilities*	(7)	**(7)**	**(0.0)**	(198,837)	**(198,837)**	**(9.6)**
Net Investment Assets	**1,914,788**	**1,914,788**	**100**	**2,062,483**	**2,062,483**	**100**

*Investment liabilities now included in table as material in 2013/14 due to intra day pending trade

c) Investments analysed by fund manager

Fund Manager	Proportion of Fund (%)	Value of Funds Held (£000)	Portfolios Held (actively managed unless otherwise stated)
BlackRock	12.1	248,875	UK Equities (Indexed)
	0.2	3,944	UK Equities Smaller Companies Fund (Indexed)
	8.4	173,138	US Equities Fund (Indexed)
	7.3	151,375	Gilt Fund
	7.5	154,479	Corporate Bond Fund
	13.9	287,436	European Equities Fund
	0.0	623	Cash
	4.9	100,183	Other Investment Balances
	(4.8)	(98,807)	Investment Liabilities (intra day pending trade)
	(0.0)	(30)	Other Investment Liabilities
Net Assets held by BlackRock	**49.5**	**1,021,216**	
Lazard Asset Management	19.5	402,120	UK Equities
	0.2	3,738	Cash
	0.1	1,809	Other Investment Balances
Net Assets held by LAM	**19.8**	**407,667**	
Aberdeen Asset Managers	9.0	185,982	Global Equities Fund
Net Assets held by Aberdeen	**9.0**	**185,982**	
Standard Life Investments	5.0	103,771	UK Equities Fund
	2.9	58,726	GARS Fund
Net Assets held by SLI	**7.9**	**162,497**	
Invesco Perpetual	4.9	101,064	Far East Equities Fund
	4.8	100,000	Other Investment Balances
	(4.8)	(100,000)	Investment Liabilities (intra day pending trade)
Net Assets held by Invesco	**4.9**	**101,064**	
Nomura Asset Management	2.9	59,332	Japanese Equities Fund
Net Assets held by Nomura	**2.9**	**59,332**	
Fidelity Worldwide Investment	2.4	50,207	Emerging Markets Equities Fund
Net Assets held by Fidelity	**2.4**	**50,207**	
Net Assets held by Fund Managers	**96.4**	**1,987,965**	
Torfaen County Borough Council	2.6	53,802	UK Property Unit Trusts
	0.4	7,139	Cash on deposit with financial institutions
	0.5	10,862	M&G Limited Partnership
	0.1	2,715	Other Investment Balances
Net Assets held via Administering Authority	**3.6**	**74,518**	
Net Investment Assets	**100**	**2,062,483**	

d) Employer Related Investments

There have been no employer related investments at any time during the year.

e) Investments held in Pooled Investment Vehicles

The pooled investment vehicles we invest in are all operated by companies that are registered in the UK.

Company	Country of Registration
Aberdeen Asset Management	UK
BlackRock	UK
Fidelity Worldwide Investment	England & Wales
Invesco Perpetual	England & Wales
Nomura Asset Management	Ireland
Standard Life Investments	UK

16. Financial Instruments

a) Classification of financial instruments

Accounting policies (note 3, page 34) describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities by category as at 31 March 2014. The assets and liabilities held by the Fund are classified as designated at fair value through profit and loss, loans and receivables and financial liabilities at amortised cost.

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2013				31 March 2014		
£000	£000	£000		£000	£000	£000
			Financial Assets			
607,181			Equities	650,995		
1,252,450			Pooled investments	1,340,316		
40,400			Pooled property investments	53,802		
	10,760		Cash		11,500	
4,004			Other investment balances	204,707		
	14,867		Debtors		22,305	
1,904,035	**25,627**	**-**		**2,249,820**	**33,805**	**-**
			Financial liabilities			
(7)			Other investment balances	(198,837)		
		(5,855)	Creditors			(3,901)
(7)	**-**	**(5,855)**		**(198,837)**	**-**	**(3,901)**
1,904,028	**25,627**	**(5,855)**	**Total**	**2,050,983**	**33,805**	**(3,901)**

b) Net gains and losses on financial instruments

31 March 2013		31 March 2014
£000		£000
	Financial assets	
230,927	Fair value through profit and loss	117,683
1,886	Loans and receivables	1,680
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
-	Fair value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
232,813	**Total**	**119,363**

c) Fair value of financial instruments and liabilities

The following table summarises the carrying values (also known as book values) of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2013 Carrying value £000	31 March 2013 Fair value £000		31 March 2014 Carrying value £000	31 March 2014 Fair value £000
		Financial assets		
1,291,864	1,904,035	Fair value through profit and loss	1,636,549	2,249,820
25,627	25,627	Loans and receivables	33,805	33,805
1,317,491	**1,929,662**	**Total financial assets**	**1,670,354**	**2,283,625**
		Financial liabilities		
(7)	(7)	Fair value through profit and loss	(198,837)	(198,837)
(5,855)	(5,855)	Financial liabilities measured at amortised cost	(3,901)	(3,901)
(5,862)	**(5,862)**	**Total financial liabilities**	**(202,738)**	**(202,738)**

The Council has not entered into any financial guarantees that are required to be accounted for as financial instruments.

d) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. In determining the appropriate level for the Fund's investments, reference has been made to the Pensions Research Accountants Group (PRAG) 2010 publication "Guidance on Investment Valuations".

Level 1

Financial instruments at Level 1 are the most straightforward to value as a liquid market exists for these securities. Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Within the PRAG guidance active markets are defined as "markets in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis". Products classified as level 1 comprise quoted equities and quoted fixed and interest linked securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are moderately difficult to price as, although market parameters are visible, they are limited and quoted market prices are not available. Level 2 is deemed the most appropriate classification, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. A large proportion of the Fund's assets are in the form of pooled funds. The PRAG publication includes the most recent and applicable guidance in terms of the classification of pooled funds in the hierarchy stating that "if the investment is redeemable at the Net Asset Value at the measurement date the fair value measurement should be classified as level 2".

Level 3

Financial instruments at Level 3 are those deemed most difficult to value where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include private/unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Within the Fund's investments there are only two (relatively minor) investments that would seem to fit into this category. The investments in the Prudential/M&G UK Companies Financing Funds (Funds I and II) are in the form of Limited Liability Partnerships, a structure very similar to that employed by the vast majority of Private Equity Investments. The value of the investment is based on the net asset value provided by the fund manager i.e. using information not available in the market. The PRAG guidance notes in terms of such investments state "as such the valuations are opaque to the investor and not based on observable inputs and are therefore typically categorised as level 3". With the exception of the above M&G investments, all of the Fund's investments therefore fall within the easy or moderately difficult to price levels 1 and 2. The following table presents the changes in level 3 financial instruments:

	31 March 2013 £000	31 March 2014 £000
Opening balance	**8,317**	**9,728**
Contributions	1,426	2,151
Equalisation (repayment of contributions)	-	(48)
Net income and expenses	426	464
Return on investment	(432)	(453)
Interest on investment	-	(20)
Return of capital	-	(974)
Net change in unrealised appreciation/(depreciation)	(9)	14
Closing balance	**9,728**	**10,862**

The following tables provide a detailed analysis of all the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2014	Quoted Market Price **Level 1** £000	Using observable inputs **Level 2** £000	With significant unobservable inputs **Level 3** £000	**Total** £000
Financial assets				
Financial assets at fair value through profit and loss	855,702	1,383,256	10,862	2,249,820
Loans and receivables	33,805			33,805
Total financial assets	**889,507**	**1,383,256**	**10,862**	**2,283,625**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(198,837)			(198,837)
Financial liabilities at amortised cost	(3,901)			(3,901)
Total financial liabilities	**(202,738)**			**(202,738)**
Net financial assets	**686,769**	**1,383,256**	**10,862**	**2,080,887**

Values at 31 March 2013	Quoted Market Price **Level 1** £000	Using observable inputs **Level 2** £000	With significant unobservable inputs **Level 3** £000	**Total** £000
Financial assets				
Financial assets at fair value through profit and loss	611,185	1,283,122	9,728	1,904,035
Loans and receivables	25,627			25,627
Total financial assets	**636,812**	**1,283,122**	**9,728**	**1,929,662**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(7)			(7)
Financial liabilities at amortised cost	(5,855)			(5,855)
Total financial liabilities	**(5,862)**	**-**	**-**	**(5,862)**
Net financial assets	**630,950**	**1,283,122**	**9,728**	**1,923,800**

17. Nature and Extent of Risks Arising from Financial Instruments

The Fund's primary long term risk is that its assets will fall short of its liabilities (i.e. its promised benefits payable to members). Investment risk management across the Fund is therefore aimed to minimise the risk of an overall reduction in the value of the Fund whilst maximising the opportunity for gains across the whole portfolio.

Though within its investment strategy the Fund maintains positions in a variety of financial instruments, it aims to manage this primary overall risk by:-

a) asset diversification to reduce exposure to market risk (asset price risk, interest rate risk and currency risk);
b) managing its credit risk via appropriate selection, diversification and monitoring of its counterparties, and
c) managing its liquidity risk by ensuring there are sufficient liquid funds to meet member benefit commitments as they fall due.

The following provides some further detail in terms of the Pension Fund's general approach to managing risk; more detailed consideration of the above three types of risk and some indication of the potential sensitivity of the Fund's assets to these risks.

Overall procedures for managing risk

The principle powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which require an Administering Authority to invest any pension fund money that is not immediately required to pay benefits or make other necessary payments from the Pension Fund. The unpredictability of financial markets (which has been particularly demonstrated over recent years) means that all forms of investment carry a degree of risk. The Fund therefore needs to be risk aware within its investment strategy, implementation and monitoring to ensure it meets one of its primary objectives - to maximise the returns from its investments within reasonable risk parameters.

The Pension Fund prepares statutory documents detailing its investment strategy and how it implements and monitors this. The Fund's Statement of Investment Principles (SIP) specifically sets out the Fund's policy on the type of investments to be held; investment restrictions and limits; the balance and diversification between these and the detail of the Fund's investment management arrangements in implementing its strategy. The SIP also includes a specific section on how the Fund measures and manages its investment risk. The following extract from the SIP summarises how the Fund seeks to reduce risk to a minimum where it is possible to do so without compromising returns:

- By diversifying the portfolio across different asset classes, regions, characteristics and investment managers.
- By selecting appropriate investment benchmarks and variance parameters to control the risk.
- By the appointment of a number of regulated external investment managers with the scope of investments and the control and risk issues addressed in accordance with LGPS Regulations and within specific investment management agreements.
- By the appointment of a regulated external third party custodian with control and liability issues addressed in a custody agreement.
- By Council officers independently maintaining complete accounting records relating to the investment activity of the appointed external fund managers and to the income and dividend flows arising from the fund security portfolios.
- By officers of the Council's Internal Audit section reviewing the internal procedures maintained within Torfaen.
- By taking appropriate internal and external professional advice.

- Via appropriate governance arrangements overseen by a Council appointed Pensions Committee and a secondary stakeholder monitoring and scrutiny body (the Pension Fund Management Group) all who meet regularly to monitor asset allocation against investments benchmarks and fund activity and performance.

The Full version of the Statement of Investment Principles is available from the Assistant Chief Executive Resources and is also published on the Pension Fund's website.

a) Market Risk

Market risk is the risk of loss from the fluctuations in the price of financial instruments e.g. equities and bonds; interest rates; and foreign exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

The Pension Fund's funding position is sensitive to market price changes on two levels. Changes in the market price of investments such as equities, affect the net assets available to fund promised member benefits. Changes in the yields (and thus price) of bonds, as well as affecting asset values, also affect the value placed on the Pension Fund's liabilities within its overall funding calculations. To give an indication of scale, the change in the market value of the Pension Fund's net investment assets during the year was an increase of £147.695 million.

The Fund's investment strategy requires it to maximise the returns from its investments within reasonable risk parameters and, to achieve the level of investment return required, the strategy requires a significant level of equity investment. Though it is recognised that the risk levels (price volatility) will be greater for equities than bonds, the strategy recognises the longer term belief that equities will out-perform fixed interest holdings. The Fund does however take steps to manage this market risk as noted below:-

- LGPS investment regulations set restrictions on the type of investments funds can hold by applying percentage limits, as defined within the Fund's Statement of Investment Principles (SIP).
- The Fund has a diversified strategic asset allocation which is monitored to ensure the diversification levels are within acceptable tolerances of the strategy.
- The asset allocation is designed to diversify risk and minimise the impact of poor market performance in a particular asset class.
- The Fund's investment portfolio is further diversified by geographical region; investment manager; manager style etc. to further optimise the diversification of both return and risk.
- The Fund's SIP also defines the limits that the Fund can hold in any one security and the Fund's investment managers monitor their portfolio daily to ensure that these limits, designed to further minimise market risk, are not breached.

The above provides a general overview of the potential impact of market risk and how the Fund looks to manage these risks. The following sections provide some further detail of this across the 3 principal areas of market risk – asset price, interest rates and currency.

Asset price risk

Asset 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 instruments or its issuer or factors affecting all such instruments in the market.

The fund is exposed to direct equity (share) price risk via its segregated UK equity holdings together with indirect UK/Overseas share and bond price risk within its pooled fund holdings. The risks arise from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital.

The selection of investments is controlled and monitored by the council to ensure it is within limits specified by the Fund's investment strategy and the Fund's investment managers further mitigate this risk through diversification and by investing in line with the confines of the Fund's Statement of Investment Principles.

Asset price risk – sensitivity analysis

Following, in consultation with advisors, analysis of historic market data for the indices against which the Fund benchmarks its investments, the Fund has determined that the following movements in market price are reasonably possible for the 2014/15 reporting period:

Asset Type	Potential market movement (+/-)
UK Equities	13.31%
Overseas Equities (as at 31 March 13)	13.66%
Fixed Interest (Gilts)	5.71%
Fixed Interest (Corporate Bonds)	5.95%
Pooled property investments	1.40%
Alternative Investments	4.43%

The potential price changes disclosed above are consistent with the assumptions contained in advisors' most recent review. This analysis assumes that all other variables, in particular interest rates and foreign currency exchange rates, remain the same. Importantly, it disregards any long term investment value appreciation from the assets noted. To provide some context to this, the Fund investment consultant's recent view on long term positive performance assumptions of the various asset classes in which the Fund invests are noted within the table below:

Asset Type	Long Term performance expectations p.a. (+)
Equities	7.0%
Fixed Interest (Gilts)	3.4%
Fixed Interest (Corporate Bonds)	4.3%
Property investments	6.2%

Ignoring the potential for long term positive performance however and considering potential market price changes (volatility) only, should the market price of the fund investments increase/decrease in line with the potential market movements noted above, the change in the net assets available to pay benefits would be as follows (the prior year comparators using the applicable 2013/14 volatility assumptions are also shown below):

Asset type	Value as at 31 March 2014	Percentage Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	**11,500**	**0.00**	**11,500**	**11,500**
Investment portfolio assets:				
UK Equities	758,710	13.31	859,694	657,726
Overseas Equities	857,159	13.66	974,247	740,071
Fixed Interest (Gilts)	151,375	5.71	160,019	142,731
Fixed Interest (Corporate Bonds)	154,479	5.95	163,671	145,287
Pooled property investments	53,802	1.40	54,555	53,049
Alternative Investments	69,588	4.43	72,671	66,505
Investment income due	3,869	0.00	3,869	3,869
Amounts receivable for sales	200,838	0.00	200,838	200,838
Amounts payable for purchases	(198,837)	0.00	(198,837)	(198,837)
Total assets available to pay benefits	**2,062,483**		**2,302,227**	**1,822,739**

Asset type	Value as at 31 March 2013 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	**10,760**	**0.00**	**10,760**	**10,760**
Investment portfolio assets:				
UK Equities	697,254	13.01	787,967	606,541
Overseas Equities	790,779	14.64	906,549	675,009
Fixed Interest (Gilts)	154,289	5.51	162,790	145,788
Fixed Interest (Corporate Bonds)	151,153	4.64	158,166	144,140
Pooled property investments	40,400	1.80	41,127	39,673
Alternative Investments	66,156	4.50	69,133	63,179
Investment income due	3,770	0.00	3,770	3,770
Amounts receivable for sales	234	0.00	234	234
Amounts payable for purchases	(7)	0.00	(7)	(7)
Total assets available to pay benefits	**1,914,788**		**2,140,489**	**1,689,087**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Certain Fund investments are subject to interest rate risk, 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.

Interest rate movements and direction are routinely monitored by the council and its investment advisors as part of its overall investment monitoring processes. Though the analysis below examines the Fund's direct exposure to interest rate risk it is also recognised that there is additionally an element of indirect interest rate risk associated with other Fund investments (such as fixed interest investments). The risks to these investments as a result of potential interest rate movements are also considered by the Fund's investment managers who apply active management techniques and processes to minimise these risks.

The fund direct exposure to interest rate movements for the last two financial years is set out in the following table:

Asset Type	As at 31 March 2013 £000s	As at 31 March 2014 £000s
Cash on deposit with financial institutions	8,464	7,139
Cash held by Managers	2,296	4,361
Total	**10,760**	**11,500**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

Sensitivity analysis can provide reasonable risk estimates for interest rate sensitive financial instruments using straightforward assumptions of the likely changes in interest rates. The Fund's advisor anticipates that interest rates are expected to move no more than 1% from one year to the next. The risk estimates provided below show the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. The analysis assumes that all the other variables, in particular exchange rates, remain constant.

Asset Type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash on deposit with financial institutions	7,139	71	(71)
Cash held by Managers	4,361	44	(44)
Total change in assets available	**11,500**	**115**	**(115)**

Asset Type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash on deposit with financial institutions	8,464	85	(85)
Cash held by Managers	2,296	23	(23)
Total change in assets available	**10,760**	**108**	**(108)**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Pension Fund's investments in overseas assets are all held in sterling denominated pooled vehicles. This means that the Fund does not have any directly held investments in overseas currency. The Fund does hold, from time to time, a number of small foreign currencies balances held to facilitate trading but these are not deemed material.

In terms of indirect, sterling denominated pooled funds therefore, the following table summarises the value of the Fund's potential underlying currency exposure for the last two financial years. In terms of currency risk however it is important to note that the Fund's investments are diversified across all of the world's major markets and currencies and, as one currency may fall in value, another will increase. This fact in itself is seen as a major element of intrinsic risk control within the Fund's overseas investments.

Currency exposure - asset type	Value as at 31 March 2013	Value as at 31 March 2014
	£000	£000
Overseas Equities	790,779	857,159
Overseas Fixed Income (Gilts)	44,176	22,153
Overseas Fixed Interest (Corporate)	99,981	82,180
Global Absolute Return Strategies Fund (GARS)	56,428	58,726
Total overseas assets	**991,364**	**1,020,218**

Currency risk sensitivity analysis

Following analysis of historical data in consultation with advisors, the Fund considers the likely volatility associated with foreign exchange rate movements for its exposure to overseas currencies at the reporting date, 31 March 2014 to be 4.92%. This has been calculated by examining the Fund's overseas asset allocation by country/region as and where appropriate, and calculating an overall figure for likely currency volatility to which the Fund could theoretically be exposed. Similar percentages have also been calculated based on the Fund's asset allocation for the prior reporting period. Consolidation of the data and analysis carried out indicates that, assuming that all other variables such as price movement and interest rates remain constant, a strengthening/weakening of sterling against the various currencies in which the Fund indirectly holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset Value as at 31 March 2014 £000	Potential change in Exchange Rates %	Value on Increase £000	Value on Decrease £000
Overseas Equities	857,159	4.81	898,388	815,930
Overseas Fixed Income (Gilts)	22,153	5.67	23,409	20,897
Overseas Fixed Interest (Corporate)	82,180	5.67	86,840	77,520
GARS Fund	58,726	5.21	61,786	55,666
Total change in assets available	**1,020,218**	**4.92**	**1,070,423**	**970,013**

Currency exposure - asset type	Asset Value as at 31 March 2013 £000	Potential change in Exchange Rates %	Value on Increase £000	Value on Decrease £000
Overseas Equities	790,779	4.93	829,764	751,794
Overseas Fixed Income (Gilts)	44,176	5.80	46,738	41,614
Overseas Fixed Interest (Corporate)	99,981	5.80	105,780	94,182
GARS Fund	56,428	5.32	59,430	53,426
Total change in assets available	**991,364**	**5.08**	**1,041,712**	**941,016**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund and cause the Fund to incur a financial loss.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence therefore the Fund's entire investment portfolio is exposed to some form of credit risk. However applying the principles of diversification across the portfolio together with the selection of high quality investment managers, counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner. The Pension Fund reviews its exposure to its investment manager, credit and counterparty risk by the review of the Managers' annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund, such as in the selection and use of brokers.

The most tangible element of credit risk faced by the Fund is however in the form of its cash investments placed with banks and other financial institutions. These investments are managed in-house and, in order to minimise the credit risk in respect of these investments, a specific cash management strategy is annually put before the Pensions Committee for their consideration and approval followed by regular review.

The Pension Fund's Cash Management Strategy for 2013/14 (and its forward looking strategy for 2014/15 which is now in place) sets out the type and minimum acceptable criteria for investments; the institutions with which they can be placed; the maximum value that can be placed with each institution and the maximum period for which money can be invested. The strategy references and details the Fund's processes and procedures in terms of its cash management and how specialist external advice is used within the process. In terms of this external advice then the Pension Fund utilises Sector Treasury Services (recently rebranded as Capita Asset Services) for formulating and monitoring the Fund's list of approved counterparties. Sector uses a comprehensive method of assessing counterparty's credit ratings which includes overlaying the three credit rating agencies' scores with additional data, relative to each institution, such as rating watches and CDS spreads to advise of a maximum suggested investment period with that counterparty.

The Fund believes that it has, through a continuing difficult period for financial markets and institutions, adequately managed its exposure to credit risk. There have been no instances of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2014 was £7.1million (31 March 2013 was £8.7million) and this was held with institutions as follows:

Cash on deposit with financial institutions	**Rating (Fitch Long Term)** (at 31 March 2014)	**Balances as at 31 March 2013** £000	**Balances as at 31 March 2014** £000
Money Market Funds			
BlackRock	AAA	1	1,693
Ignis	AAA	3,175	2,737
State Street	AAA	-	2,705
Bank Deposit Accounts			
Royal Bank of Scotland – Nat West	A	5,505	
Bank Current Accounts			
TCBC Pension Fund		(217)	4
Total		**8,464**	**7,139**

c) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations as they fall due. The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this risk, the Pension Fund monitors its cash flow to ensure that cash is available when needed.

The Pension Fund further manages its liquidity risk by maintaining a large proportion of its cash investments within money market funds or call accounts allowing virtually same day access to cash deposited without penalty. Indeed, at 31 March 2014, all Pension Fund cash balances were spread across such immediate access accounts. The Fund still retains the option to invest within fixed term deposits but, in accordance with the cash management strategy, these must currently be of maximum 6 months duration and placed with UK banks. At any point in time the whole of the Fund's cash investments can therefore be deemed to be reasonably liquid in that they could be 100% redeemed within a maximum 6 month period if required. In practice however, the vast majority of cash deposits will be available to a much shorter timescale, as demonstrated at year end when all cash deposits were immediately available should this have been required. The Fund understands and manages the timing of its cash flows and this is helped by the current profile of the Fund in which contributions received continue to exceed the value of benefits paid out. The Fund's financial statements show that, during the 2013/14 financial year, it accumulated an excess of £37.724 million income received over expenditure paid out. This means that the Fund continues to be cash generative and, though the Fund's strategic asset allocation contains a 3% allocation to cash, the Fund has been comfortable (documented via its cash management strategy) to allow cash levels to float around or below the 1% level during the 2013/14 financial year. Where surplus cash is accumulated in excess of the desired level, these funds are re-allocated to investments in accordance with the Fund's overall investment strategy. External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. Both the Fund and its managers are however aware of the very low interest rates available on cash deposits and therefore the desire is to be as fully invested as possible in higher yielding assets whilst ensuring adequate liquidity to meet cash commitments when they fall due.

Refinancing risk

Refinancing risk would apply should the Pension Fund be bound to replenish a significant proportion of its financial instruments at a set time when market prices, interest rates or currency exchange rates may be unfavourable. The Fund does not have any financial instruments that have such refinancing risk within its investment portfolio.

18. Funding Arrangements

18.1 The requirement for Local Government Pension Funds to produce a Funding Strategy Statement was introduced by the Local Government Pension Scheme (Amendment) Regulations 2004. Under these regulations, the administering authority must prepare, maintain and publish a written statement setting out their funding strategy.

The Fund's statement includes:-

- The purpose of the Funding Strategy Statement in policy terms.
- Aims and purpose of the Pension Fund.
- Responsibilities of the key parties.
- Solvency issues and target funding levels.
- Links to the investment policy set out in the Statement of Investment Principles.
- Identification of risks and counter measures.

Within these headings, the Statement sets out to establish a clear and transparent strategy, specific to the Fund, which identifies how employers pension liabilities are best met going forward.

The Strategy is geared to:-

- ensure that sufficient resources are available to meet all liabilities as they fall due
- manage employers' liabilities effectively
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost, and
- maximise the returns from investments within reasonable risk parameters.

The full Funding Strategy Statement is available from the Assistant Chief Executive Resources or via the Pension Fund's website.

18.2 The Actuary's valuation that affected these accounts was carried out as at 31 March 2010. That valuation showed that the employers would need to pay different contributions to the Fund from 1 April 2011. The common rate of employers' contributions payable is 11.1% of pensionable pay. Individual employers rate vary from the common rate depending on demographic and actuarial factors particular to each employer. Members' contribution rates range from 5.5% to 7.5% depending on their salary.

18.3 The contribution rates for the unitary councils with effect from 1 April 2011 are shown as a percentage of the pensionable pay of the members and are as follows:-

	2010 **%**
Blaenau Gwent	21.5
Caerphilly	19.5
Monmouth	21.1
Newport	19.2
Torfaen	21.2

These rates of contribution are the rates which, in addition to the contributions paid by the members, are sufficient to meet:-

- 100% of the pension liabilities, plus;
- an adjustment over a long period to reflect the shortfall in our share of the Fund's assets and future pay increases.

18.4 The market value of the Fund's assets at the 2010 valuation was £1,512 million. At the valuation date, the Fund's liabilities exceeded the assets by £530 million giving a revised funding level of 74% (the funding level at the 2007 valuation was 71%). The main factors that contributed to the improved funding position were the changes from RPI to CPI for future pension increases and changes to the Actuarial Assumptions.

18.5 A new Actuarial Valuation was carried out as at 31 March 2013 and the resulting changes in contribution rates will apply from 1 April 2014. The market value of the Fund's assets at the 2013 valuation was £1,924 million. At the valuation date, the Fund's liabilities exceeded the assets by £799 million giving a revised funding level of 71% (the funding level at the 2010 valuation was 74%). The main factor that contributed to the change in funding position was a change in the financial assumptions.

18.6 The Actuary used the Projected Unit method at this and the previous valuation. For the majority of employers the contribution rates which apply are based upon recovery of the deficit over a maximum period of 20 years. Another revaluation of the Fund will take place as at 31 March 2016.

18.7 The financial assumptions adopted by the Actuary were as follows:-

	Funding Target		Normal Cost	
	2010	**2013**	**2010**	**2013**
Discount Rate	6.1%	4.8%	6.75%	5.6%
Pensionable pay increases	4.5%	4.1%	4.5%	4.1%
Pension increases	3.0%	2.6%	3.0%	2.6%

18.8 The demographic assumptions employed by the Actuary were complicated and dealt with rates of withdrawal from the scheme, mortality for both active and retired members and commutations. Further details can be found in the two full Actuarial Valuation reports dated 31 March 2010 and 2013 that can be found on the Pension Fund's website:-

http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/ActuarialValuationReportasat31March2010.pdf

http://www.greatergwentpensionsfund.co.uk/wp-content/uploads/2012/02/RpS_CA_Torfaen-AVR-FINAL.pdf

19. Actuarial Present Value of Promised Retirement Benefits

19.1 IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% p.a.	4.5% p.a.
Rate of pay increases	3.9% p.a.	3.9% p.a.*
Rate of increase in pensions (in excess of Guaranteed Minimum Pension)	2.4% p.a.	2.4% p.a.

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

19.2 The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

19.3 During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

19.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £3,085 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£211 million. Adding interest over the year increases the liabilities by a further c£130 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£22 million. Finally, allowing for actual vs. expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£55 million. The net effect is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £2,971 million.

19.5 The Fund, in parallel, also uses its Actuarial assumptions and methodology as referred to in note 18 to provide an interim funding position on an annual basis between valuations as an appropriate monitoring mechanism.

20. Current Assets

31 March 2013 £000		31 March 2014 £000
	Contributions due from employing bodies:-	
1,974	- Employees contributions	2,027
6,232	- Employers contributions	14,121
3,521	Early retirement costs	3,718
316	Baring fee rebate	-
40	Nomura fee rebate	45
6	Pension payroll	10
-	Interest	3
2,778	Group transfer receivable	2,381
14,867		**22,305**

Analysis of debtors

31 March 2013 £000		31 March 2014 £000
2,781	Central Government bodies	2,384
10,664	Other Local Authorities	10,636
1,422	Other entities and individuals	9,285
14,867		**22,305**

a) Funding of Early Retirement Costs

During 2013/14, the cost to the pension fund of early retirements arising in that year was £3,083,011.65, which is paid by instalments over periods of up to five years. The cost includes the extra years of pension payments as a result of employees retiring early, plus the augmented costs. The cost of early retirements is worked out by specialist computer software, and is recovered from the respective employers. The actuary has reflected this approach in the contribution levels. The amounts included within the accounts are the instalments that are due in 2013/14 and in future financial years for early retirements known as at 31 March 2014. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2013/14 in respect of:		
Prior Years	1,296	
Current Year	1,858	3,154
Balances b/f 1 April 2013	3,521	
Payments Received in 2013/14	(3,065)	
Reversal of previous instalments due	(3,337)	(2,881)
Instalments due for 2014/15	1,318	
Instalments due for 2015/16 & later years	2,127	3,445
2013/14 Debtor		**3,718**

The instalments due for 2014/15 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2013/14.

21. Current Liabilities

31 March 2013 £000		31 March 2014 £000
(1,340)	Unpaid benefits	(1,580)
(39)	Refund of contributions due to employing bodies	-
(672)	Pension Payroll	(741)
(1,740)	Investment and Administrative Expenses	(1,533)
(64)	AVC	(47)
(2,000)	Group transfer payable	-
(5,855)		**(3,901)**

Analysis of creditors

31 March 2013 £000		31 March 2014 £000
(667)	Central Government bodies	(739)
(1,013)	Other Local Authorities	(1,330)
(4,175)	Other entities and individuals	(1,832)
(5,855)		**(3,901)**

22. Additional Voluntary Contributions

22.1 Members of the Pension Fund may take additional voluntary contributions (AVCs) in order to obtain improved benefits on retirement. Torfaen County Borough Council is prevented by regulations from consolidating the amounts of AVC investments into the published Pension Fund accounts. However, as the administering authority we oversee the following AVC arrangements.

Provider	Standard Life	Clerical and Medical	Equitable Life	TOTAL
	£000	£000	£000	£000
Contributions received 2013/14	401	177	7	585
Market value of AVC Investments 31st March 2014	4,198	1,973	1,328	7,499

The above AVC investments are excluded from the financial statements of the Greater Gwent (Torfaen) Pension Fund in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

23. Related Party Transactions

23.1 In the course of fulfilling its role as administering authority to the Fund, Torfaen CBC provided services to the Fund. Costs are normally in respect of those staff employed in ensuring the pension service is delivered and are included in the accounts within Administration Expenses (note 12, page 41) and Investment Management Expenses (note 14, page 41). Related parties to the Pension Fund include all Employers within the Fund and members of the Torfaen Pensions Committee. There have been no financial transactions between any of these parties and the Fund apart from the routine contributions and benefits payable that are defined by statutory regulation and are therefore not within the direct control of any party.

23.2 **Governance**

There is one member of the Pension Fund Committee who is in receipt of pension benefits from the Fund - Councillor Stephen Brooks. All other Councillors are active members. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

23.3 **Key Management Personnel**

Two Officers of Torfaen CBC hold key positions in the financial management of the Fund. They are:

Mr Nigel Aurelius CPFA	Assistant Chief Executive (Resources)
Mr Graeme Russell CPFA	Head of Human Resources and Pensions

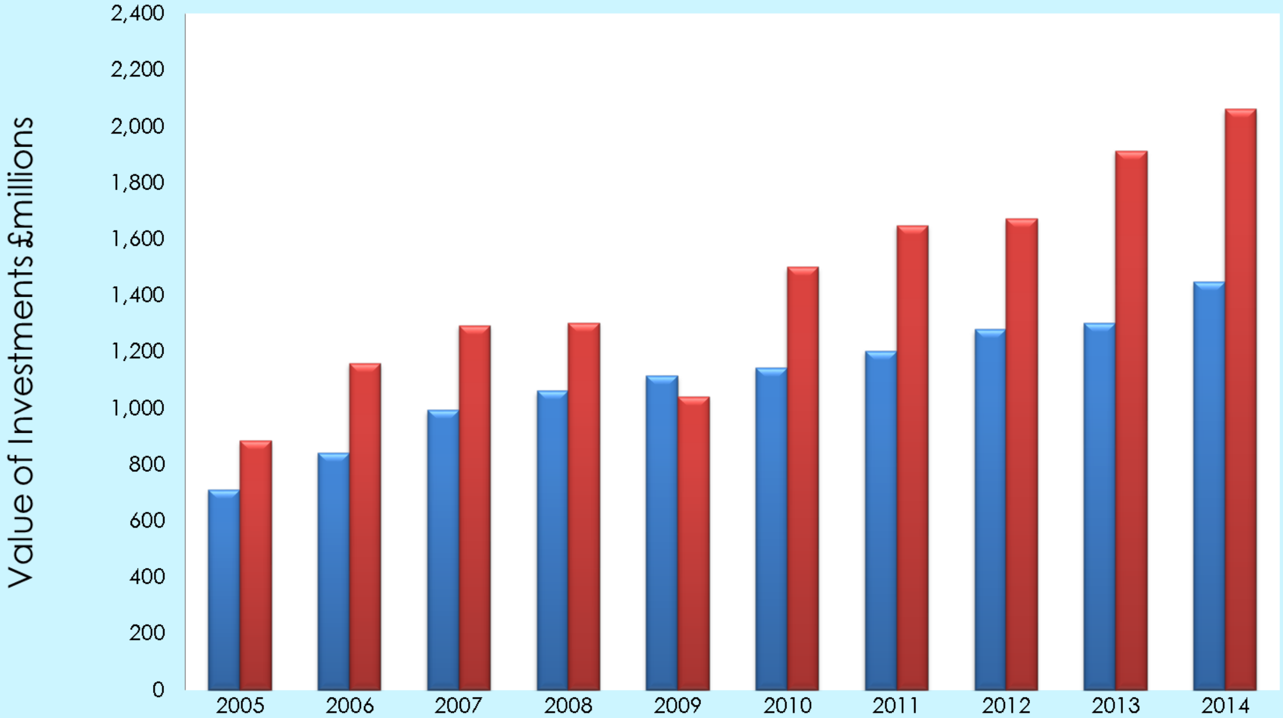
24. Contingent Liabilities and Contractual Commitment

24.1 The fund invests in the Prudential/M&G UK Companies Financing Funds (Funds I and II) which are in the form of Limited Liability Partnerships. As at 31 March 2014 no further liability remains for Financing Fund I but it does for Financing Fund II. This investment has a committed amount of £8 million and the fund made a net contribution of £2,103,102 during 2013/14. Therefore a further liability of £5,896,898 exists at the year end.

Appendices

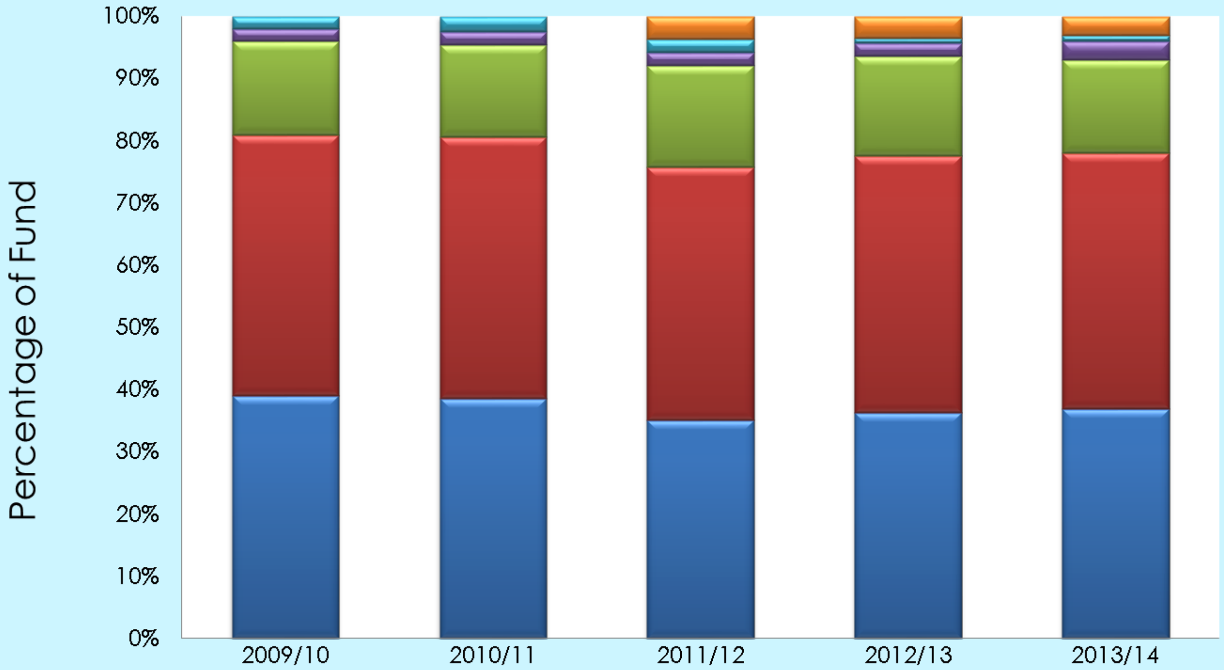
Appendix 1

Ten Year Valuation of Investments



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Book Cost	712	842	994	1,062	1,115	1,145	1,204	1,280	1,303	1,449
Market Value	885	1,160	1,294	1,303	1,042	1,502	1,650	1,673	1,915	2,062

Tactical Asset Allocation



	2009/10	2010/11	2011/12	2012/13	2013/14
Alternatives			4	4	3
Cash	2	2	2	1	1
Property Unit Trust	2	2	2	2	3
Fixed Interest	15	15	16	16	15
Overseas Equities	42	42	41	41	41
UK Equities	39	39	35	36	37

Appendix 2

Greater Gwent (Torfaen) Pension Fund Contribution Schedule

Actuarial Valuation as at 31 March 2010

Common Contribution Rate: 11.1% (Contribution Rate as a multiple of pensionable pay)

	Individual Adjustment %	2011/2014 Contribution Rate %
Administering Authority		
Torfaen CBC	10.1	21.2
Scheduled Bodies		
Blaenau Gwent CBC	10.4	21.5
Caerphilly CBC	8.4	19.5
Monmouthshire CC	10.0	21.1
Newport City Council	8.1	19.2
Caldicot & Wentloog LDB	2.7	13.8
Valuation Panel	8.6	19.7
University of Wales, Newport	3.7	14.8
Coleg Gwent	5.9	17.0
Chepstow Town Council	7.2	18.3
Brynmawr Town Council	23.7	34.8
Gwent Police Authority	2.8	13.9
Silent Valley Waste Disposal	10.5	21.6
Caldicot Town Council	7.3	18.4
Nantyglo & Blaina Town Council	16.9	28.0
Monmouth Town Council	0.8	11.9
Gwent Cremation Committee	2.4	13.5
Cwmbran Community Council	5.7	16.8
Pontypool Community Council	6.1	17.2
Tredegar Town Council	4.7	15.8
Rogerstone Community Council	4.7	15.8
Bargoed Town Council	8.4	19.5
Portskewett Community Council	8.6	19.7
Shirenewton Community Council	6.4	17.5
Henllys Community Council	3.2	14.3
Magor with Undy Community Council	-11.1	-
Deemed Bodies		
Newport Transport	44.3	55.4
Admitted Bodies		
Melin Homes	1.9	13.0
Careers Wales Gwent	3.7	14.8
Citizen Advice Bureau Caerphilly	5.9	17.0
Mitie	4.1	15.2
CWVYS	n/a	£3,000
Capita Gwent Consultancy	16.5	27.6
Hafod	-6.2	4.9
Monitor	2.3	13.4
Archives	-2.3	8.8
OCS (ex Monmouthshire CC)	9.3	20.4
OCS (ex University of Wales)	-3.7	7.4
United Response	0.8	11.9
Monmouthshire Housing	-0.8	10.3
Bron Afon	-0.4	10.7
Manpower Limited	3.0	14.1
Regent Cleaning (ex Monmouthshire CC)	1.6	12.7
Regent Cleaning (ex Newport CC)	3.7	14.8
ABM Catering	2.5	13.6
Vinci	2.8	13.9
DRIVE	-0.6	10.5
Newport City Homes	-2.6	8.5
Tai Calon Community Housing	1.7	12.8

Appendix 3

Fund Membership

	Active Members		2013/14	
	31/03/13	31/03/14	Target Rate %	Rates Paid %
Administering Authority				
Torfaen CBC	2,844	3,013	21.2	21.2
Current Scheduled Bodies				
Blaenau Gwent CBC	2,630	2,975	21.5	22.0
Caerphilly CBC	5,536	6,347	19.5	20.8
Monmouthshire CC	2,324	2,531	21.1	21.1
Newport City Council	3,654	3,869	19.2	19.2
Caldicot & Wentloog LDB	14	15	13.8	13.8
Valuation Panel	4	4	19.7	25.0
University of Wales, Newport	552	359	14.8	14.8
Coleg Gwent	527	686	17.0	17.0
Chepstow Town Council	6	6	18.3	19.1
Brynmawr Town Council	1	1	34.8	34.8
Gwent Police Authority	935	862	13.9	15.8
Silent Valley Waste Disposal	3	3	21.6	21.6
Caldicot Town Council	2	2	18.4	18.4
Nantyglo & Blaina Town Council	1	1	28.0	28.0
Monmouth Town Council	2	2	11.9	11.9
Gwent Cremation Committee	9	9	13.5	13.5
Cwmbran Community Council	8	8	16.8	16.8
Pontypool Community Council	8	7	17.2	17.2
Tredegar Town Council	2	2	15.8	15.8
Rogerstone Community Council	4	4	15.8	22.3
Bargoed Town Council	1	1	19.5	19.5
Portskewett Community Council	-	1	19.7	19.7
Shirenewton Community Council	1	1	17.5	17.6
Henllys Community Council	1	1	14.3	20.0
Magor with Undy Community Council	1	1	-	12.3
Deemed Bodies				
Newport Transport	19	12	55.4	55.4
Admitted Bodies				
Melin Homes	43	43	13.0	13.9
Careers Wales Gwent	110	100	14.8	15.8
Citizen Advice Bureau Caerphilly	9	8	17.0	17.0
Mitie (formerly Ballast)	2	2	15.2	15.2
Hafod Care	31	28	4.9	4.9
Archives	12	11	8.8	8.8
OCS (Ex Monmouthshire CC & Ex UWN)	18	8	20.4 & 7.4	20.4 & 7.4
Monmouthshire Housing	135	159	10.3	11.6
Bron Afon	458	458	10.7	10.7
Newport City Homes	212	222	8.5	11.2
Tai Calon	235	254	12.8	12.8
DRIVE	5	5	10.5	10.5
Regent Ex Mon CC, Ex Monmouth Cluster, Abergavenny Cluster & Chepstow Cluster	9	19	12.7, 21.9, 16.6 & 17.0	12.7, 21.9, 16.6 & 17.0
Vinci	1	1	13.9	13.9
Compass Catering	113	96	17.5	17.5
National Trust	8	8	14.5	14.5
Barnardo's	6	5	14.3	14.3
EAS	72	71	18.7	18.7
Compass St Albans	3	1	-	-
Caterlink	11	10	-	-
Churchill	-	9	-	20.4
Monwell Ltd	-	30	-	13.9
Torfaen Leisure Trust	-	158	-	11.1
Borough Theatre	-	6	-	-
Total Membership	**20,582**	**22,435**		

Appendix 4

Top Ten UK Equity Segregated Holdings as at 31 March 2014

Company		Bid Market Value £
HSBC Holdings		33,929,962
BP		31,247,174
Royal Dutch Shell B Shares		25,921,248
British American Tobacco		21,844,091
GlaxoSmithKline		21,760,981
Diageo		19,171,321
Rio Tinto		18,531,804
Vodafone Group		18,242,605
Lloyds Banking Group		17,099,813
AstraZeneca		16,498,504

Appendix 5

Ten Year Summary of Statistics

Revenue Account	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Contributions	78,576	85,798	91,427	99,087	105,720	113,894	110,304	101,652	101,028	109,666
Transfer Values Received	8,771	10,590	10,755	11,378	6,672	12,603	7,265	7,824	4,942	7,946
Investment Income and Other	16,946	20,401	19,043	18,682	18,096	16,043	17,099	21,448	20,659	26,095
Total Income	**104,293**	**116,789**	**121,225**	**129,147**	**130,488**	**142,540**	**134,668**	**130,924**	**126,629**	**143,707**
Pensions and Other Benefits	48,423	52,743	56,102	62,146	69,411	76,190	81,491	84,538	88,856	95,175
Transfer Values Paid	6,399	8,480	6,421	5,901	3,499	8,875	8,512	22,965	6,303	3,177
Refunds of Contributions	356	184	33	37	13	15	5	2	5	8
Fees and Other	2,857	3,084	4,257	5,179	4,199	4,667	5,810	6,032	6,642	7,623
Total Expenditure	**58,035**	**64,491**	**66,813**	**73,263**	**77,122**	**89,747**	**95,818**	**113,537**	**101,806**	**105,983**
Net Surplus for Year	46,258	52,298	54,412	55,884	53,366	52,793	38,850	17,387	24,823	37,724
Net Profit/(Loss) on Sale of Investments	12,781	76,604	96,856	12,152	(936)	(20,183)	20,631	40,620	14,317	118,239
Unrealised Change in Market Value	65,175	145,332	(17,694)	(64,259)	(310,662)	430,997	89,520	(52,621)	218,496	1,124
Increase/(Decrease) in the Fund	**124,214**	**274,234**	**133,574**	**3,777**	**(258,232)**	**463,607**	**149,001**	**5,386**	**257,636**	**157,087**

Investment Assets	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Book Cost at 31 March	711,865	841,761	993,537	1,061,990	1,114,650	1,144,901	1,203,604	1,279,958	1,302,617	1,449,212
Market Value at 31 March	884,927	1,160,168	1,294,237	1,302,616	1,042,438	1,501,677	1,649,900	1,673,634	1,914,788	2,062,483

Membership										
Contributors	20,785	21,187	21,559	21,834	22,143	21,667	21,196	20,550	20,582	22,435
Pensioners	11,081	11,383	11,740	12,183	12,610	13,091	13,576	13,910	14,296	14,820
Number of Preserved Benefits	5,856	7,080	8,216	9,067	9,735	10,577	11,378	12,189	13,180	14,359
Total	**37,722**	**39,650**	**41,515**	**43,084**	**44,488**	**45,335**	**46,150**	**46,649**	**48,058**	**51,614**

Appendix 6

Glossary of Terms

Actuary

An actuary is an expert on pension scheme assets and liabilities, life expectancy and probabilities for insurance purposes (the likelihood of things happening). An actuary works out whether enough money is being paid into a pension scheme to pay the pensions when they are due.

Actuarial Valuation

This is an assessment done by an actuary, usually every three years. The actuary will work out how much money needs to be put into a scheme to make sure pensions can be paid in the future.

Active Investment Management

Active management refers to a portfolio management strategy where the fund manager makes specific investments with the goal of outperforming an investment benchmark index.

Benefits

This is everything the member gets after retiring because they were part of the scheme. It usually means the money paid to the member as their pension. It could also include death benefits.

Contributions

This is the money paid into a pension fund for a member. It can be paid by a member or an employer.

Market Value

This is the price an asset should fetch if it is sold on the open market.

Passive (Indexed) Investment Management

In passive management, investors expect a return that closely replicates the investment weighting and returns of a benchmark index. A mutual fund or other investment portfolio is managed by relying on automatic adjustments such as tracking an index instead of making personal judgments.

Pooled Investment Vehicles

These collective investment schemes are a way of putting sums of money from many people into a large fund spread across many investments and managed by a professional fund manager.

Preserved Benefits

These are the benefits an occupational pension scheme member has already earned from the scheme when they stop being an active member before their normal pension age. The member will then get these preserved benefits when they retire. These are also called frozen or deferred benefits.

Rate of Return

This is the income from an investment, including any change in value of the investment over a period.

Appendix 6

Transfer Value

If a member changes schemes, they may get a transfer payment from their old scheme to the new one. The benefit that the member earns from this payment is called a transfer credit. This will also count towards their qualifying service in the new scheme. A transfer payment is an amount that a scheme may pay when a member leaves. This amount will either go into a new scheme that the member has joined, or will be used to purchase a buy–out policy for the member. The scheme may make this transfer payment because of the scheme's rules or because of the member's rights under the law (a statutory transfer).

Unit Trust

This is a trust which people can invest in by buying units. The trust uses investors' money to buy investments. The fund manager values the fund's assets at least monthly, and puts a new price on the fund's units.

Points of Contact

Governance, Management and Investments
Graeme Russell
Head of Human Resources and Pensions
Tel: 01495 742625
E-mail: graeme.russell@torfaen.gov.uk

Pension Benefits and Administration
Mary Rollin
Pension Manager
Tel: 01495 766280
E-mail: mary.rollin@torfaen.gov.uk

If you need more information you can write to:-

Torfaen County Borough Council
Civic Centre
Pontypool
Torfaen NP4 6YB

Or visit the websites:-
http://www.greatergwentpensionsfund.co.uk/
Or
http://www.torfaen.gov.uk/en/CouncilTaxAndBenefits/LocalGovernmentPensionScheme/The-Local-Government-Pension-Scheme.aspx