Greater Gwent (Torfaen) Pension Fund

Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2010/2011

Nigel Aurelius, CPFA
Assistant Chief Executive Resources

lgps look forward with confidence

TORFAEN COUNTY BOROUGH BWRDEISTREF SIROL TORFAEN

Executive Summary

- In the past 12 months, public debt and economic recovery have been central themes across global economies and financial markets with inconsistent and variable paths of recovery across the world. Both man made events and natural disasters have added to the uncertainty and volatility through events such as the Gulf of Mexico oil spill, ash clouds and more recently the Middle East and North Africa unrest and the devastating events in Japan.

- Despite the continuing uncertainty and volatility, markets traded within more normal parameters in the last year and in overall terms, investments saw returns of 8.2% and the fund outperformed the average fund over the 12 months. This is still, however, a short term positive effect and needs to be viewed within longer time horizons and against a future backdrop of uncertainty and volatility.

- The market value of the Fund as at 31st March 2011 was a milestone £1.661 billion, increasing from £1.512 billion over the year.

- Lord Hutton's Independent Commission on Public Service Pensions reported during 2010/11. It proposed significant change to the current pension arrangements for the LGPS and other public sector pension schemes to ensure public pensions are affordable and sustainable to all stakeholders for the future. The Coalition Government has already endorsed the findings of the report and this marks the start of a major period of change for the local government pension scheme. By the end of this term of Parliament (2015) the LGPS is likely to have retained its defined benefit status but will have moved from being a final salary scheme to a Career Average Revaluation of Earnings (CARE) scheme with employees expected to pay significantly more than at present and having to work longer in order to receive pension benefits. These changes will now take centre stage for the scheme and its members over the next 3 years.

Nigel Aurelius, ASSISTANT CHIEF EXECUTIVE RESOURCES

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ADMINISTRATION OF THE FUND

1. Introduction

1.1 These days the subject of pensions is never far from the headlines. In my introduction to last years report, I suggested that the issue of public sector debt following the banking crisis, and the search for ways to reduce public spending and raise income, would begin to take real shape after the results of the general election in May 2010. The coalition government proved this to be the case and their approach towards public sector finances including pensions and their policies designed to help the economy to recover provided the national backdrop for the local government pension scheme (LGPS) over the last 12 months.

1.2 In a wider sense, the issue of sovereign debt and economic recovery has also influenced global economies and financial markets with inconsistent and variable paths of recovery across the world. Unexpected events have also accentuated the level of uncertainty on the path to recovery. Man made events such as the BP oil spillage in the Gulf of Mexico at the start of the year to natural events such as volcanic ash clouds over the UK and much of Europe in the summer of 2010 have each had a resultant impact on financial markets and thus pension funds. More recently the ongoing unrest in the Middle East and North Africa has unsettled markets further. However, in March 2011, a devastating earthquake and subsequent tsunami struck Japan causing immense destruction to a large number of populated regions in the North and East of the region, together with the nuclear crisis at the Fukushima nuclear plant due to the damage caused. The loss of life and physical destruction has understandably affected all aspects of life in Japan, including the Japanese markets, and the events have also had a wider global impact.

1.3 Within this context, and despite the continuing uncertainty and volatility, markets traded within more normal parameters over the last 12 months and in overall financial terms, investments saw positive returns with the Fund showing an increase in its market value from £1,512 million to a milestone £1,661 million. Our investment performance return for the year was 8.2%, achieving positive relative investment performance of 0.9% against the benchmark return of 7.3%. This is encouraging but needs to be viewed within longer time horizons and against a future backdrop of changes in public sector pensions.

1.4 Of perhaps greater significance to the LGPS in the past year was the announcement by the Chancellor of the Exchequer in June 2010 that former Labour Work and Pensions Secretary John Hutton was to chair a new independent Commission on Public Service Pensions. Lord Hutton's interim report was published in early October and a final report was published in March 2011 which proposed significant change to the current pension arrangements for the LGPS and other public sector pensions. There are 27 recommendations in the Hutton report and whilst Central Government have fully endorsed the recommendations, it is difficult to envisage what the finer details will be until further guidance is forthcoming. What is clear however from Lord Hutton's recommendations is that:-

- A new legal regime will be put in place across public sector pensions
- A new LGPS is likely within this Parliament (2015)
- It will be a Career Average Revaluation of Earnings (CARE) scheme with no upper cap but with employees expected to pay significantly more than at present and having to work longer in order to receive pension benefits.
- Accrued rights will be protected
- All members will transfer to the new scheme
- Significant requirements and changes in governance and reporting arrangements are likely.

1.5 The Hutton report however omits detail around some major components such as accrual rates, employee contributions and the overall cost envelope for the LGPS and it is difficult to assess the major impact on employers, employees and wider stakeholders until there is clarity. One area where such clarity has been provided is the announcement by Government in the Comprehensive Spending Review that employees will have to pay considerably more towards their pensions in future in order to reduce the public cost of pensions. Whilst the need for this is understood there is considerable debate over whether such a blunt instrument would be able to achieve the government's financial target due to scheme opt outs but the debate continues with the outcome currently unclear.

1.6 Finally, I return to my comments from last year which still appears appropriate today: "The cost of pensions and how such costs can be funded therefore remain critical to the future of the LGPS pension provision. These issues are now in a state of flux and maintaining the essential qualities of the Scheme whilst looking to achieve a fair and equitable balance of sustainability and affordability for all stakeholders will be the main challenge facing administrators of the Scheme within the context of severe financial pressures on public finances in future years". It is to be hoped that by this time next year the public sector pensions landscape has more clarity and the detail is known for an affordable and sustainable local government pension scheme for the future. Through this period of benefit re-design and change, members of the scheme should however be re-assured that the scheme provides a strong quality pension benefit that should be valued and supported by all members.

2. Scheme Details and Administration

2.1 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 33.

2.2 Membership of the Scheme is voluntary. Full-time and part-time employees are brought into the scheme automatically provided they have a Contract of Employment of at least three months duration, but have the right to "opt out" if they so wish. Contributors to the scheme are contracted out of the state second pension.

2.3 The Scheme is financed by contributions paid by employees and by their employers accumulated in a Pension Fund and by earnings from the investment of fund monies. The pension benefits payable out of the Fund are primarily determined by legislation and not by the local authorities.

2.4 The Local Government Pension Scheme Benefit Regulations and Administration Regulations introduced the New Local Government Pension Scheme with effect from 1st April 2008. The Transitional Regulations provided some protection for members who were active members of the Scheme as at 31st March 2008 and 1st April 2008. Under the 1997 Scheme, contributions paid by employees were 6% of salary except for members who were paying 5% before 1 April 1998 (manual workers). Under the 2008 Scheme the level of contributions payable by the employee members is determined by the salary band in which they fall. The Bands are increased each year. Protections apply for manual workers who were previously paying 5% until 1st April 2011.

2.5 Torfaen County Borough Council as administering authority introduced an "Additional Voluntary Contributions Scheme" (AVCS). The Equitable Life Assurance Company was originally selected to provide the AVC Scheme. The current providers are Standard Life and Clerical Medical although some members have retained their Equitable Life arrangements.

3. Scheme Benefits

3.1 **Eligibility for Membership**

Virtually all employees of relevant employers who have a Contract of Employment of at least three months duration (including temporary and casual workers) aged under 75 can 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, employees of admitted bodies and those who have opted out in the past.

3.2 **Employee Contributions**

For the year 2010/11 the relevant employee contribution bands were as set out in the following table:-

Band	Range	Contribution Rate
1	£0 - £12,600	5.5%
2	£12,601 - £14,700	5.8%
3	£14,701 - £18,900	5.9%
4	£18,901 - £31,500	6.5%
5	£31,501 - £42,000	6.8%
6	£42,001 - £78,700	7.2%
7	More than £78,700	7.5%

The salary bands are increased on 1st April each year in line with the increase in the Retail Price Index which applied in the previous September. The Retail Price Index in September 2009 was minus 1.4%. The contribution bands therefore did not increase on 1st April 2010.

However, in the budget on 22nd June 2010 it was announced that from April 2011 the basis for pension increases will change from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The CPI is usually lower than the RPI and so this is an important change for the pension fund.

Former Manual Workers who were paying contributions at the reduced rate of 5%, in accordance with the 1997 Regulations, continue to have a degree of protection during the period 1st April 2008 to 31st March 2011 whereby they will be required to pay the protected contribution rate as detailed below or the standard contribution rate based on their band earning, whichever is the lower.

Protected contribution rates for former manual workers:-

- From 1st April 2008 5.25%
- From 1st April 2009 5.5%
- From 1st April 2010 6.5%

3.3 Benefits on Retirement

These normally consist of a pension calculated as 1/60th of the final year's pay for each year of membership from 1st April 2008 plus 1/80th of the final year's pay for each year of membership plus a lump sum of three times the pension in respect of membership up to and including 31st March 2008. There is no automatic lump sum in respect of membership accrued from 1st April 2008. Actual membership may be enhanced in cases of ill health retirement. Employers may choose to augment membership for members leaving (other than on ill health grounds).

In all cases, it is possible to exchange part of the pension for a bigger lump sum.

3.4 Age of Retirement

- The normal retirement date under the scheme is age 65. In certain circumstances Members may be able to retire and draw their pension benefits without reduction at an age between age 60 and 65.
- Pension benefits are payable at any age if retirement results from ill health.
- Members may retire with full accrued benefits from age 55 onwards if their retirement is on redundancy or efficiency grounds.
- Members who have not reached normal retirement date and to whom ill health or redundancy/efficiency retirement does not apply may elect from age 55 onwards to draw their accrued benefits. Employer consent is required for elections made before age 60. Benefits may be actuarially reduced if the total age and membership is less than 85 and where the member is not protected under the Transitional Regulations.

3.5 Benefits on Death in Services

A lump sum death grant is payable, normally equivalent to three years pay. Torfaen, as administering authority, has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or beneficiaries nominated by the member.

Pensions may also be payable to the member's widow, widower, civil partner, co-habiting partner and/or children.

3.6 Benefits on Death after Retirement

In certain circumstances, a lump sum death grant may be payable. If so, Torfaen has absolute discretion over the distribution of this lump sum among the deceased's family, dependants, personal representatives or beneficiaries nominated by the member. The amount of any lump sum depends on the amount of the deceased member's pension, the date they commenced receipt of their pension and the period for which the pension has been in payment.

Pensions may also be payable to the pensioner's widow, widower, civil partner, co-habiting partner and/or children.

3.7 Cost of Living Increases

Pensions payable to members who retire on health grounds and to members' spouses and children are increased in line with the Consumer Price Index. Pensions payable to other members who have reached the age of 55 also benefit from annual inflation proofing.

Where a pensioner has a guaranteed minimum pension (relating to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department for Work and Pensions.

3.8 **Extra Benefits**

The scheme offers several ways for members to improve benefits.

- Payment of additional regular contributions to purchase additional pension.
- A money purchase AVC scheme which is operated in conjunction with either Clerical Medical or Standard Life.

3.9 **Current Pension Scheme**

A new Local Government Pension Scheme was introduced with effect from 1 April 2008 with changes applying to both existing and new employees. The main changes which were introduced in the new scheme are as follows:-

- Tiered employee contribution rates based on banded salary levels
- A pension calculated as 1/60th of the final year's pay for each year of membership from 1st April 2008. There is no automatic lump sum in respect of membership accrued from 1st April 2008. Benefits accrued up to and including 31st March 2008 continue to be calculated on the basis of a 1/80th pension plus a 3/80th lump sum.
- Death in service cover increased from 2 times salary to 3 times salary
- Death grant in respect of the death of a deferred member calculated as 5 times the deferred pension
- Death grant payable on the death of a pensioner increased from 5 times the pension in payment to 10 times the pension in payment less the amount already paid.
- Three tier ill health
- Additional periodic payments to increase pension benefits
- Cohabiting partners benefits

3.10 **More Information**

A members' guide with complete details of the scheme is available from the Pensions Section.

4. Financial Summary

4.1 The Fund Account (page 30) shows a net Fund increase of £149.0 million for 2010/11 compared to the £463.6 million increase in the Fund in 2009/10. The key changes are shown in the table below.

Fund Account 31 March 2011	
	£000
Employees/Employers Contributions	110,304
Payments & Refunds	(81,496)
Net Transfer Values	(1,247)
Returns on Investments	127,250
Other Income/Expenses	(5,810)
Net Increase/(decrease) in the Fund	**149,001**

4.2 Contributions to the Fund from members and employers have decreased by £3.6 million from £113.9 million in 2009/10 to £110.3 million in 2010/11.

4.3 Transfer values received have decreased from £12.6 million to £7.3 million and those paid out have decreased from £8.9 million to £8.5 million.

4.4 Payments to beneficiaries in respect of pensions have increased by £5.3 million from £76.2 million in 2009/10 to £81.5 million in 2010/11.

4.5 The net assets of the Fund are represented primarily by investments (see below and page 35). Appendix 1 (page 47) shows the movement in the market value of investments since March 2002 and the tactical asset allocation.

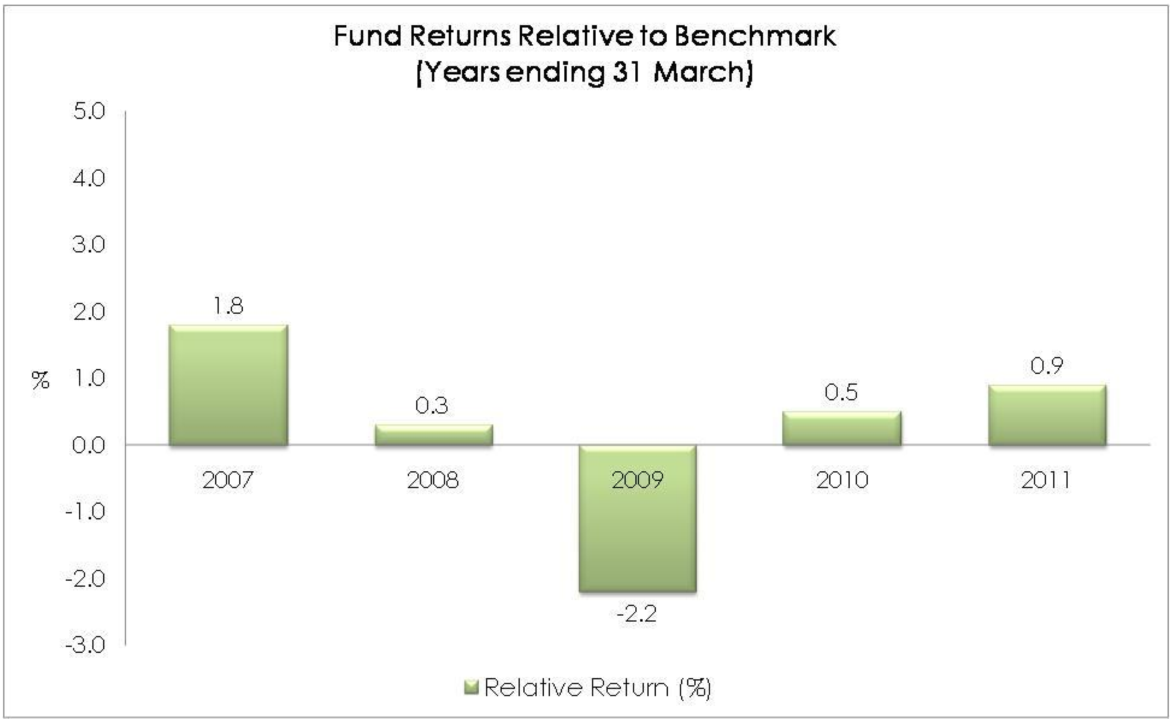
Net Assets 31 March 2011		
	£000	£000
Fixed Interest	243,664	
UK Equities	635,340	
Overseas Equities	693,004	
Property Unit Trusts	34,685	
Alternative Investment	4,013	
Cash	36,253	
Other Investment balances	2,941	1,649,900
Investment liabilities		(324)
Current assets		14,573
Current liabilities		(3,371)
Net Assets of the Fund		**1,660,778**

4.6 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2011 the Greater Gwent Fund is shown to have made a rate of return of 8.2% compared with 7.3% for the benchmark or average fund return.

4.7 The benchmark is rebalanced annually (December) and uses comparison indices based on a weighting of 38% UK Equities, 30% Overseas Equities, 14% Fixed Interest, 9% Global Equities, 2% UK Property Unit Trusts, 4% Other Assets and 3% Cash.

4.8 The 0.9% out-performance for 2011 means that the Greater Gwent Fund has achieved an above average performance in 4 out of the last 5 years.

4.9 The graph below illustrates the Greater Gwent (Torfaen) Pension Fund returns as compared to the benchmark return over the last five financial years.



Source: BNY Mellon Asset Servicing

5. Conclusions

5.1 The aftermath of economic upheaval in global economic markets, combined with the first coalition in UK politics for decades, provided the opportunity for a renewed debate about how to provide and fund public sector pension provision in the future. The Hutton proposals when combined with a host of other related Government proposals create a clear route to major change in public sector pensions that will affect both current and future members in the years to come. Throughout such turbulence, and to their immense credit, the officers involved with the pension fund continue to place the scheme members first and I would like to take this opportunity to thank them for all their hard work and commitment during the year.

NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES
TORFAEN COUNTY BOROUGH COUNCIL
JUNE 2011

MANAGEMENT AND INVESTMENT

1. Management Structure

1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 first set out a requirement for Local Government Pension Funds to produce a Statement of Investment Principles (SIP). The document is designed to define the objectives of the Pension Fund clarifying the investment policies that are in operation and the administrative arrangements in place. Much of the following is lifted from the Funds current SIP.

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 2011 the structure of the Pensions Committee was as follows:-

Chairperson
County Borough Councillor - Cllr Maria Graham

Committee Members
County Borough Councillor - Cllr Julianna Biggs
County Borough Councillor - Cllr Aneurin James
County Borough Councillor - Cllr Ron Jones
County Borough Councillor - Cllr Margaret Pead
County Borough Councillor - Cllr Brian Matthews (retired 25/05/2010)
County Borough Councillor - Cllr Colette Thomas (appointed 25/05/2010)

Chairperson
County Borough Councillor
Cllr Maria Graham

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

External Independent Investment Advisor
Mike Lewis, Wesleyan Assurance

Consulting Actuary
Mercer Limited

Independent Investment Consultant
Mercer Limited

Investment Fund Managers
Aberdeen Asset Management
Baring Asset Management
BlackRock
Lazard 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 for the first time. 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 Barings. 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 an initial 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. This initial programme of training has been 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. Following completion of this initial programme of training, the remainder of 2010/11 saw a particular training focus on the consideration of Environmental, Social and Corporate Governance within the Fund's investment process in parallel to the work of the Fund's ESG Working Group.

During 2010 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its "Knowledge and Skills Framework", the first such comprehensive training framework for those involved in the management and decision making across public sector pensions. Pension Funds are encouraged to adopt this framework to demonstrate their commitment to providing the necessary training to decision makers and practitioners. The Greater Gwent (Torfaen) Pension Fund is supportive of the framework and will ensure that its requirements are considered in the further phases of training that will be provided during 2011/12 and in to the future. The training needs of the Pensions Committee; the PFMG and officers who support the Fund will all be considered within the further phases of training. Updates on training undertaken and knowledge and skills development will continue to be included within Pensions Committee agendas and an annual review will be provided within all future Pension Fund Annual Reports.

2. Investment Powers

2.1 The principal powers to invest 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.

2.2 The Regulations impose maximum investment restrictions on the administering authority, shown by investment type. These include:-

i. No more than 15% in all sub-underwriting contracts and no more than 5% for any single sub-underwriting contract.
ii. No more than 15% total contribution to partnerships and no more than 5% contribution to single partnership.
iii. No more than 10% in deposits with any local authority.
iv. No more than 15% in unlisted securities of companies.
v. No more than 10% in any single holding.
vi. No more than 10% deposited with any single bank, institution or person (other than the National Savings Bank).
vii. No more than 35% in unit trusts or other collective investment schemes managed by any one body.
viii. No more than 35% in any single insurance contract.
ix. No more than 35% may be subject to stocklending arrangements.

2.3 The above limits include increased limits as allowed for within Paragraphs 14 and 15 of the 2009 Regulations. The extent to which the increased limits are used in practice are a matter of decision by pensions committees of the administering authority, having taken proper advice in the matter.

3. Investment Objectives

3.1 The objective in investing Fund monies is the maximisation of the return on the money entrusted to the Fund, consistent with acceptable levels of risk (the portfolio's performance directly influences the contribution employers need to make to the Fund to pay for the statutory benefits payable from it). However, two special 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 employee's salaries and wages to the time of retirement.

3.2 At present income is exceeding expenditure and so the Fund has not been faced with the prospect of enforced realisation of investment; sales have been made only to improve the eventual return, either by way of capitalising profit and so creating additional future income or by employing the money invested to better advantage. On the other hand, the Fund is vulnerable to the ravages of inflation and these can be mitigated only by the purchase of real assets such as ordinary stocks and shares and property.

3.3 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 14).

3.4 In line with the fund's investment strategy, the assets are primarily held with five external fund managers and these arrangements have been unchanged throughout the year. At the close of the year, the external managers primarily managing the Fund's assets were Aberdeen Asset Managers, Baring Asset Management, BlackRock, Lazard Asset Management and Standard Life Investments.

3.5 The following table shows the Fund's investment management arrangements reflecting current strategy. The percentage values are strategic allocations and do not reflect current cash levels and marginal tactical allocations across the portfolio to other asset classes, which at 31 March 2011, were predominantly to Far Eastern and Emerging Market Equities:-

Greater Gwent (Torfaen) Pension Fund Management Structure			
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	Passive	BlackRock	3.0
Far East Equities	Active	Barings	4.0
Emerging Markets	Active	Barings	2.0
Global Equities	Active	Aberdeen	9.0
Fixed Interest			
Government Bonds	Active	BlackRock	7.0
Corporate Bonds	Active	BlackRock	7.0
Other (via TCBC)			
Cash	Active	TCBC	3.0
Property Unit Trusts	Active	TCBC	2.0
Alternative Investment	Active	TCBC/To be appointed	4.0
Total			100

3.6 At 31 March 2011 the investment assets of the Fund (measured at bid-price market value) were administered as follows:-

Investments at Market Value	**£000**	**%**	**Cash & Other Balances £000**	**%**	**Total £000**	**%**
BlackRock	863,536	52.4	1,824	0.1	865,360	52.5
Lazard	329,729	20.0	3,928	0.3	333,657	20.3
Baring AM	156,208	9.4	-	-	156,208	9.4
Aberdeen	146,866	8.9	-	-	146,866	8.9
Standard Life	75,669	4.6	-	-	75,669	4.6
TCBC	38,698	2.3	33,442	2.0	72,140	4.3
Total	1,610,706	97.6	39,194	2.4	1,649,900	100

To comply with reporting requirements, investment liabilities such as pending purchase costs are shown separately within the net assets statement, rather than reducing cash balances (please see page 38).

4. Statement of Investment Principles

4.1 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.

4.2 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.

4.3 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.

4.4 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, are less easy to realise in a timely manner but this constitutes a small portion of the Fund and is not considered to have any adverse consequence.

4.5 Investment Management Arrangements

Investment managers have been appointed to manage virtually all assets of the Fund. The five external managers who manage the Fund's assets and who make day to day investment decisions are Aberdeen Asset Managers, Baring Asset Management, BlackRock, Lazard 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 quarterly and reviewed annually. The managers' fee structure is based on a percentage of the market value of the managed assets, with performance elements also included for Barings. Though investments are predominantly externally managed, just over 4% of the Fund is 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 4% strategic asset allocation to alternative investments has been partially allocated during 2010/11 with the Fund entering into a limited partnership with other investors and committing £15 million to the M&G UK Companies Financing Fund, a fund aimed to provide FTSE listed companies with an alternative to the banks in sourcing their financing requirements.

4.6 Risk

The Investment Panel 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 Council's website via the link on Page 16 of this document.

4.7 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.

4.8 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.

5. Socially Responsible Investing & Corporate Governance

5.1 Socially Responsible Investment

The Fund has previously considered how Social, Environmental and Ethical factors should be taken into account in the selection, retention and realisation of investments. This was 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. As part of its 2010/11 work-plan the Pensions Committee has again reviewed the Fund's approach to Socially Responsible Investment and decided to form 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 has met several times since the end of 2010, reviewing the Fund's current approach and considering options for change. The Group is expected to report its proposals back to the Pensions Committee for consideration later in 2011. Any subsequent policy decisions made by the Pensions Committee will be incorporated in future versions of the Statement of Investment Principles.

5.2 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 previous versions of the Fund's Statement of Investment Principles have shown 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 the original Myners principles and these revised principles that have influenced various sections of the Fund's Statement.

5.3 As part of its ongoing 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 is contained within the full Statement of Investment Principles in respect of the Fund's degree of compliance with the revised set of principles.

6. Funding Strategy Statement

6.1 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 has been updated following the 2010 triennial actuarial valuation, and is available via the link on Page 16 of this document.

7. Communications Strategy

7.1 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 will help 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

7.2 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

8. Pension Fund Annual Report

8.1 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 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.

8.2 The Fund has therefore included in the annual report a summary of the following required key documents which are available in full from the Head of Pensions and Employee Services or via the hyperlinks on the Councils web site shown below.

- **2007 Actuarial Valuation**
http://www.torfaen.gov.uk/AdviceAndBenefits/LocalGovernmentPensionScheme/Publications/ActuarialValuationReport31March2007.pdf

- **2010 Actuarial Valuation**
http://www.torfaen.gov.uk/AdviceAndBenefits/LocalGovernmentPensionScheme/Publications/ActuarialValuationReport31March2010.pdf

- **Governance Policy & Compliance Statement**
http://www.torfaen.gov.uk/AdviceAndBenefits/LocalGovernmentPensionScheme/Publications/GovernancePolicyCompStatement-2011-12.pdf

- **Funding Strategy Statement**
http://www.torfaen.gov.uk/AdviceAndBenefits/LocalGovernmentPensionScheme/Publications/FundingStrategyStatement-April2011.pdf

- **Statement of Investment Principles**
http://www.torfaen.gov.uk/AdviceAndBenefits/LocalGovernmentPensionScheme/Publications/StatementOfInvestmentPrinciples-2011-12.pdf

- **Communications Strategy Statement**
http://www.torfaen.gov.uk/AdviceAndBenefits/LocalGovernmentPensionScheme/Publications/CommunicationsStrategy2005-2006.pdf

9. Fund Manager Investment Reports

9.1 BlackRock (52.5% of investment assets)

BLACKROCK

Investment Performance 1 April 2010 to 31 March 2011					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
UK Equities	8.7	8.7	8.8	0.1	0.1
US Equities	9.2	9.2	9.2	-	-
European Equities	7.0	8.5	10.5	3.5	2.0
Japan Equities	-4.2	-4.2	-4.1	0.1	0.1
UK Gilts*	5.2	6.7	6.2	1.0	N/A
Corporate Bonds*	5.2	6.7	5.8	0.6	N/A
*Combined performance target of 1.5% above benchmark					

Market Background

Q2 2010: It was a very weak quarter for US equities, reflecting the sovereign debt crisis in the euro zone. Investors were also nervous about the financial regulation legislation making its way through the US legislature. Finally, at the end of the quarter, after a brief rally, investor sentiment was undermined by a series of weak economic data releases, with some commentators talking of a possible double-dip recession. European equities also suffered due to concerns about the ability of a number of states in southern Europe to service their sovereign debt. Later in the quarter, investors were generally concerned about a global economic slowdown, which could add to Europe's woes. The UK stock market was also caught up in the negative sentiment that hit the euro zone; while investors also wanted to see the new UK government tackle the UK's own sovereign debt problem. While the new government's fairly austere emergency budget and rather tougher rhetoric have been good for investors in UK bonds, they have not helped UK shares. The Japanese equity market was one of the worst performing markets over the period. This was in spite of relatively good economic news from Japan, with concerns focused on Japan's exports given a possible sharp slowdown in China as well as the sovereign debt crisis in Europe. Overall, emerging markets did a bit better than developed equities during the quarter. Bond markets were driven by the continuing interplay between concerns over sovereign credit risk, the potential for contagion into the euro zone financial system and the outlook for global economic growth. Corporate bonds underperformed government bonds during the quarter, with the market at times beset by illiquidity and abrupt bouts of risk aversion on the part of investors.

Q3 2010: US equities finished the quarter very strongly as expectations of further quantitative easing from the Federal Reserve before the end of 2010 grew. This followed comments from the central bank that it would take whatever monetary policy action was necessary to counter low growth levels or deflation risks. While the recovery in US growth became more entrenched, economic data was mixed. European and emerging market equities also finished the quarter in buoyant mood as prospects of a double-dip recession receded and some encouraging economic data emerged in both regions. A substantial depreciation in the US dollar exchange rate against the euro, yen and other currencies was a significant factor in market sentiment during the period. For instance, the price of gold and other commodities moved higher as the dollar weakened. The yen also reached a 15-year high against the dollar, prompting the Japanese central bank to intervene in the currency markets in a vain attempt to stem the currency's appreciation. In the UK, Gilt yields followed Treasuries and Bund yields lower in 'a flight to safety' by investors as strains in peripheral euro zone sovereign debt markets persisted after the area's sovereign debt crisis of the previous quarter. Corporate bonds were supported by robust fundamentals in the third quarter, with companies reporting better than expected earnings for the previous quarter.

UK equities followed other markets higher during the quarter. While the improvement in equity valuations was broad based, bank stocks received a boost from better-than-expected EU bank stress test results and the eagerly awaited publication of the Basel III capital regulations. The Japanese equity market weakened significantly during the quarter as the stronger yen hindered export prospects for Japanese companies to the US and Europe in particular. The election of the Liberal Democratic Party to govern Japan for the first time in over 50 years did little to affect market sentiment.

Q4 2010: Fears of renewed sovereign weakness in peripheral Europe dominated the quarter, after Ireland requested a €85bn bail-out in November. Global equity markets finished the month down, but US markets were flat on improving macro-economic data and further quantitative easing. Capital controls in emerging markets were also a concern. Further, China raised its ratio requirements for the fifth time that year, while Hong Kong and Korea implemented similar measures. However, equity markets finished the year in a bullish mood as the FTSE and S&P reached its highest level since mid 2008, thanks to supportive macro data particularly from Germany and the US, Korean tensions easing, and the resolution of uncertainty over the extension of the Bush tax cuts. Germany continued to lead the recovery in the developed world, evidenced by higher than expected PMI and IFO data. In the US, key manufacturing surveys yielded positive surprises and jobless claims continue to decline, although GDP data in October was weaker than expected. UK PMI and retail sales were solid while both unemployment and inflation remained stubbornly high. Public sector borrowing in November reached a record high suggesting that the effects of UK austerity are still a long way from feeding into public finances. Government bonds suffered in the climate of sovereign uncertainty with the European periphery being particularly badly hit in November. Treasuries sold off and in Europe peripheral CDS reflected the fears in the market as Greece and Ireland widened. In December, bond yields rose over the month, with US ten-year yields rising due to upgrades in future growth estimates and partly due to concerns that the extension of the Bush tax cuts would place downwards pressures on US credit rating. After a month of dollar weakness in October, November saw dollar strength as the greenback appreciated against all currencies to end the month 3.9% higher. Unsurprisingly the euro sold off as sovereign concerns undermined robust German data. In December, USD / JPY barely traded outside of the 83 / 84 range.

Q1 2011: A tumultuous quarter saw headlines dominated initially by unrest in the Middle East and North Africa ('MENA'), and ongoing concerns on the issue of sovereign debt in the European periphery. Both were eclipsed by the tragic event of the Japanese tsunami. In the immediate aftermath, shares on the Nikkei fell significantly. The Yen hit record highs against the US Dollar, prompting intervention from both the Bank of Japan and the G7 to stabilise levels. Against this backdrop, global markets have proved remarkably resilient, suggesting that the recovery remains broadly on track despite the increased risk of periodic setbacks. Growth appears to be slowing somewhat, albeit from an admittedly high level, whilst inflation levels have steadily risen, particularly in Emerging Markets. This has been partly as a result of the continued turmoil in the MENA region. However, even before this had begun to drive oil prices up, non-discretionary staples such as food were already bearing the brunt of an increasingly inflationary global environment. Data from the US was mixed, with jobless claims and the trade deficit increasing by more than expected in January, while US economic growth for Q4 was revised upwards. Retail sales and consumer spending also increased in February.

The picture was similarly mixed in the UK, as disappointing Q4 GDP numbers were somewhat tempered by a seasonally adjusted PMI Index of 57.1. In Europe, the sovereign debt crisis continued to simmer as Spanish debt was downgraded by Moody's in March, while growth in the region's periphery contracted in the final quarter of 2010. In Portugal, the implementation of tough austerity measures were not enough to prevent two ratings downgrades by Moody's and one by S&P in less than one month. Prior to the tsunami, Japan was surpassed by China as the second largest global economy. Japan suffered as a result of faltering exports and a fall in consumer demand, whilst China benefitted from a boom in manufacturing. Nevertheless, the Chinese economy had its own in-house issues to deal with. Inflation rose to 4.9%, driven by higher food and fuel prices, whilst March saw the posting of a surprise trade deficit – China's first in twelve months – as exports slowed.

Portfolio Activity

UK/US/Japan Index Equities

BlackRock believes the most reliable approach to indexing is full replication, where a basket of securities is held in the same proportion as they are represented in the relevant index.

Active European Equities

The European fund strongly outperformed its benchmark over the 12 months to the end of March 2011, beating its benchmark every single quarter.

The start of the period was difficult for European equities. The Euro zone periphery sovereign debt crisis caused a double digit correction in equity markets over the summer months. Concerns over fiscal balance sheets then evolved into fears over the sustainability of the recovery in developed economies. As growth rates in developed markets were expected to remain low, investors focused on companies with exposure to emerging markets. During this period our Sentiment indicators captured the impact of these macro themes on stock returns. In particular our currency effect signals dynamically positioned the portfolio towards stocks benefiting from the prevailing weakness in the Euro.

Entering into Q3 saw the announcement by the Fed to start a new asset purchase programme amounting to $600 billion, which led to a liquidity driven recovery in equity markets. This was followed by a strong earnings season and a mixture of better than expected economic data in Q4. Against this improving macro background, most notably proprietary analyst insights captured those stocks most exposed to rising earnings forecasts. Value strategies also emerged from a period of poor performance as investors became more confident in the broader economic recovery and rotated towards attractively priced stocks. Sentiment insights continued to perform strongly.

However, the first quarter of 2011 saw a sharp return of volatility increase. This was caused by the catastrophic earthquake in Japan together with lingering concerns regarding political and social rebellion in the Middle East. We were able to benefit from this increased volatility through our faster moving signals, which bet on short term reversals. Furthermore Earnings Quality contributed considerably, as investors were looking for companies with a stable asset base and an ability to generate cash flows in uncertain market environments.

Gilts

The fund outperformed its benchmark over the year to March 31st 2011 despite the European sovereign debt crisis bringing bouts of risk aversion to the markets which have shaken risk assets. Majority of returns driven by the Gilt Stock Selection strategy as well as overweight position in risk assets such as corporate bonds versus agencies. During May 2010, when the sovereign concerns escalated, risk assets underperformed which detracted from Fund performance. However, during the review period overall, positioning has benefitted from the overall trend of spread tightening. Financials have been the best performing sector where overweight positions have been the most consistent. Industrials have also brought significant excess returns as economic recovery has set in and avoided the 'double-dip' scenario, despite concerns still existing over the pace and strength of the recovery. The fund reduced overweight duration positions in industrials and financials into year end as well as well underweighting peripheral European issuers. This helped avoid some of the contagion surrounding the bailout of Ireland in November.

Within the Rates strategies the most notable contributor was the Gilts Stock Selection model which posted consistent positive returns throughout the period. Positions changed throughout the period based on Gilt supply patterns. In January and February 2011, butterfly positions (overweight the front-end and long-end) on the UK Gilt curve contributed significantly.

Corporate Bonds

The fund outperformed its benchmark over the year to March 31st 2011 despite the European sovereign debt crisis bringing bouts of risk aversion to the markets which have shaken risk assets. The fund has held overweight positions in risk assets such as corporate and securitised bonds versus agencies which has led to underperformance when sovereign concerns have escalated, most notably in May and November of 2010. However, positioning has benefitted from the overall trend of spread tightening. Financials have been the best performing sector where overweight positions have been the most consistent. The fund has focused overweight positions in senior and lower tier 2 issues against the riskier subordinated bonds. Industrials have also brought significant excess returns as economic recovery has set in and avoided the 'double-dip' scenario, despite concerns still existing over the pace and strength of the recovery. The fund reduced overweight duration positions in industrials and financials into year end as well as well underweighting peripheral European issuers. This helped avoid some of the contagion surrounding the bailout of Ireland in November. Rates models have detracted after weaker performance in early 2011. Tactical trading around auctions has been the strongest strategy as opportunities have been good. Short term interest rate strategies have been weaker most notably in February 2011.

9.2 Lazard Asset Management (20.3% of investment assets)

LAZARD

Investment Performance 1 April 2010 to 31 March 2011					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
UK Equities	8.7	10.7	9.1	0.4	-1.6

Market Background

Market Review – 12 Months to 31 March 2011

The FTSE All-Share appreciated by 8.7% over the twelve-month period ending March 2011. Markets were volatile at the beginning of the period as a combination of sovereign debt concerns in Europe, the UK General Election resulting in a hung Parliament and BP's disastrous oil spill occupied the thoughts of commentators and investors alike. However, markets recovered in the second half of 2010, as investors reacted positively to encouraging macroeconomic data, third quarter earnings that continued to underpin analysts' forecasts and a fresh round of Quantitative Easing (QE) by the US Government.

The first quarter of the New Year was highly volatile as markets were rocked by both the humanitarian and nuclear crises in Northern Japan and the unrest in the Middle East and North Africa. Rising inflation and poor UK Gross Domestic Product (GDP) figures also weighed on investors' minds. However, UK equities held onto the strong gains made in the previous six months, recovering strongly towards the end of March.

From a sector perspective, all sectors enjoyed positive absolute returns, with basic materials, telecommunications and utilities amongst the strongest performers. Consumer services and financials posted poor relative returns.

Portfolio Activity

Performance Review

The portfolio outperformed its benchmark during the period under review. Stock selection amongst financials and industrials helped returns, while stock selection in consumer goods and telecommunications detracted from performance.

Stock selection in banks was additive to returns, as the sector had a volatile twelve months as a result of concerns over European sovereign debt issues. We benefited from being on average underweight Barclays (the stock was sold during the period), but an overweight in Standard Chartered detracted from relative returns. Life insurance as a sector delivered strong share price performance over the period, which is reflected in our overweight in Prudential. We have taken profits and trimmed the position during the first quarter of 2011. In telecommunications, our underweight position in Vodafone detracted from relative returns as it outperformed the index by over 10% over the period under review. The defensive nature of its strong cash flow generation helped to buoy the share price, bolstered further by its holding in Verizon Wireless.

London Mining, which develops and operates mines supplying iron ore to the steel industry, was additive to returns. A convertible bond issue was 2.5 times oversubscribed in February, at which time the share price rose sharply as funding concerns abated. Low-cost carrier easyJet reported disappointing results, while soaring oil prices pose a further concern regarding future input costs and their impact on margins and demand. We are maintaining our current position as passenger traffic numbers continue to grow and business users migrate away from the flag carriers.

Lastly, our holding in engineering company IMI was additive to returns following an announcement that earnings for 2010 are expected to be toward the upper end of analysts' estimates.

Current Strategy

We remain cautiously optimistic in our outlook for UK equities, given the market's resilience in the face of a number of unprecedented global events. The performance of the UK market despite the range of potential setbacks is very supportive of our view that UK equities remain attractively valued.

The past quarter in particular has not been stock specific; in addition to the global news markets have had to contend with, January saw the most significant sector rotation in Europe in ten years. This sector rotation has now begun to break down and we should see fundamentals return as the key driver of the market in the coming quarter.

In 2010 the market performed well and was given the perfect excuse to give all those gains away following the crises in Japan and the Middle East. However, the FTSE 100 is almost flat year-to-date, lending credence to the strong valuations underpinning the market. Share prices are strong enough to withstand macroeconomic shocks of the nature we have seen in the past three months. With earnings estimates remaining strong, we believe that there is still a great deal of scope for share price progression moving into the second quarter of 2011.

9.3 Baring Asset Management (9.4% of investment assets)

BARINGS

Investment Performance 1 April 2010 to 31 March 2011					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Far East Equities	14.4	16.4	13.7	-0.7	-2.7
Emerging Market Equities	12.4	14.4	10.5	-1.9	-3.9

Market Background

Emerging Markets equities experienced a volatile but positive period under review as the market witnessed numerous events including the ending of quantitative easing (QE1) in the US which was followed by QE2 by the US Fed in Q4 2010, inflation concerns in emerging markets, concerns over the outlook for growth in the developed world, sovereign debt issues across the Euro zone including Greece, Ireland and Portugal and numerous geo-political events including the unrest in the Middle East at the beginning of 2011. Emerging market equities suffered as QE1 ended and dropped through April and May 2010 but rebounded strongly through Q3 2010 as liquidity and liquidity expectations from QE2 in the US helped risk assets, including emerging market equities. The rally in the asset class stalled though in the middle of November as inflation concerns and what impact the higher inflation in the domestic emerging economies would have on the growth expectations resulted in a rotation trade from emerging market equities into mainly US equities, which hampered the performance of emerging market equities through Q4 2010 and Q1 2011.

Regarding the Far East, trading conditions were volatile at the beginning of 2010. The period from March to May 2010 witnessed a sharp correction in all Asian equity markets. This was caused by concerns of a 'double dip' scenario developing as economic data in the US and elsewhere disappointed, together with the emergence of the Greek sovereign debt crisis and the continuation of restrictive measures implemented by the Chinese government to arrest the boom in residential properties and unproductive infrastructure projects. From May to October 2010, equity markets rebounded strongly. The 'double dip' fear scenario lost its credibility as the US Federal Reserve announced the implementation of another phase of quantitative easing ("QE2") and the Greek debt crisis was perceived as being 'contained'. In addition, China reiterated that they do not want to suppress economic growth but only to slow it down to a more sustainable, non-inflationary growth path. From November 2010 to March 2011, Asian equity markets consolidated and fluctuated within a 10% trading range. Positive factors included the better-than-expected fiscal incentive package in the US, continuing signs of recovery in the developed economies, and positive inflows into equity markets. Negative factors included the acceleration of the monetary policy tightening.

Portfolio Activity

The emerging market equities portfolio started the period under review focused on domestic focused growth stocks within emerging markets such as consumer staples, consumer discretionary and financials. During the second half of 2010 the portfolio reduced exposure to these domestic stories in many markets including, but not limited, to Turkey and Indonesia as valuations became stretched in many of our holdings and increased exposure in stocks and markets more exposed to a recovery in global cyclical growth, and this included increasing exposure to exporters in South Korea. We maintained our overweight exposure to China throughout the period and increased our Chinese portfolio near the end of the period as valuations remained very attractive given the growth expectations.

We also remained overweight Russia as oil prices moved higher throughout the period and domestic economic indicators improved through Q3 and Q4 2010. We however remained underweight both Brazil and India throughout this period as both economies continued to suffer from rising inflation expectations and deteriorating economic fundamentals. We were also underweight South Africa as we are concerned at both the underlying economic fundamentals as well as the direction of policy adopted by the incumbent government.

In the Asian portfolio, we reduced the portfolio exposure to China H-shares and Taiwan, and added to Korea and Hong Kong. While China's longer-term prospects remained positive, we took the view that its equity market could continue to underperform the region in the near term, as we saw no sign of easing on the property sector and monetary policy. From a thematic perspective, we continue to believe that rising urbanization rates will drive infrastructure spending (such as China's railway infrastructure) and lead to strong consumption demand. The Fund is positioned to benefit from these long-term growth themes. In our opinion, Korean and the off-benchmark Indonesia market looked attractive based on their valuation and earnings revisions trends. We were neutral in Australia, while overweight miners in preferred minerals such as iron ore, copper, and gold.

9.4 Aberdeen Asset Management (8.9% of investment assets)

Aberdeen

Investment Performance 1 April 2010 to 31 March 2011					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
MPF UK Active Fund	7.9	10.9	7.6	-0.3	-3.3

Market Background

The year to March 2011 saw positive returns across global equity markets, as represented by the MSCI World Index (+7.9% in sterling), but this disguised a range of returns and considerable volatility. Although equity markets had rallied strongly in the previous period, an indication of the enthusiasm and aspirations that there might be a sharp rebound from the recent severe recession and economic ills, the year to March 2011 reflected the nervous nature of investors, monitoring economic data, fiscal and monetary policy and the particular travails of peripheral European countries.

With the notable exception of the USA, there was a broad shift of policy within developed economies from stimulus towards austerity, and this sharpened the focus on the rate of economic activity, with growing concern that economic recovery would falter. There was also heightened volatility as speculation about the economic stability of weaker European countries built momentum, leading to recovery plans for Greece in May followed by Ireland later in the year, and further concerns about other heavily indebted peripheral European countries.

The other broad focus for investors was the impact of the sustained stimulus from the western economies, in the form of emergency level interest rates, quantitative easing and other measures, on the wider global economy. Asian and emerging economies appeared to be more affected by the inflationary impact of the stimulus policies, which led to rising interest rates and other less conventional measures also intended to combat inflation.

Other factors that investors had to address included the popular uprisings in a number of Middle East and North Africa countries, which has brought some change, but tensions in several other countries in the region were translated to a marked increase in oil prices. There were two major earthquakes in 2011, the shock of the first in Christchurch, New Zealand being eclipsed by the magnitude and potential economic impact of the second, off the north east coast of Japan. The consequences for the country and across the region of the subsequent nuclear disaster and the interruptions to distribution supply chains cannot yet be fully quantified.

Portfolio Activity

Activity through the year reflected our growing unease at the apparent enthusiasm that the global economy would sustain strong rate of growth, and consequently the valuations placed on the more cyclical businesses. We remain cautious about the rate of growth that some stocks appear to be discounting, and continue to look for steady, defensive companies that should achieve good earnings and cashflows even if economic activity falters. Examples of new additions include global businesses such as Nestle and PepsiCo, and domestically oriented investments such as Banco Bradesco, a Brazilian lending bank and FEMSA, a Mexican convenience store and operator and the largest beverage company in Latin America. We have reduced exposure to cyclical names such as Rio Tinto, Samsung Electronics, Intel and Fanuc, a Japanese robotics firm.

The global equity portfolio trailed the index marginally, as the relative underexposure to North America was only partially offset by the higher allocation to Asia and emerging economies. Sector allocation and stock selection within countries, however, were positive; for example the limited exposure to Financials and a higher weighting to Energy. Successful stock selection in Industrials was also beneficial, for example Schneider Electric, the French power distribution business; and Fanuc. Mobile telephone giant Vodafone was also a strong positive. These were partially offset by E.On, the German utility company; Swiss pharmaceutical Roche; and Canon from Japan.

The coming year will be characterised by further austerity measures in western economies, which will restrict the economic recovery; and good growth in developing economies, albeit with inflationary pressures that will require policy responses. The portfolio continues to be focused on high quality, well managed, cash generative businesses that are either internationally established as leaders in their sectors or are oriented towards the domestic consumer expansion in Asia and other growing regions.

9.5 Standard Life Investments (4.6% of investment assets)

STANDARD LIFE INVESTMENTS

Investment Performance 1 April 2010 to 31 March 2011					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Institutional UK Equity Select	8.7	11.7	4.7	-4.0	-7.0

Market Background

Renewed fears over Greek debt and possible contagion in the rest of the Euro-zone led UK share prices lower at the beginning of the period. Sentiment was also dented by Australia's proposal for a 40% mining tax, tensions in the Korean peninsula and BP's unsuccessful attempt to cap an oil leak in the Gulf of Mexico.

A steady stream of more positive news flow spurred investors at the start of the summer, bringing to an end three consecutive months of negative returns. However, the relief was short-lived as worries about the sustainability of the global economic recovery returned. UK share prices recovered strongly towards the end of the third quarter, as investors became slightly more optimistic on the prospects for global economic recovery.

October saw the FTSE 100 Index hit a 6-month closing high mid-month, driven by mining stocks that surged on the back of firmer metals prices and hopes for fresh stimulus in the US. However, UK banking shares proved particularly vulnerable in November, when stock market moves were dominated by European debt uncertainty. The market then rallied into year end as increasing confidence over the global economic recovery saw the FTSE 100 Index break through 6,000 for the first time since June 2008.

January saw much more modest returns, as evidence of strong economic growth in China prompted fears over monetary tightening, which undermined UK mining stocks throughout the month. News that the UK economy had in fact shrunk over the fourth quarter of 2010 also affected the share prices of UK companies exposed to the domestic market. Over February and March, investor confidence remained fragile. Domestic economic news flow was downbeat and investors were also subject to geopolitical shocks in the Middle East and North Africa and natural disasters in Japan. Despite this, UK stock markets ended the first quarter of 2011 modestly higher.

Portfolio Activity

A preference for Dixons Retail was detrimental, as consumer-related stocks suffered due to a combination of potential pressures from tax rises, job losses and severe winter weather impacting the retail sector. In the banking sector, Lloyds Banking Group and Barclays hindered returns. The stocks were dragged down by fears over sovereign risk in peripheral European countries, deteriorating impairments in Ireland and concerns over regulatory capital and funding requirements. The Fund's exposure to Yell Group was also detrimental to performance. This followed uncertainty over the timing of management change as well as limited guidance on expected revenues. More positively, Fund performance benefited from an overweight stance in industrial cyclical stocks. Our position in GKN, the automotive components manufacturer, significantly boosted returns, after the firm delivered robust trading updates, driven by better-than-expected growth rates in both European and US auto production. Mining stocks Rio Tinto and Xstrata also drove performance, given increasing confidence in the global growth outlook and the subsequent demand for commodities. Elsewhere, our limited exposure to Standard Chartered proved beneficial following the company's unexpected rights issue to raise capital in order to bolster its regulatory capital position. Finally, not owning Tesco significantly helped Fund returns. The stock retreated towards the end of the period after the company reported poor sales results.

The UK equity market has continued to see upgrades to corporate earnings through the first quarter of 2011. The valuation that investors are prepared to place on these earnings has remained low, reflecting a lack of confidence in the economic recovery. This is despite earnings being driven by upgrades to top-line growth expectations, which should arguably command a higher rating than cost cutting-driven growth. While the UK equity market remains exposed to swings in macroeconomic sentiment, there is strong bottom-up support from continuing robust earnings momentum and balance sheet strength, neither of which appear to be priced in at current low valuations.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

GREATER GWENT (TORFAEN) PENSION FUND

Accounts for the year ended 31 March 2011

Statement by Consulting Actuary

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Greater Gwent (Torfaen) Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 18 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £1,512 million represented 74% of the Funding Target of £2,042 million at the valuation date. The valuation also showed that a common rate of contribution of 11.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 7.9% of pensionable pay for 20 years. This would imply an average employer contribution rate of 19.0% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 18 March 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

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

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

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

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.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £2,250 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £2,064 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2011

Independent Auditor's Statement to the Members of the Administering Authority of the Greater Gwent (Torfaen) Local Government Pension Fund

I have examined the pension fund accounts and related notes contained in the 2010/11 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 2011 which were authorised for issue on 27 September 2011. 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 2011 which were authorised for issue on 27 September 2011 on which I issued an unqualified opinion.

Name:	**Anthony Barrett**	**Address:**	**Wales Audit Office**
Position:	**Appointed Auditor**		**24 Cathedral Road**
Date:	**28 September 2011**		**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 auditor 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

Pension Fund Accounts 2010/2011

Fund Account for the Year Ended 31 March 2011

	Note	2010/11 £000	2009/10 £000
Contributions and benefits			
Contributions receivable	3	(110,304)	(113,894)
Transfers in	4	(7,265)	(12,603)
Other income	5	0	0
		(117,569)	(126,497)
Benefits payable	6	81,491	76,190
Payments to and on account of leavers	7	8,517	8,890
Other payments	8	25	5
Administrative expenses	9	1,675	1,444
		91,708	86,529
Net additions from dealing with members		(25,861)	(39,968)
Returns on investments			
Investment income	10	(17,099)	(16,043)
Profit and losses on disposal of investments and changes in value of investments	11a	(110,151)	(410,814)
Investment management expenses	12	4,110	3,218
Net returns on investments		(123,140)	(423,639)
Net increase in the net assets available for benefits during the year		**(149,001)**	**(463,607)**
Net assets of the Scheme			
At 1st April		1,511,777	1,048,170
Net increase in the net assets available for benefits during the year		149,001	463,607
Closing net assets as at 31st March		**1,660,778**	**1,511,777**

Net Assets Statement for the Year Ended 31 March 2011

	Note	As at 31 March 2011 Bid Price basis £000	As at 31 March 2010 Bid Price basis £000	As at 1 April 2009 Bid Price basis £000
Investment assets	11a	1,649,900	1,501,677	1,042,438
Investment liabilities	11c	(324)	(118)	(1,204)
Current assets	13	14,573	13,970	9,045
Current liabilities	14	(3,371)	(3,752)	(2,109)
Net assets of the Scheme available to fund benefits at 31st March		**1,660,778**	**1,511,777**	**1,048,170**

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. General

The Greater Gwent (Torfaen) Pension Fund is an appropriate occupational pension scheme for employees of Local Authorities in Greater Gwent, except for teachers who have a separate scheme. Employees of certain other organisations providing public services are also allowed to join the Fund. 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.

2. Accounting Policies

The accounts have been prepared in accordance with IAS26 (Accounting and Reporting by Retirement Benefit Plans) except where the interpretation or adaptations to fit the public sector are detailed in the 'Code of Practice on Local Authority Accounting in the United Kingdom 2010/11'.

The first time adoption of IFRS represents a change in accounting policy and thus the net assets statement should include a third statement as at 1 April 2009. The third net assets statement has been presented, however the supporting notes have not. We consider this to be appropriate as the 2008/09 comparative notes are unchanged from those published previously.

Where considered material the following accounting policies have been followed:-

- The accounts must be prepared on an 'accruals basis'. That is, they must take account of payments that are committed but have not yet been made or received.
- Transfer values are accounted for on a cash basis as per the Pensions SORP due to the liabilities not transferring until payments are actually made or received.
- The Net Assets Statement must include all the Fund's assets and liabilities on 31 March of the year of account.
- Investments included in the Net Assets Statement must be shown at their fair value, which would usually be the bid price at 31 March 2011.
  - Securities are valued at 'bid price' at the end of business on 31 March 2011.
  - Pooled Investment Vehicles are valued at the Fund Managers' valuations as they are all unquoted.
  - BlackRock can use Exchange Traded Futures in the management of their segregated UK equity portfolio for the purpose of efficient portfolio management. This means that the Portfolio Manager has discretion to purchase Exchange Traded Future contracts to gain exposure to the market when there are cashflows which have not yet been invested into physical securities. No leverage or gearing is applied and no Over the Counter Derivatives are held in the UK equity portfolio. Exchange Traded Futures are given a single market price based upon the value of the exchange and a calculation of cash rates to the expiry of the contract at the time. This means that a bid value price is not quoted or available.
  - In 2010/11 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 to these transactions is the Pension Fund rather than Torfaen County Borough Council as the administering authority).

- Other assets and liabilities are valued in line with normal accounting procedures. Balances held in foreign currency have been shown as the sterling equivalent at the balance sheet date.
- The Fund does not account for, or disclose, the effects on benefits payable of any former employee decisions that occur post April 30th in any year.
- The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the financial year.
- The funds financial statements do not include CAY and the related pensions increases as the pension fund acts as an agent for the employing authority when making these payments.

3. Employers' Contribution

The assessed rate for the Fund as a whole for 2010/11 was 12.4% of pensionable pay with individual adjustments applicable to individual Authorities (see table on page 43). 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 2 on page 48). The Deficit Funding contains employers' contributions paid over the 12.4% and also direct deficit funding of the past service deficits left with the home authorities as a result of Council Housing Transfers.

2009/10 £000		2010/11 £000
	From Employers	
(47,569)	Normal contributions	(52,558)
(31,770)	Deficit funding	(29,180)
(10,189)	Augmentation	(3,814)
	From Members	
(24,354)	Normal contributions	(24,741)
(12)	Additional Contributions	(11)
(113,894)	**Total**	**(110,304)**

4. Transfers In

2009/10 £000		2010/11 £000
(12,603)	Individual transfers in from other schemes	(7,265)
(12,603)		**(7,265)**

5. Other Income

There is no other income to report in 2009/10 or 2010/11.

6. Benefits Payable

2009/10 £000		2010/11 £000
39,303	Pensions - statutory	43,078
16,452	Pension increases	16,126
18,517	Commutation of pensions and lump sum retirement benefits	20,275
1,480	Lump sum death benefits	1,498
438	Additional allowances	514
76,190		**81,491**

Pension Fund Accounts 2010/2011

Analysis of Benefits Payable and Contributions Receivable by Employing Body in 2010/2011

Authorities		Benefits Payable £000	Contributions Receivable £000
Administering Authority	Torfaen CBC	8,944	14,850
Scheduled Bodies	Blaenau Gwent CBC	11,705	17,673
	Caerphilly CBC	15,321	27,160
	Monmouthshire CC	7,653	11,973
	Newport City Council	15,244	20,103
	Caldicot & Wentloog LDB	45	109
	Valuation Panel	36	39
	University of Wales, Newport	1,292	2,458
	Coleg Gwent	817	2,081
	Chepstow Town Council	5	10
	Brynmawr Town Council	-	8
	Gwent Police Authority	1,540	5,005
	Gwent Probation Service	748	1,122
	Central Supplies	146	-
	Silent Valley Waste Disposal	8	40
	Caldicot Town Council	-	10
	Nantyglo & Blaina Town Council	-	10
	Monmouth Town Council	1	4
	Gwent Cremation Committee	40	44
	Cwmbran Community Council	11	38
	Pontypool Community Council	10	34
	Tredegar Town Council	-	12
	Rogerstone Community Council	1	17
	Bargoed Town Council	38	3
	Portskewett Community Council	-	1
	Shirenewton Community Council	-	1
	Henllys Community Council	-	2
	Magor with Undy Community Council	-	3
	Former Rhymney Valley DC	1	-
	Welsh Water and Hartshead	3	-
Previously Scheduled Bodies	Gwent County Council	12,630	-
	Commission for New Towns	893	-
	DHSS	38	-
	Gwent Magistrates Courts	402	-
Deemed Bodies	Islwyn Transport	253	-
	Newport Transport	1,163	218
Admitted Bodies	Big Pit (Blaenafon) Trust	35	-
	Melin Homes (formerly EVHA)	4	267
	Careers Wales Gwent	546	942
	Citizen Advice Bureau Caerphilly	1	44
	Mitie (formerly Ballast)	-	10
	CWVYS	17	3
	Capita Gwent Consultancy	623	1,293
	Hafod Care	100	106
	Monitor	3	45
	Archives	30	50
	OCS Ex Monmouth & Ex UWCN	12	36
	United Response	12	22
	Monmouthshire HA	323	716
	Bron Afon	240	1,924
	Newport City Homes	432	1,035
	Tai Calon	119	695
	Manpower UK Ltd	-	19
	DRIVE	-	20
	Regent Ex Monmouth & Ex Newport	-	30
	ABM Catering	-	14
	Vinci	6	5
Total		**81,491**	**110,304**

7. Payments to and on Account of Leavers

2009/10 £000		2010/11 £000
14	Contributions returned to employees	3
1	Payments in lieu of graduated pension contributions	2
8,875	Individual transfers out to other schemes	8,512
8,890		**8,517**

8. Other Payments

2009/10 £000	Other Payments	2010/11 £000
3	Prior period AVC adjustment	20
2	Printing costs and review of Welsh LGPS	5
5		**25**

9. Administrative Expenses

2009/10 £000	Administrative expenses	2010/11 £000
1,258	Administration and processing	1,461
186	Actuarial & investment fees and performance service	214
1,444		**1,675**

For presentation and comparative purposes, the fees paid to the global custodian have been moved from investment management expenses to administrative expenses in 2009/10 (see note 12). Investment advisor fees are now included within 'actuarial & investment fees and performance service' rather than 'administration and processing'.

10. Investment Income

2009/10 £000		2010/11 £000
(16,305)	Dividends from equities	(17,366)
(906)	Income from property unit trusts	(1,182)
(382)	Interest on cash deposits	(235)
1,550	Taxes on income	1,684
(16,043)		**(17,099)**

11. (a) Investment Assets

Value at 31.03.10 bid price £000	Major asset class	Value at 31.03.11 bid price £000
499,124	UK equities	555,422
	Pooled investment vehicles	
259,496	unit trusts	278,349
435,797	unitised insurance policies	469,848
274,927	other managed funds	307,087
27,513	Cash on deposit with financial institutions	33,064
2,385	Cash at fund managers	3,189
2,435	Other investment balances	2,941
1,501,677	**Total Investment Assets**	**1,649,900**

Transaction costs of £1.215 million are included in the cost of segregated purchases and sales and consist of any fees, commissions or taxes due in regard to transactions. The comparative figure for 2009/10 was £1.048 million. There are also indirect transaction costs incurred through the bid offer spread on pooled investment vehicles which are not separately provided to the scheme. Accrued dividend entitlements, pending sale proceeds and recoverable withholding tax are required to be disclosed as 'other investment balances' and form part of 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 during the year. In 2010/11 there was a profit on sales of £20.631 (2009/2010 £20.183) million and unrealised profit as a result of the change in the market value of investments amounted to £89.52 million (2009/2010 £430.997 million). Therefore the combined increase in market value of investments (realised and unrealised) is £110.151 million (2009/2010 £410.814).

Major asset class 31 March 2011	Value at 31/03/10 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Market Value £000	Value at 31/03/11 £000
UK equities	499,124	188,768	(163,222)	30,752	555,422
Pooled investment vehicles					
unit trusts	259,496	3,000	-	15,853	278,349
unitised insurance policies	435,797	447	(1,358)	34,962	469,848
other managed funds	274,927	5,326	-	26,834	307,087
	1,469,344	197,541	(164,580)	108,401	1,610,706
Cash instruments & deposits	29,898	125,805	(120,694)	1,244	36,253
Other investment balances	2,435			506	2,941
Total Investment Assets	**1,501,677**	**323,346**	**(285,274)**	**110,151**	**1,649,900**

Major asset class 31 March 2010	Purchases 2009/10 £000	Sales 2009/10 £000	Net Profit/(Loss) on Sales 2009/10 £000
UK equities	173,046	123,527	(15,607)
Derivative contracts	-	1,311	177
Pooled investment vehicles			
unit trusts	12,363	-	-
unitised insurance policies	855	2,961	53
other managed funds	1,206	-	1,637
Sterling liquidity fund	12,083	14,259	-
Currency	8,264	8,264	(59)
Activity during transition	976,512	981,825	(6,384)
	1,184,329	**1,132,147**	**(20,183)**

Pension Fund Accounts 2010/2011

Further analysis on the market value of investments as set out in the Net Assets Statement is given below:-

Investment Assets	31 March 2010 £000 Bid Price		%	31 March 2011 £000 Bid Price		%
Equities						
UK Equities	499,124	**499,124**	**33.2**	555,422	**555,422**	**33.7**
Unit Trusts						
Property Unit Trusts	29,867			34,685		
Corporate Bond Fund						
UK	75,420			59,102		
Overseas	37,814			60,831		
Gilt Fund						
UK	115,098			109,340		
Overseas	1,297	**259,496**	**17.3**	14,391	**278,349**	**16.9**
Unitised Insurance Policies						
UK Equities Smaller Companies (BlackRock)	4,477			4,249		
UK Equities (Standard Life Investments)	72,367			75,669		
European Equities	211,158			233,484		
US Equities	108,783			118,936		
Japanese Equities	39,012	**435,797**	**29.0**	37,510	**469,848**	**28.5**
Other Managed Funds						
Global Equities	136,478			146,866		
Far East Equities	90,152			102,718		
Emerging Markets Equities	48,297			53,490		
M&G Limited Partnership	-	**274,927**	**18.3**	4,013	**307,087**	**18.5**
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	2,385			3,189		
Cash on deposit with financial institutions	27,513	**29,898**	**2.0**	33,064	**36,253**	**2.2**
Other Investment Balances						
Accrued dividend entitlements and tax reclaims receivable	2,435	**2,435**	**0.2**	2,941	**2,941**	**0.2**
Total Investment Assets	**1,501,677**	**1,501,677**	**100**	**1,649,900**	**1,649,900**	**100**

Pension Fund Accounts 2010/2011

The proportion of the bid price market value of investment assets managed by each external manager at the end of the financial year was:-

Fund Manager	Proportion of Fund (%)	Value of Funds Held (£000)	Portfolios Held (Actively managed unless otherwise stated)
BlackRock	13.7	225,693	UK Equities (Indexed)
	0.3	4,249	UK Equities Smaller Companies Fund (Indexed)
	7.2	118,936	USA Equities Fund (Indexed)
	2.3	37,510	Japanese Equities Fund (Indexed)
	7.5	123,731	Gilt Fund
	7.3	119,933	Corporate Bond Fund
	14.1	233,484	European Equities Fund
	0.0	713	Cash
	0.1	1,111	Other Investment Balances
Total Assets held by BlackRock	**52.5**	**865,360**	
Baring Asset Management	6.2	102,718	Far East Equities Fund
	3.2	53,490	Emerging Markets Equities Fund
Total Assets held by BAM	**9.4**	**156,208**	
Lazard Asset Management	20.0	329,729	UK Equities
	0.2	2,476	Cash
	0.1	1,452	Other Investment Balances
Total Assets held by LAM	**20.3**	**333,657**	
Aberdeen Asset Managers	8.9	146,866	Global Equities Fund
Total Assets held by Aberdeen	**8.9**	**146,866**	
Standard Life Investments	4.6	75,669	UK Equities Fund
Total Assets held by SLI	**4.6**	**75,669**	
Total Assets held by Fund Managers	**95.7**	**1,577,760**	
Torfaen County Borough	2.1	34,685	Property Unit Trusts
Council	2.0	33,064	Cash on deposit with financial institutions
	0.2	4,013	M&G Limited Partnership
	0.0	378	Other Investment Balances
Total Assets held via Administering Authority	**4.3**	**72,140**	
Total Investment Assets	**100**	**1,649,900**	

Summary of investment assets on a bid price basis:-

Asset Class	31 March 2010	%	31 March 2011	%
Quoted Equities				
UK	499,124	33.2	555,422	33.7
Unquoted Pooled Investment Vehicles				
UK Pooled	297,229	19.8	287,058	17.4
Overseas Pooled	672,991	44.8	768,226	46.5
Cash deposits				
Cash on deposit with financial institutions	27,513	1.8	33,064	2.0
Cash at Fund Managers	2,385	0.2	3,189	0.2
Other Investment Balances	2,435	0.2	2,941	0.2
Total Investment Assets	**1,501,677**	**100**	**1,649,900**	**100**

11. (b) Employer Related Investments

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

11. (c) Investment Liabilities

2009/10 £000		2010/11 £000
(118)	Creditor in respect of investment transaction	(324)
(118)		**(324)**

Any pending purchase costs 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.

11. (d) 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
BlackRock Advisors (UK) Limited	UK
Aberdeen Asset Management	UK
Standard Life Investments	UK
Baring Asset Management	England & Wales

12. Investment Management Expenses

2009/10 £000		2010/11 £000
3,218	Fund management fees	4,110
3,218		**4,110**

For presentation and comparative purposes, the fees paid to the global custodian have been moved from investment management expenses to administrative expenses in 2009/10 (see note 9).

13. Current Assets

31 March 2010 £000		31 March 2011 £000
	Contributions due from employing bodies	
1,865	- Employees contributions	2,047
6,174	- Employers contributions	6,580
5,565	Early retirement costs	5,633
366	Baring AM fee rebate	313
13,970		**14,573**

14. Current Liabilities

31 March 2010 £000		31 March 2011 £000
(2,336)	Unpaid benefits	(1,907)
(85)	Refund of contributions due to employing bodies	(25)
(1,331)	Management fees	(1,432)
0	AVC	(7)
(3,752)		**(3,371)**

15. Taxation

The Fund cannot reclaim UK income tax deducted from dividends received. 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. No Capital Gains Tax is chargeable on the proceeds of investments sold. 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.

16. Actuarial Valuation Report

16.1 The actuarial valuation of the Fund that affects these accounts was carried out as at 31 March 2007 by the Fund's Actuary, Mercer Limited. This valuation showed that the employers would need to pay higher contributions to the fund from 1 April 2008 (see Appendix 2 on page 48). Members' contribution rates range from 5.5% to 7.5%, depending on their salary. Transition arrangements are in place for manual workers whose contribution rate changed from 5% to 5.25% for 2008/09, and will be brought in line with other scheme members by 1 April 2011. The target rates for the unitary councils with effect from 1 April 2009 are shown as a percentage of the pensionable pay of the members and are as follows:-

	2007 %
Blaenau Gwent	22.7
Caerphilly	21.0
Monmouth	22.0
Newport	20.3
Torfaen	21.8

16.2 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.

16.3 The market value of the Fund's assets at the 31 March 2007 valuation was £1,302.6 million. At the valuation date the Fund's liabilities exceeded the assets by £572.5 million, giving a revised funding level of 71% (the funding level at the 2004 valuation was 60%). The main factors that contributed to the improved funding position were strong investment returns and changes in financial assumptions.

16.4 A new Actuarial Valuation was carried out as at 31 March 2010 and the resulting changes in contribution rates will apply from 1 April 2011.

16.5 The market value of the Fund's assets at the March 2010 valuation was £1,512 million. The Fund's £2,042 million liabilities exceeded the assets, creating a deficit of £530 million and giving a revised funding level of 74%. The main factors that have contributed to the improved funding position were the changes from RPI to CPI for future pensions' increases and changes to the Actuarial assumptions.

16.6 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 2013.

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

	For Past Service		For Future Service	
	2007 Valuation	**2010 Valuation**	**2007 Valuation**	**2010 Valuation**
Investment Return				
pre-retirement	6.9%	7.0%	6.5%	6.75%
post-retirement	5.4%	5.5%	6.5%	6.75%
Pensionable Pay Increases	4.6%	4.5%	4.25%	4.5%
Pensions Increases	3.1%	3.0%	2.75%	3.0%

16.8 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 full Actuarial Valuation report.

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

The Code requires the disclosure of 'actuarial present value of promised retirement benefits'. The actuary has calculated these to be £2,250 million at 31st March 2010, measured using IAS19 assumptions which differ from those assumptions in the formal valuation of the Fund.

Please see the Statement by Consulting Actuary on page 26 for further detail.

17. Funding of Early Retirement Costs

During 2010/11, the cost to the pension fund of early retirements arising in that year was £3,580,446 which is paid by instalments over periods of up to five years. The cost includes the extra years' 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 2010/11 and in future financial years for early retirements known as at 31 March 2011. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2010/11 in respect of:		
Prior Years	1,932	
Current Year	2,428	4,360
Balances b/f 1 April 2010	5,565	
Payments Received in 2010/11	(3,746)	
Reversal of previous instalments due	(5,033)	(3,214)
Instalments due for 2011/12 & later years		4,487
2010/11 Debtor		**5,633**

The instalments due for 2011/12 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2009.

18. Additional Voluntary Contributions

Members of the Pension Fund may take additional voluntary contributions (AVC) 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 2010/11	558	338	12	908
Market Value of AVC Investments 31st March 2011	4,284	1,712	1,587	7,583

The above AVC investments are excluded from the financial statements of the Greater Gwent (Torfaen) Pension Fund in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No1831).

19. Disclosure Note – Contingent Asset

On 1st April 2005 the Gwent Magistrates Court Committee left the Greater Gwent (Torfaen) Pension Fund. It was originally envisaged that a bulk transfer payment would need to be made to the Department for Constitutional Affairs (DCA) but agreement with the Government Actuary's Department (GAD) has now been reached on an overall approach. This involves pensioners and deferred beneficiaries remaining with the LGPS and the liability value calculated on an agreed actuarial basis. Any shortfall to the pension fund will then be met by the DCA over a 10 year period. A settlement figure has now been agreed based on a calculation date of 28 February 2011; there is a net payment of £3,367,797 payable to the Greater Gwent (Torfaen) Pension Fund (equivalent to 10 annual instalments of £396,822). The first instalment is due on the 15th April 2011.

20. Disclosure Note – Contingent Liability

The Gwent Probation Service will leave the Greater Gwent (Torfaen) Pension Fund and a transfer value payment will be made to Rhondda Cynon Taff C.B.C, the administering Pension Fund authority for The Welsh Probation Trust in Wales. The transfer will involve active members, deferred pensioners and pensioners and will require an actuarial assessment to determine the transfer payment. This is likely to take some time.

21. Pensions Compensatory Added Years Recharges

As a result of recent changes in accounting processes it has become apparent that the previous practise of including the Compensatory Added Years benefits (which are recharged to employers) and the contributions towards those benefits in the accounts is no longer appropriate and so these amounts have been removed from the Fund account. In order for the accounts to be consistent these amounts have also been removed from the 2009/10 figures.

These amounts relate to additional service which has been granted by an employer to enhance the benefits of the employee on retirement. As these amounts are in addition to the benefits accrued by the individual they are not a Pension Fund liability but are a liability on those employers who initiated the extra benefits and are funded on a £ for £ basis. The table below shows the value of the benefits paid:-

	2010/2011 £	2009/2010 £
Pensions Recharges	2,553,840	2,590,582

22. Related Party Transaction

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 and Investment Management Expenses. 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. Non Adjusting Post Balance Sheet Events

The recent falls in the value of securities quoted on world stock exchanges have resulted in changes to the value of investments held by the Greater Gwent (Torfaen) Pension Fund. The accounting statements are required to reflect the conditions applying at the end of the financial year however, as the pension fund time horizon is long term and the true value of investments is only realised when investments are sold, no adjustments have been made for any changes in the fair value of investments between 31 March 2011 and the date that the accounting statements are authorised for issue.

Pensions Contribution on Equal Pay Settlements – As a result of changes in the Pensions Regulations the payments made to employees as a result of the equal pay settlements have become pensionable from September 2010 and this was backdated to include all payments made since 1 April 2008. The Pension Fund recognises that this will result in additional contribution due to the Fund but is unable to put a reliable estimate on the amounts due. Where indications of accruals being made in Employers' accounts are available the level is such that it is not considered appropriate to be recognised in the Pension Fund Accounts.

24. Fund Membership

Details of the bodies covered by the scheme and the number of employees contributing to the fund are shown in the following table:-

		Active Members		2010/11	
		31/03/10	31/03/11	Target Rate %	Rates Paid %
Administering Authority					
1	Torfaen CBC	2,780	2,709	21.8	21.8
Current Scheduled Bodies					
2	Blaenau Gwent CBC	3,023	2,803	22.7	22.7
3	Caerphilly CBC	5,687	5,655	21.0	21.0
4	Monmouthshire CC	2,533	2,367	22.0	22.0
5	Newport City Council	4,307	4,046	20.3	20.3
6	Caldicot & Wentloog LDB	19	19	18.0	18.0
7	Valuation Panel	4	4	22.4	25.0
8	University of Wales, Newport	476	493	15.8	15.8
9	Coleg Gwent	420	428	17.4	17.4
10	Chepstow Town Council	5	4	19.1	19.1
11	Brynmawr Town Council	1	1	36.4	36.4
12	Gwent Police Authority	938	931	15.1	15.8
13	Gwent Probation Service	221	210	15.3	15.3
14	Silent Valley Waste Disposal	5	5	26.2	26.2
15	Caldicot Town Council	2	2	17.5	17.5
16	Nantyglo & Blaina Town Council	1	1	32.0	32.0
17	Monmouth Town Council	2	1	12.3	12.3
18	Gwent Cremation Committee	8	11	14.5	14.5
19	Cwmbran Community Council	8	8	16.0	16.0
20	Pontypool Community Council	7	8	18.4	18.4
21	Tredegar Town Council	2	2	20.4	20.4
22	Rogerstone Community Council	3	4	22.3	22.3
23	Bargoed Town Council	1	1	48.3	21.0
24	Portskewett Community Council	1	1	18.2	18.2
25	Shirenewton Community Council	1	1	16.4	16.4
26	Henllys Community Council	1	1	-	20.0
27	Magor with Undy Community Council	1	1	-	12.5
Deemed Bodies					
28	Newport Transport	29	24	37.8	37.8
Admitted Bodies					
29	Melin Homes (formerly EVHA)	49	48	13.9	13.9
30	Careers Wales Gwent	147	140	15.8	15.8
31	Citizen Advice Bureau Caerphilly	10	9	15.2	15.2
32	Mitie (formerly Ballast)	2	2	19.7	19.7
33	Capita Gwent Consultancy	111	102	28.9	28.9
34	Hafod Care	40	36	10.1	10.1
35	Monitor	7	9	13.3	13.8
36	Archives	15	15	10.9	10.9
37	OCS Ex Monmouth & UWCN	25	19	17.9	17.9/20.6
38	United Response	7	-	15.3	15.3
39	Monmouthshire Housing	127	136	13.8	13.8
40	Bron Afon	394	454	12.1	12.1
41	Newport City Homes	236	231	13.4	13.4
42	Tai Calon	-	234	-	14.8
43	Manpower UK Ltd	5	4	-	16.2
44	DRIVE	6	6	-	12.4
45	Regent Ex Monmouth & Ex Newport	-	6	-	19.0/18.2
46	ABM Catering	-	3	-	21.8
47	Vinci	-	1	-	20.3
Total Membership		**21,667**	**21,196**		

25. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits and fixed interest securities. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

a) 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 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks.

The Pension Fund has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. Further information can be found in the Statement of Investment Principles.

Pension Fund cash managed by the Administration Authority is invested in accordance with the Pension Fund's Cash Management strategy, prepared in accordance with the CIPFA Prudential Code, CIPFA Treasury Management in the Public Services Code of Practice and the legal framework and investment guidance set out and issued through the Local Government Act 2003. The Pension Fund's Cash Management strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Pension Fund's financial instrument exposure.

Investment performance by external Investment Managers and the Administering Authority is reported to the Pensions Committee quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns. For Pension Fund cash managed by the Administering Authority, performance of the treasury function is assessed against treasury management performance measures modelled on the CIPFA Treasury Management Code of Practice which has been adopted by Torfaen County Borough Council.

b) Credit risk and counterparty risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund.

For cash managed by the Administering Authority, credit risk arises from its deposits with banks and financial institutions. The Pension Fund's Treasury Management Strategy for 2010/11 sets out the type and minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard & Poor's.

The Pension Fund also utilises the services of Sector Treasury services for the preparation of the counterparty list. Sector uses a very 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 investment period.

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers 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 Investment Management Agreement for the Pension Fund's bond manager prescribes the investment restrictions on the securities it can invest in, including the minimum acceptance criteria for investments.

c) Liquidity risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when 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, the Pension Fund has a cash flow management system that seeks to ensure that cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds without penalty and on notice of not more than 24 hours.

The Pension Fund has set a cap of 3% of the Market Value of the fund for the amount of cash managed by the Administering Authority to balance the need for the Pension Fund to be as fully invested as possible whilst maintaining liquidity to avoid the need to sell assets at inopportune times. Where there are surplus funds in excess of the cap, these funds are re-allocated to investments in accordance with the strategy. External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable.

d) Market risk

Market risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices.

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. The change in the market value of its investments during the year was £148,223,000.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Details of these can be found in the Pension Fund's Statement of Investment Principles. The Pension Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark from the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, alternatives and property) and geographical regions within each class.

Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure that the agreed limit on maximum exposure to any one issuer or class of asset is not breached.

For cash managed by the Administering Authority, the Pension Fund has set institution and group limits to diversify the Pension Fund's investment across a range of individual holdings.

The Pension Fund's funding position is sensitive to changes in equities (which affect the net assets available to fund benefits) and bond yields (which affects the value placed on the Pension Fund's liabilities).

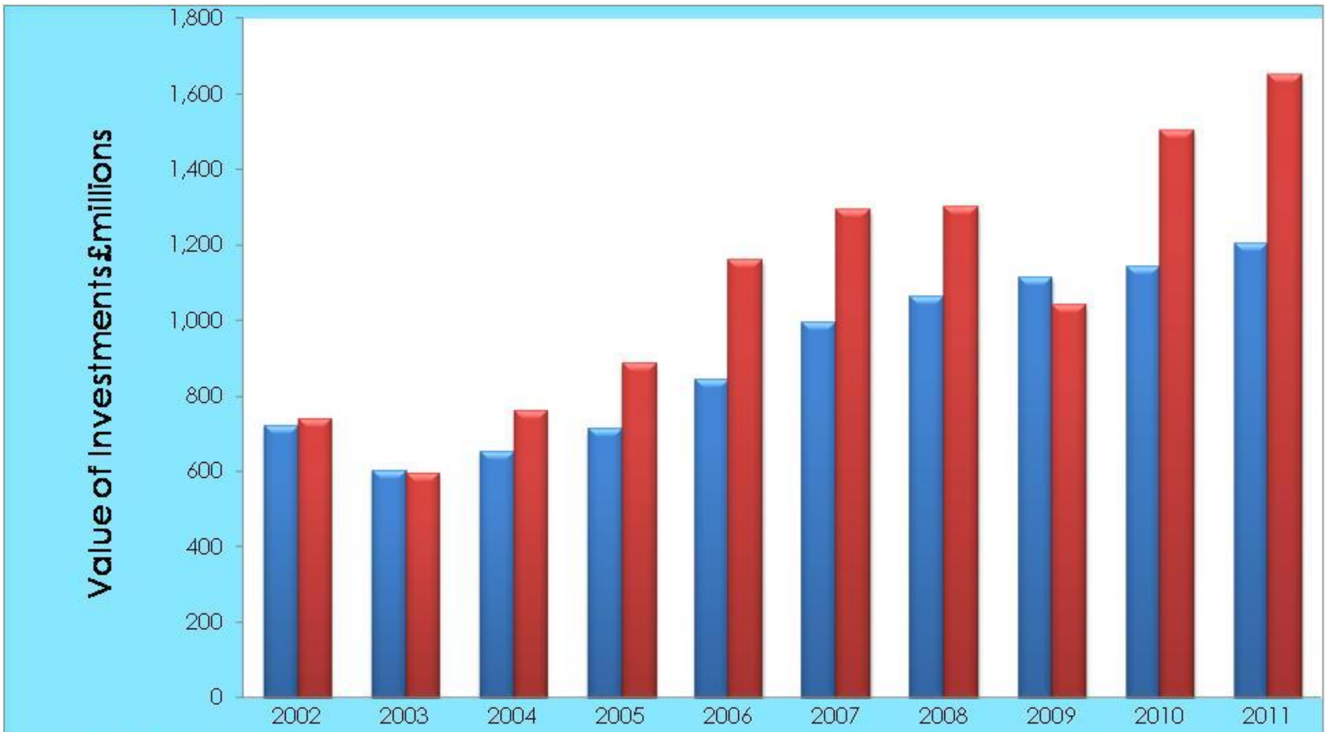
e) Exchange rate risk

The Pension Fund investments in overseas assets are all held in sterling pooled vehicles which means that fund does not have any directly held investments in foreign currency. The Fund does hold a number of small foreign currencies balances but these are not material.

Appendices

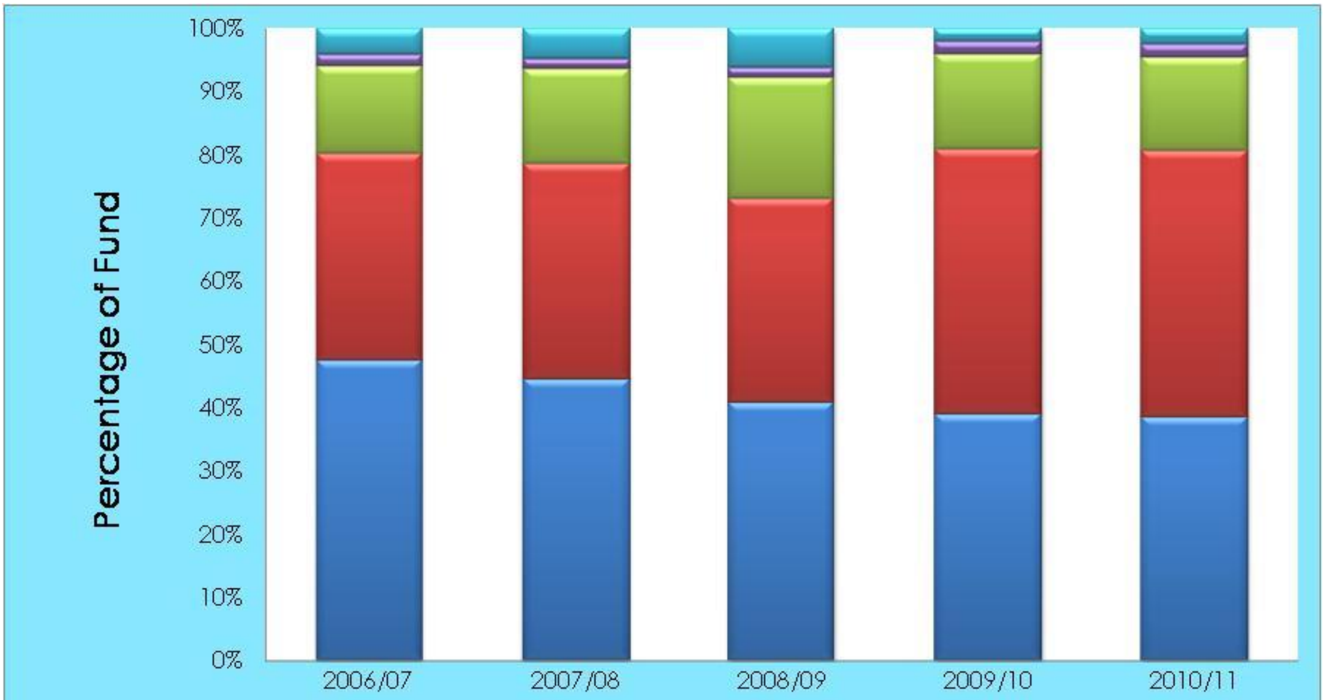
Appendix 1

Ten Year Valuation of Investments



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Book Cost	719	603	654	712	842	994	1,062	1,115	1,142	1,204
Market Value	737	593	762	885	1,160	1,294	1,303	1,042	1,502	1,650

Tactical Asset Allocation



	2006/07	2007/08	2008/09	2009/10	2010/11
Cash	4	5	6	2	2
Property Unit Trust	2	2	2	2	2
Fixed Interest	14	15	19	15	15
Overseas Equities	33	34	32	42	42
UK Equities	47	44	41	39	39

Appendix 2

Greater Gwent (Torfaen) Pension Fund Contribution Schedule

Actuarial Valuation as at 31st March 2007

Common Contribution Rate: 12.4% (Contribution Rate as a multiple of pensionable pay)

	Individual Adjustment %	Target Rate %	2008/09 %	2009/10 %	2010/11 %
Administering Authority					
Torfaen CBC	9.4	21.8	21.4	21.8	21.8
Scheduled Bodies					
Blaenau Gwent CBC	10.3	22.7	22.7	22.7	22.7
Caerphilly CBC	8.6	21.0	20.7	21.0	21.0
Monmouthshire CC	9.6	22.0	22.0	22.0	22.0
Newport City Council	7.9	20.3	20.3	20.3	20.3
Caldicot & Wentloog LDB	5.6	18.0	15.3	18.0	18.0
Valuation Panel	10.0	22.4	22.4	22.4	22.4
University of Wales, Newport	3.4	15.8	13.9	15.8	15.8
Coleg Gwent	5.0	17.4	15.6	17.4	17.4
Chepstow Town Council	6.7	19.1	15.6	19.1	19.1
Brynmawr Town Council	24.0	36.4	27.6	36.4	36.4
Gwent Police Authority	2.7	15.1	15.1	15.1	15.1
Gwent Probation Service	2.9	15.3	15.3	15.3	15.3
Silent Valley Waste Disposal	13.8	26.2	19.7	26.2	26.2
Caldicot Town Council	5.1	17.5	12.0	17.5	17.5
Nantyglo & Blaina Town Council	19.6	32.0	27.9	32.0	32.0
Monmouth Town Council	(0.1)	12.3	12.3	12.3	12.3
Gwent Cremation Committee	2.1	14.5	13.4	14.5	14.5
Cwmbran Community Council	3.6	16.0	13.3	16.0	16.0
Pontypool Community Council	6.0	18.4	18.4	18.4	18.4
Tredegar Town Council	8.0	20.4	12.3	20.4	20.4
Rogerstone Community Council	9.9	22.3	18.0	22.3	22.3
Bargoed Town Council	35.9	48.3	11.8	48.3	48.3
Portskewett Community Council	5.8	18.2	18.2	18.2	18.2
Shirenewton Community Council	4.0	16.4	16.4	16.4	16.4
Deemed Bodies					
Islwyn Transport	70.1	82.5	69.3	82.5	82.5
Newport Transport	25.4	37.8	37.8	37.8	37.8
Admitted Bodies					
Melin Homes (formerly EVHA)	1.5	13.9	9.9	13.9	13.9
Careers Wales Gwent	3.4	15.8	13.6	15.8	15.8
Citizen Advice Bureau Caerphilly	2.8	15.2	10.6	15.2	15.2
Mitie	7.3	19.7	15.3	19.7	19.7
Canllaw	(3.0)	9.4	7.5	9.4	9.4
CWVYS	19.1	31.5	12.7	31.5	31.5
Capita Gwent Consultancy	16.5	28.9	24.0	28.9	28.9
Hafod	(2.3)	10.1	10.1	10.1	10.1
Monitor	0.9	13.3	8.6	13.3	13.3
Archives	(1.5)	10.9	10.9	10.9	10.9
OCS	5.5	17.9	17.9	17.9	17.9
United Response	2.9	15.3	15.3	15.3	15.3
Monmouthshire Housing	1.4	13.8	13.8	13.8	13.8
Bron Afon	(0.3)	12.1	12.1	12.1	12.1

Appendix 3

Top Ten UK Equity Segregated Holdings as at 31 March 2011

Security	Bid Market Value £000
BP plc	30,202
HSBC Holdings plc	28,413
Rio Tinto	27,992
Royal Dutch Shell B Shares	27,554
Vodafone Group	25,473
GlaxoSmithKline	17,632
Standard Chartered	15,734
Royal Dutch Shell A Shares	14,384
BHP Billiton plc	14,178
BG Group	13,951

Appendix 4

5 Year Summary of Statistics

Revenue Account	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Contributions	91,427	99,087	105,720	113,894	110,304
Transfer Values Received	10,755	11,378	6,672	12,603	7,265
Investment Income	18,966	18,682	18,096	16,043	17,099
Other	77	-	-	-	-
Total Income	**121,225**	**129,147**	**130,488**	**142,540**	**134,668**
Pensions and Other Benefits	56,102	62,146	69,411	76,190	81,491
Transfer Values Paid	6,421	5,901	3,499	8,875	8,512
Refunds of Contributions	33	37	13	15	5
Fees and Other	4,257	5,179	4,199	4,667	5,810
Total Expenditure	**66,813**	**73,263**	**77,122**	**89,747**	**95,818**
Net Surplus for Year	54,412	55,884	53,366	52,793	38,850
Net Profit/(Loss) on Sale of Investments	96,856	12,152	(936)	(20,183)	20,631
Unrealised Change in Market Value	(17,694)	(64,259)	(310,662)	430,997	89,520
Increase/(Decrease) in the Fund	**133,574**	**3,777**	**(258,232)**	**463,607**	**149,001**

Investments	£000	£000	£000	£000	£000
Book Cost at 31st March	993,537	1,061,990	1,114,650	1,142,466	1,203,604
Market Value at 31st March	1,294,237	1,302,616	1,042,438	1,501,677	1,649,900

Membership					
Contributors	21,559	21,834	22,143	21,667	21,196
Pensioners	11,740	12,183	12,610	13,091	13,576
Number of Preserved Benefits	8,216	9,067	9,735	10,577	11,378
Total	**41,515**	**43,084**	**44,488**	**45,335**	**46,150**

Glossary

Actuary

An actuary is an expert on pension scheme assets and liabilities, life expectancy and probabilities (the likelihood of things happening) for insurance purposes. 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

This is a system of investment that involves buying and selling particular investments to try and get better growth.

Passive (Indexed) Investment Management

This is a method of investment that tries to limit risk by following a market. As an example, it might involve buying a number of shares in the 100 biggest companies on the stock exchange, rather than buying and selling particular shares. This could involve using a tracker fund.

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 from time to time and puts a new price on the fund's units.

Rate of Return

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

Market Value

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

Preserved Benefits

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

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).

Glossary

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.

Plain English Campaign

These definitions are sourced from the Plain English Campaign's published 'A-Z of Pensions'.

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Pontypool
Torfaen NP4 6YB

Or visit the website:-

www.torfaen.gov.uk/AdviceAndBenefits/LocalGovernmentPensionScheme