Greater Gwent (Torfaen) Pension Fund

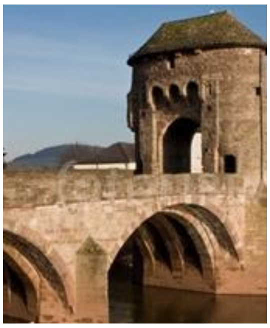
Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2011/2012

Nigel Aurelius, CPFA
Assistant Chief Executive Resources


lgps look forward with confidence

TORFAEN COUNTY BOROUGH
BWRDEISTREF SIROL TORFAEN

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INTRODUCTION

1. Introduction

1.1 There is a sense of déjà vu about my forward to the Annual Report of the Pension Fund this year. The issues and themes from last year still prevail, and they present challenges to all those charged with the governance of pension funds, whether they are public or private sector based.

1.2 What is certain, however, is that the face of pensions and saving for the future is changing. Whilst the trend among the younger workforce has been to delay saving for retirement as the pension age has started to rise and pressure on personal finances have become more acute, this may over the course of the next 12 months be tested as the Government's auto–enrolment process brings many new members into pension funds. The key impact will however depend on whether they stay in their pension schemes or opt out. For the Greater Gwent (Torfaen) Local Government Pension Scheme, this is likely to be influenced by the cost to the employee of providing for their pension and the benefits of the new Local Government Pension Scheme to be introduced from April 2014. We already know it will be a Career Average Revaluation of Earnings (CARE) scheme where pension benefits are based on average pay over an individual's working life rather than the level of final salary at the point of retirement. The devil is however always in the detail and that is yet to be finalised.

1.3 The combined effect of Public Sector Scheme reform, auto enrolment, continuing market turbulence, the potential for opt outs and the level of public sector debt all provide a context for uncertain times as a member of a public sector pensions scheme and the task of the Fund over the past 12 months has been to maintain a stable course through such choppy waters.

1.4 Whilst throughout the year there has been on-going discussion around the look and shape of the new 2014 scheme and certain principles have been agreed with Central Government, the more immediate challenge for the Fund has been to manage investments as effectively as possible in these times of economic turbulence and ensure appropriate risk controls are in place to preserve the capital value of the investments held.

1.5 The issue of sovereign debt and economic recovery, or lack of, in many areas, has again influenced global economies and financial markets. There remains a lack of clarity as to whether the actions of Governments are effective in addressing the underlying weaknesses of economies struggling to grow, without burdening themselves with additional debt that they are unable to pay for. Confidence in all market areas is suspect and until such time as the future of the European Monetary Union is more certain, any progress towards recovery has the potential to be knocked off course.

1.6 What is becoming increasingly clear however is that the economic conditions that we have experienced since the near collapse of the banking system in 2008 will not quickly or easily be recovered and Pension Funds need to plan accordingly for lower returns and more uncertainty for a reasonable period of time ahead. Already the Greater Gwent (Torfaen) Pension Fund is seeing a downward trend in active membership with a 10% fall over the last 10 years and this needs to be protected against by ensuring that the approach and mix of investments reflects the most appropriate strategy for the Fund. The opportunities offered by the new LGPS in 2014 and through auto-enrolment may provide a potential respite from these pressures but a successful boost to LGPS membership will only increase pressure on employer contribution costs at a time of severe financial restraint. There are therefore no easy options.

1.7 Within this context, and as one might expect with the continuing uncertainty and volatility, markets traded both up and down during the year with the Fund showing only a marginal positive increase in its market value from £1,661 million to £1,666 million. Our investment performance return for the year was 0.5%, achieving a slight underperformance against the benchmark that we set ourselves of 0.7% against the benchmark return of 1.2%. This needs to be viewed however within longer time horizons.

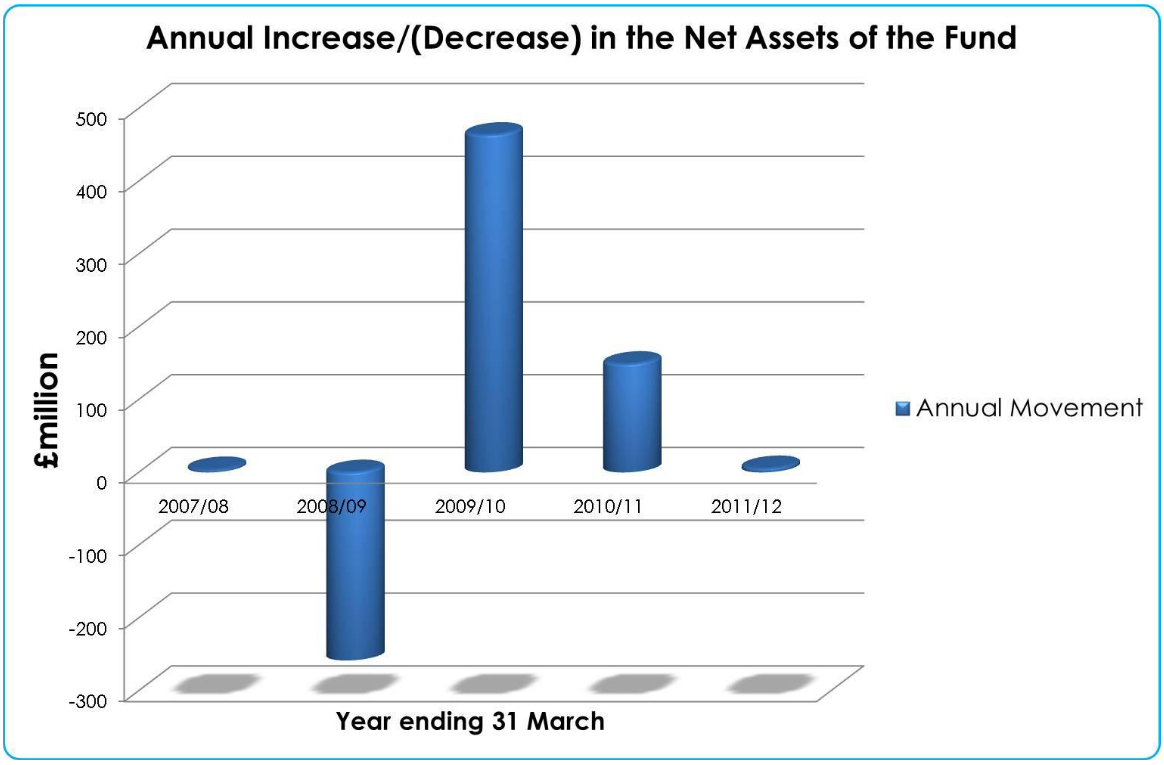
1.8 The continuing economic upheaval in global economic markets, the on-going financial pressures on all and the legislative changes within pensions combine to create a period of significant flux within the pension arena generally and particularly for all those involved with the Local Government Pension Scheme. The Government's recently announced Pensions Bill and the separate Public Sector Pensions Bill will no doubt provide the platform for further change and hopefully a clearer route ahead. As ever, I can only thank and pay tribute to colleagues within the Resources Directorate who have had to cope with all these changes and in addition, in this year, also handle major financial reporting changes which would challenge the patience of all. For this reason, the annual report and accounts is an expanded document this year with the accounts portion doubling in size. There is certainly more detail but I leave readers to judge whether this creates a more user friendly and understandable set of accounts. Finally, I would like to formally place on record my thanks to the officers and staff involved with the pension fund and thank them for all their hard work and commitment throughout the year. They place the scheme members first and I know from the feedback received that this customer focus is much appreciated.

NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES
TORFAEN COUNTY BOROUGH COUNCIL
JUNE 2012

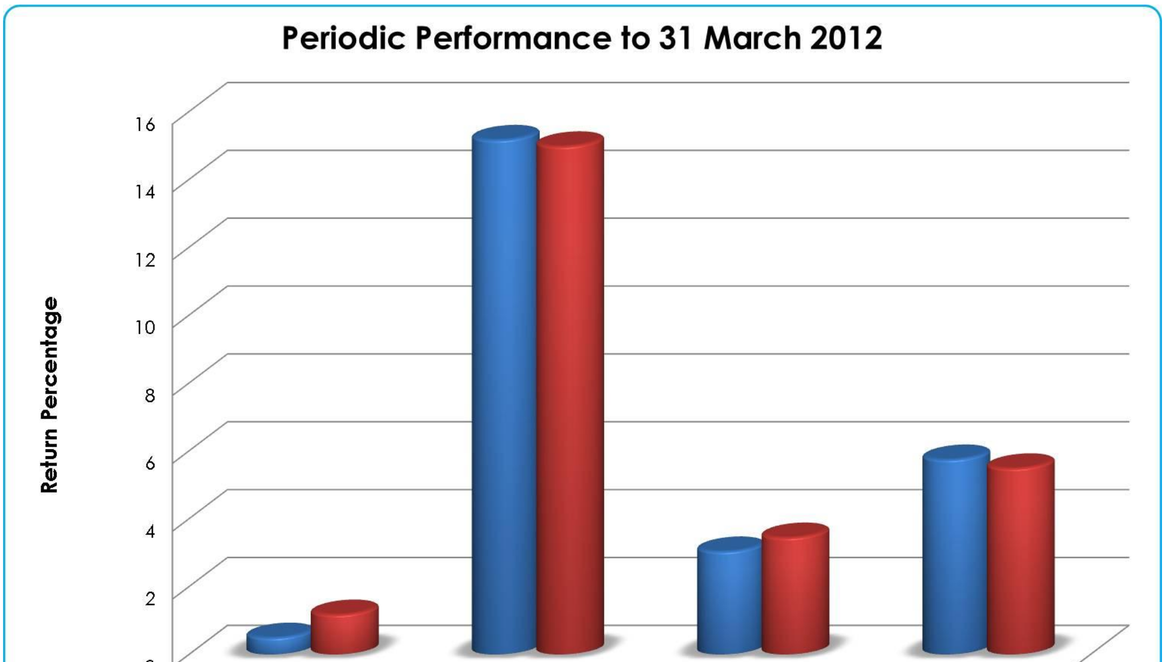
OVERVIEW

1. 2011/2012 In Summary

Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
46,649	£1.67bn	£84.538m	£101.652m

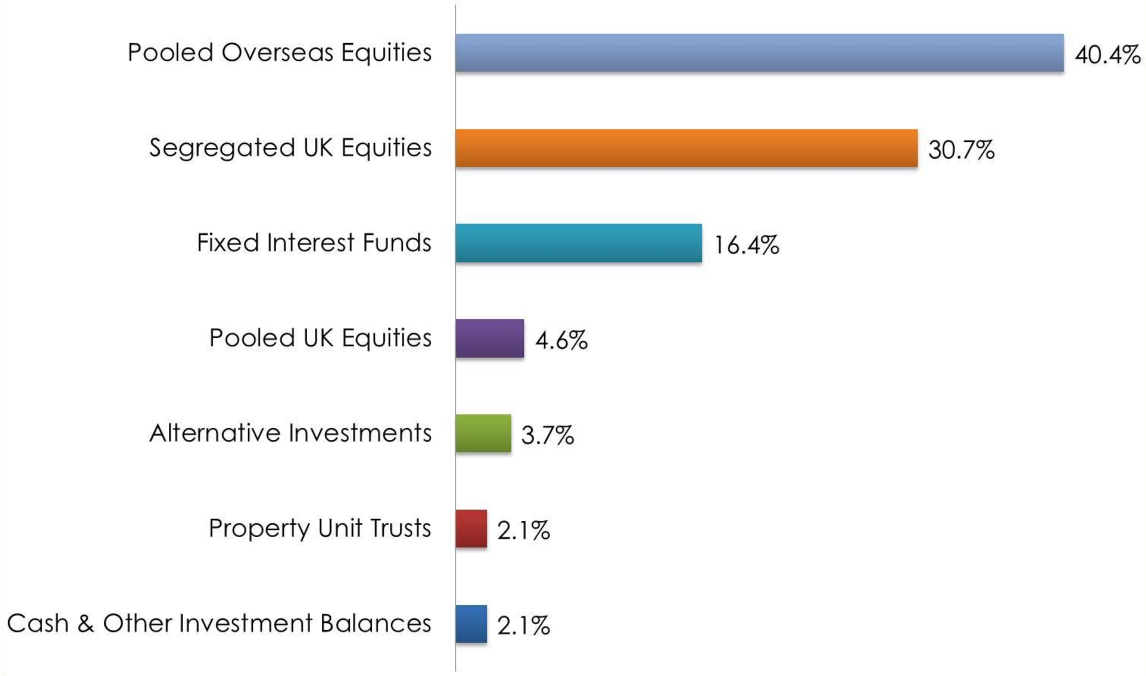


2. Investments



	1 Year	3 Years	5 Years	10 Years
Fund	0.49	15.16	3.03	5.74
Benchmark	1.17	14.97	3.44	5.48

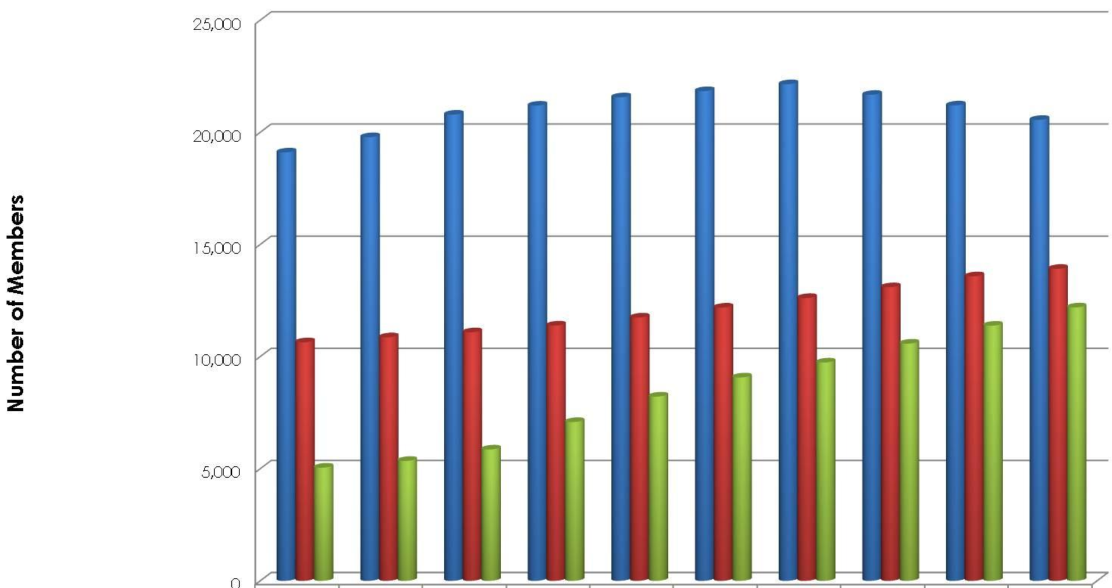
Portfolio distribution as at 31 March 2012



3. Membership

Contributing Members	Members in Receipt of Pension	Members with Preserved Benefits
20,550	13,910	12,189

Split of Fund Membership as at 31 March



	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Contributors	19,101	19,780	20,785	21,187	21,559	21,834	22,143	21,667	21,196	20,550
Pensioners	10,636	10,858	11,081	11,383	11,740	12,183	12,610	13,091	13,576	13,910
Number of Preserved Benefits	5,045	5,347	5,856	7,080	8,216	9,067	9,735	10,577	11,378	12,189

MANAGEMENT STRUCTURE

1.1 The Greater Gwent (Torfaen) Pension Scheme is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (The Benefit Regulations), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (The Administration Regulations) and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended) (The Transitional Regulations). It is the appropriate occupational pension scheme for employees of local authorities in the Greater Gwent area with the exception of teachers and lecturers, who have a separate scheme which applies to them. In addition, the employees of certain bodies providing public services are admitted to the Fund. Details of the authorities covered by the scheme are given on page 38.

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 2012 the structure of the Pensions Committee was as follows:-

Chair

County Borough Councillor - Maria Graham

Committee Members

County Borough Councillor - Julianna Biggs
County Borough Councillor - Aneurin James
County Borough Councillor - Ron Jones
County Borough Councillor - Margaret Pead
County Borough Councillor - Colette Thomas (until 24 May 2011)
County Borough Councillor - John Killick (from 24 May 2011)

Chair
County Borough Councillor
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

Head of Pensions and Employee Services
Graeme Russell, B Com (Hons.), 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
Nomura Asset Management U.K. Ltd
Standard Life Investments

Global Custodian
BNY Mellon Asset Servicing

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

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

1.6 The management of Fund investments is the responsibility of the Pensions Committee. Day to day investment decisions are made by the external fund managers who are paid a percentage management fee. The managers' fees are calculated in relation to the market value of the Fund, with a performance element also included for 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, 2011/12 saw a particular training focus on the consideration of Alternative Investments within the context of some revisions to the Funds investments.

1.8 During 2011/12 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its Code of Practice relating to Pensions Knowledge and Skills, which the Fund adopted. Pension Funds are encouraged to adopt this framework and support the Code to demonstrate their commitment to providing the necessary training to decision makers and practitioners. The training needs of the Pensions Committee; the PFMG and officers who support the Fund will all be considered within further phases of training. Updates on training undertaken and knowledge and skills development will continue to be included within Pensions Committee workplan and an annual review will be provided within all future Pension Fund Annual Reports.

FINANCIAL REPORT

1.1 The annual financial statements of the Fund have been influenced by a number of factors over the last 12 months including muted investment growth, future uncertainty of the scheme design and cost and downward employment trends in the public sector. This degree of uncertainty and change has affected membership trends that have shown a small move towards a more mature membership profile.

1.2 The Fund Account (page 30) indicates a marginal net increase in the net assets of the scheme available to fund benefits during the year of £5.4 million for 2011/12, compared to the £149.0 million increase in the Fund in 2010/11. The summarised figures are shown in the table below.

Fund Account 31 March 2012	
	£000
Employees/employers contributions	101,652
Payments and Refunds	(84,540)
Net transfer values	(15,141)
Returns on Investments	9,447
Other income/expenses	(6,032)
Net Increase/(decrease) in the Fund	**5,386**

1.3 Contributions to the Fund from members and employers have decreased by £8.6 million from £110.3 million in 2010/11 to £101.7 million in 2011/12.

1.4 Transfer values received have increased from £7.3 million to £7.824 million and those paid out have increased from £8.5 million to £22.965 million. These figures include accruals for agreed group transfers (page 60).

1.5 Payments to beneficiaries in respect of pensions have increased by £3.0 million from £81.5 million in 2010/11 to £84.5 million in 2011/12.

1.6 The net assets of the Fund are represented primarily by investments (see below and page 40). Appendix 1 (page 62) illustrates the movement in the market value of investments since March 2003 and the tactical asset allocation.

Net Assets 31 March 2012		
	£000	**£000**
Fixed interest	275,042	
UK equities	591,201	
Overseas equities	677,028	
Property unit trusts	35,626	
Alternative investments	61,088	
Cash	29,791	
Other investment balances	3,858	1,673,634
Investment liabilities		(122)
Current assets		16,145
Current liabilities		(23,493)
Net Assets of the Fund		**1,666,164**

INVESTMENT REPORT

1. Investment Objectives

1.1 The last 12 months have seen a further turbulent period for stock markets across the globe with European debt issues creating continued uncertainty.

1.2 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.

1.3 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.

1.4 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 23).

1.5 As at the reporting date, the Fund's assets were primarily held with six external fund managers. There have been two particular changes since last year's accounting statements, both of which were finalised and funded during December 2011:-

- an additional investment mandate of approximately 3% of the Fund (£50 million) was let to Standard Life Investments in respect of the Fund's alternative investment allocation, and;

- Nomura Asset Management were appointed to operate an active Japanese equity mandate again of approximately 3% of the Fund (£50 million) replacing a passive Japanese equity mandate held temporarily with BlackRock.

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, Nomura Asset Management and Standard Life Investments.

1.6 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.

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

Greater Gwent (Torfaen) Pension Fund Strategic Asset Allocation as at 31 March 2012			
Mandate	**Approach**	**Manager**	**%**
UK Equities			
UK Equities	Passive	BlackRock	13.8
UK Equities	Active	Lazard	19.6
UK Equities	Active	Standard Life	4.6
Overseas Equities			
US Equities	Passive	BlackRock	7.0
European Equities	Active	BlackRock	14.0
Japanese Equities	Active	Nomura	3.0
Far East Equities	Active	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
Alternative Investments			
Diversified Alternatives	Active	Standard Life	3.0
Other	Active	M&G	1.0
Other (via TCBC)			
Cash	Active	TCBC	3.0
Property Unit Trusts	Active	TCBC	2.0
Total			100

1.8 At 31 March 2012 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	813,613	48.5	1,954	0.2	815,567	48.7
Lazard	307,023	18.3	6,753	0.4	313,776	18.7
Aberdeen	154,766	9.2	-	-	154,766	9.2
Baring AM	140,679	8.5	-	-	140,679	8.5
Standard Life	126,122	7.6	-	-	126,122	7.6
TCBC	43,943	2.6	24,942	1.5	68,885	4.1
Nomura	53,839	3.2	-	-	53,839	3.2
Total	1,639,985	97.9	33,649	2.1	1,673,634	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 30).

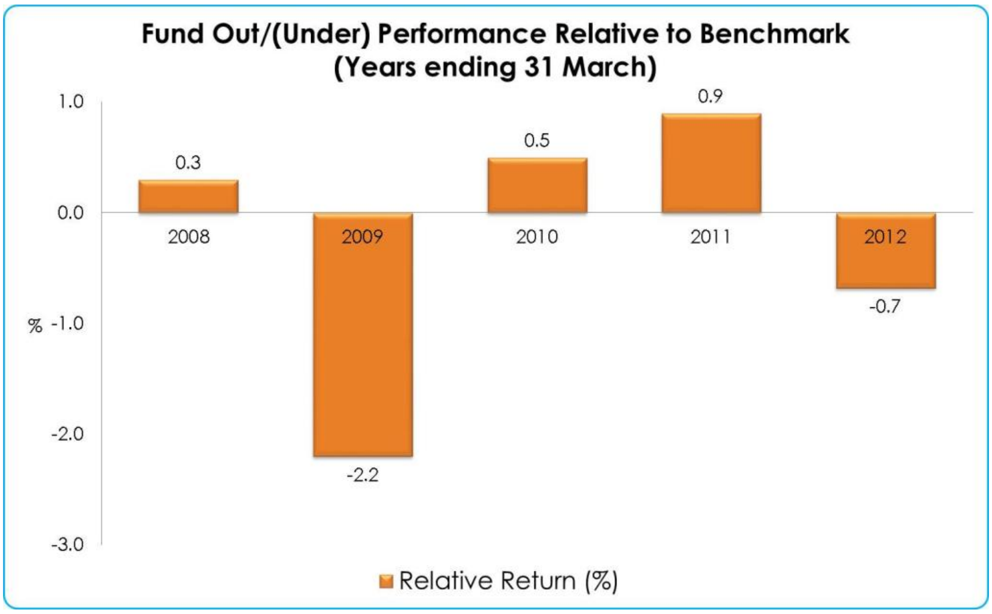
2. Performance

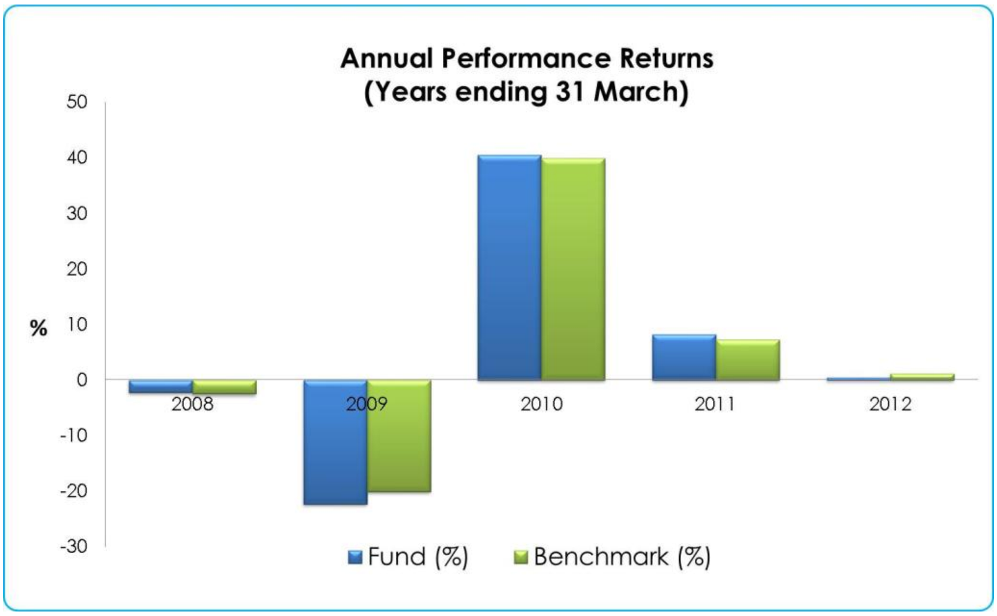
2.1 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2012 the Greater Gwent Fund is shown to have made a rate of return of 0.49% compared with 1.17% for the benchmark return.

2.2 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% Alternative Investments and 3% Cash.

2.3 The 0.68% under-performance for 2012 means that the Greater Gwent Fund has achieved an above average performance in 3 out of the last 5 years.

2.4 The graphs below illustrate the Greater Gwent (Torfaen) Pension Fund returns as compared to the benchmark return, and also the annual performance returns, over the last five financial years.





3. Market Background

3.1 Global Overview

The past twelve months have been challenging for investors. Concerns about global growth and the European sovereign debt crisis weighed on markets throughout the period, entwined with a continued hopefulness that economic growth would emerge with the aid of continued and significant liquidity support from central banks.

As a result of the latter, significant stress built up across the financial system, mainly within inter-bank funding markets in Europe where confidence was at its lowest, and balance sheets relatively weak.

Uncertainty remained high, leading investors to shift between 'risk-on' and 'risk-off' positions. However a rebound in investor confidence provided some relief with a rally from late 2011 to the end of the reporting period, rescuing investment returns for equity markets and leaving them marginally positive overall. The volatile backdrop was however reflected in very diverse outcomes for individual markets.

Though the Euro-zone crisis has dominated markets, seeming to lurch from one crisis point to another during the period, there were also a number of other notable events and factors that have impacted markets as the year has progressed:

- The start of the period saw concerns surrounding global manufacturing supply chains following the Japanese earthquake and tsunami that took place in the first quarter of 2011.

- Also early in the period there was some loss of global economic momentum as a result of the higher oil prices that arose from the uprising in the Middle East and, more particularly, Libya slipping into civil war.

- A particular deterioration of the European sovereign debt situation and potential contagion to the global banking system during the second quarter was compounded when, in August, for the first time in its history, the US sovereign debt credit rating was downgraded from AAA to AA+ by credit agency Standard & Poor's.

- The second quarter also saw a string of disappointing and generally deteriorating economic readings from the US and also more globally which fuelled investors' fears of double dip recession.

- In Asia and other developing markets, growth slowed markedly in the second half of 2011, albeit from a relatively high level. A key difference to the West was that, in many areas, the slow-down was self-induced with the implementation of tighter monetary conditions in a bid to contain inflation, from Brazil to China and India.

- The Euro-zone debt crisis remained the dominant risk facing international markets in the final quarter of 2011 with continuing economic woes intermingled with political wrangling, resignations and government change in both Greece and Italy.

- The end of 2011 was however a more positive period for markets, buoyed especially by the US where corporate earnings announcements above analyst estimates and a continued upward surge in retail spending were two factors that lent the US relative strength.

- The interdependence of Europe and the US however has been shown to be strong as the general pattern of US market returns has mirrored the level of anxiety over the Euro-zone very closely. Correlation between individual stock returns has been particularly high, with the market seemingly not discriminating between assets but simply reflecting either a 'risk on' or a 'risk off' investment approach.

- The final quarter of the reporting period was very much 'risk on', driven by encouraging economic readings, although regional and country divergences were more prevalent. In the US, labour market data improved markedly, while the Fed reaffirmed its accommodative monetary policy stance. In contrast, the data was more mixed in the UK, Euro-zone and China. In Europe, the European Central Bank's Long Term Refinancing Operation (LTRO) contributed to lift investor sentiment, but on the whole the region's structural debt issues remain to be resolved – as indeed we have seen in the period since the turn of the new reporting year.

3.2 Market Performance

World <u>Equity market</u>s endured a volatile year given the uncertain economic environment which prevailed for the majority of period. Returns were however generally up with large blue-chip stocks tending to outperform the economically sensitive smaller companies who tend not to have the benefit of significant global diversification within their business models.

- Within the MSCI World index, UK stocks were up 1.4% with persistent concerns over the global recovery, a stagnant domestic economy and the on-going Euro-zone debt crisis creating a volatile backdrop for the UK equity market.

- The US stood out with a rise of 9.0% in a year where despite being dogged by concerns in the Euro-zone; the loss of its AAA credit rating and political wrangling over its debt levels, the market did well on the back of improving economic data backed by strong support for growth from the central bank.

- Unsurprisingly European markets suffered most, down 10.5% over the period, with Switzerland the only main market in positive territory. Germany fell 7% and Greece collapsed 63% in sterling terms during such a turbulent year for the Euro-zone.

- Asian and emerging markets staged a late rally but it was not enough to pull returns for the year into positive territory in terms of the aggregate indices with negative returns of 5% and 8% respectively, but these figures disguised considerable spread of returns, many sharply negative.

- Japanese equities struggled at the beginning of the period in the aftermath of the country's worst ever earthquake, followed by the devastating tsunami and subsequent nuclear crisis. The market did however manage to end the year just positive after a particularly strong start to 2012 helped by a weaker yen as the Bank of Japan continued to ease monetary policy.

<u>Fixed Interest</u> investments performed generally well throughout the turbulent period for the world's economies and markets.

Government bonds performed especially well over the period notably during the many periods of investor risk aversion seen throughout the year across world markets. Gilts out-performed equities over the reporting period, with UK gilt markets returning almost 15% for the year.

Corporate bonds came under pressure at times during the year, especially sectors such as banking, telecoms and utilities which are more heavily exposed to peripheral Europe. Overall returns, though below those of gilts, were however strongly positive across the market over the year with investment-grade and high-yield bonds performing generally very well, being led by strong gains in the US at times during the reporting period.

3.3 Fund Managers

The following pages provide specific detail on performance and activity as provided by the fund managers that managed our investments throughout the period.

4. Fund Manager Investment Reports

a) BlackRock (48.7% of investment assets)

BLACKROCK

Investment Performance 1 April 2011 to 31 March 2012					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
UK Equities	1.4	1.4	1.3	-0.1	-0.1
US Equities	8.8	8.8	8.9	+0.1	+0.1
European Equities	-11.4	-9.9	-15.1	-3.7	-5.2
UK Gilts*	14.5	16.0	15.5	+1.0	-0.5
Corporate Bonds*	8.8	10.3	10.5	+1.7	+0.2

* Combined performance target of 1.5% above benchmark

Portfolio Performance and 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 underperformed its benchmark by 3.6% over the 12 months to the end of March 2012.

Our investment insights struggled against the backdrop of the worsening European sovereign debt crisis. The crisis has been characterised by sharp changes in risk appetite and corresponding market volatility, which has seen share prices move en-masse in response. In contrast there has been lack of focus from investors on underlying company fundamentals.

A major contributing factor to the underperformance was the relative performance of different size segments. As the market began to dislocate during the second quarter of 2011, we observed increasingly extreme performance from size factors with large cap stocks outperforming smaller names. Given benchmark constraints the fund was negatively positioned towards this trend being underweight in the largest companies. Having observed these markets dynamics we did actively reduce this exposure by around half in August. However the extreme performance of size as a factor continued throughout the second half of the year and it ended up costing the fund close to 1.3%, a figure that would have been significantly worse but for the intervention.

Value insights were also a key driver of negative returns in the second half of 2011. In the third quarter, earnings based value measures detracted as the market lost faith in company fundamentals. In the fourth quarter our model positioning across the Value composite proved overly conservative against aggressive rallies in October and the final 3 days of November. Stocks offering attractive dividend and cash flow yield, which the model favoured, lagged the market. Despite the macro backdrop improving in Q1 2012, European value spreads remain wide indicating that the dispersion between cheap and expensive stocks is at high levels. This suggests that investors are not yet willing to take on downside risk to exploit this opportunity.

The performance from our other investment insights was mixed.

Over the year the market was prepared to pay an increasingly high price for broad measures of quality. Sadly the effect has largely played out across industry and country exposures. For example in "risk-off" periods investors have sought the safe-haven of stocks in the pharmaceutical industry while overlooking Automobile companies. Within our model we employ the insights at the company level and there has been very little evidence of differentiation on a stock by stock basis. For example within the Pharmaceutical industry we favoured Roche over Sanofi on operating cash flow measures of Quality, however they have produced almost identical performance over the period. Against this backdrop our Quality composite has not been able to make a positive contribution.

In contrast the Sentiment composite has added value. In particular the fund has benefitted from strong returns to the analyst based measures of Sentiment. The positive performance has been built on strong returns from the qualitative analyst survey data, which has been less impacted by the regime shifts that have hurt some of the other more trending Sentiment insights.

The performance of the Fast insights has improved in 2012 after a difficult period in 2011. The Fast reversal signals struggled in the contrasting environments of "paralysis" and "panic" observed over the middle six months of 2011. The contrasting liquidity and volatility environments brought about by the worsening crisis provided a headwind the strategy could not overcome. Improving liquidity conditions in the last 6 months of the period helped bring about greater stability in performance of the strategy. The other Fast strategy, alpha trawler, held up much better over the year. The signal built from the daily feed of stock ideas we receive from sell-side brokers worked effectively during what was a period of predominantly high volatility; reflecting new information in a timely manner became increasingly important

Gilts

The Fund outperformed its benchmark over the period, with most active returns coming from the credit and fixed income asset allocation (FIAAM) strategies. The FIAAM strategy had swap spread widening positions, and in Europe these contributed as the escalation of the European crisis continued and safe haven flows to German bunds caused spreads to widen.

The Fund has held a number of positions in non-government bonds over the period. In addition to enhancing the yield on the portfolio, the Fund's performance benefitted from the tightening of credit spreads over the period and the consequent outperformance of credit relative to gilts. Most of this exposure has been in the Industrial sector.

Security selection within Gilts also added value as we traded positions actively through the period alternating between curve flattening and steepening positions taking account of supply, the on-going buyback programme and the funding remit that followed the budget.

Corporate Bonds

The Fund outperformed its benchmark over the period, with most active returns coming from the credit and fixed income asset allocation (FIAAM) strategies. The FIAAM strategy had swap spread widening positions, and in Europe these contributed as the escalation of the European crisis continued and safe haven flows to German bunds caused spreads to widen.

Within Credit, the Fund was relatively defensively positioned within corporate bonds during the latter part of 2011, but increased exposure to credit spreads as our risk and economic indicators became more positive and signals on cyclical name became more attractive. This allowed us to benefit from the strong relative performance of credit through the first quarter of 2012. Most of the active returns from credit were realised in the first quarter of 2012.

b) Lazard Asset Management (18.7% of investment assets)

Investment Performance 1 April 2011 to 31 March 2012					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
UK Equities	1.4	3.4	2.5	+1.1	-0.9

Portfolio Performance and Activity

In what was an extremely volatile period, the portfolio held up well and outperformed the benchmark, FTSE All-Share Index, which returned 1.4%. As equity investors moved back into more cyclical sectors following the fourth quarter of 2011, we benefited from our adept stock selection in the oil & gas sector. Cove Energy posted strong returns and was our top performer for the 12 month period. In the first quarter of 2012, Cove Energy's share price rose significantly as a result of takeover speculation.

In the consumer goods sector, both our underweight position and stock selection were detrimental to returns. Companies in the sector have performed well, as consumer confidence has slowly recovered, and our lack of exposure in companies like Imperial Tobacco detracted from performance during the past 12 months.

Our performance in the financials sector was neutral overall, as stock selection weighed slightly on performance during the period, while our underweight position has added value. However, a number of the portfolio's top performing positions were in the sector. Despite the strong recovery of a number of banks in the second half of the period, our underweight position in HSBC and not holding Lloyds Banking Group were additive to relative returns. In addition, our overweight in Barclays was one of the strongest performing stocks during the period.

Our stock selection was strong amongst basic materials companies, although our overweight position in the sector moderated these returns. Miners in particular were adversely affected during the past year by concerns over a possible hard landing for the Chinese economy. As a result, the portfolio benefited from an underweight position in Anglo American. Conversely, both our overweight positions in Rio Tinto and London Mining were significant detractors to portfolio returns. Our stock selection in the telecommunication sector detracted from the portfolio's relative returns, partly as a result of our overweight in Inmarsat, but also our underweight position in Vodafone. Stock selection in the consumer services sector helped performance, particularly amongst travel & leisure companies, where the portfolio benefited from its overweight in easyJet.

Lastly, with cyclical companies back in favour at the beginning of this year, industrials company Spectris posted strong share price gains following a positive trading update mid-January and good 2011 results in February. The company was a significant contributor to relative returns over the period under review.

In terms of outlook and strategy, the geopolitical risks remain elevated and volatility is likely to continue, creating an event-driven and opaque equity market. However, the market valuation is looking increasingly attractive, given the strength of UK companies and the yields on offer. The UK has outperformed other markets in Europe, as it is less exposed to the specific macroeconomic issues currently in play, and the global nature of many of the companies in the FTSE All-Share. In the event of a resolution to the sovereign debt issues in Europe, we would expect to see a strong rally in shares. In the meantime, we will continue to focus on stock specifics, particularly where we see stocks with valuations that do not reflect the business reality.

c) Aberdeen Asset Management (9.2% of investment assets)

Investment Performance 1 April 2011 to 31 March 2012					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Global Equities	1.5	4.5	5.4	+3.9	+0.9

Portfolio Performance and Activity

In amongst these tough markets, the fund outperformed, benefitting from its more defensive, cautious strategy. Positive stock selection and successful sector allocations were the key factors. Notable outperforming stocks included Philip Morris and British American Tobacco; Taiwan Semiconductor and Samsung Electronics; healthcare businesses Roche and CVS Caremark of the US; and consumer staples businesses FEMSA of Mexico (convenience stores and a Coke bottler); Kraft Foods; and Johnson & Johnson. Holding performance back slightly were a handful of stocks; Tenaris, an Italian-listed specialist seamless steel pipe manufacturer supplying the off-shore oil industry, particularly deep drilling rigs; and QBE, an Australian insurer that has suffered from the high incidence of natural disasters in 2011. The fund does not hold Apple, which has been very successful with its latest iPad and iPhone launches, but we are uncomfortable about the share price valuation.

There was little dramatic change to the fund over the year, which is the normal long term style that the Aberdeen team applies to managing portfolios. As the year progressed we slowly reduced exposure and ultimately sold four stocks, including Adidas the sportswear business, as we think the success of integrating the Reebok business is now better reflected in the share price; German energy company E.On, given a more opaque domestic energy market; and Takeda Pharmaceutical, as we have become concerned about the future strategy for the group.

There are six new holdings, across a range of businesses. They include HSBC, which we have reintroduced to the portfolio as we find its strategy to refocus on Asian and developing economies attractive; AIA Group, an Asian oriented insurance company, previously part of AIG; Vale, the Brazilian commodities producer, which is the world's lowest cost iron ore producer; and Atlas Copco, a Swedish engineering company which supplies mining companies with equipment. However, marginal trading in a variety of stocks within the portfolio have not changed the overall balance of the fund, which continues to reflect our caution towards market valuations and the overall level of economic activity in developed markets. We will remain vigilant for signs of further deterioration in the economic landscape, but also for opportunities to add further to our preferred companies, in particular the more recent additions which have been introduced at moderate weightings within the portfolio.

We are coming to the end of the second phase of global quantitative easing; economic growth is still prevalent, although it may be slowing, and valuations are still undemanding. Markets are caught between the increasing risk of a softening in growth statistics over the summer months and, in the case of risk assets, their reliance on central bank liquidity to make meaningful progress. It may be the case that a further program of easing requires a more significant deterioration in the economic landscape, and so the likelihood of more action from the Federal Reserve and others is less certain. Our base case for equity markets is for a period of consolidation or indeed correction in the coming months as investors assess the balance between continued uncertainty in the economic outlook and the propensity for central banks to provide another fillip in the form of further easing.

d) Baring Asset Management (8.5% of investment assets)

BARINGS

Investment Performance 1 April 2011 to 31 March 2012					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Emerging Market Equities	-8.2	-6.2	-13.9	-5.7	-7.7
Far East Equities	-4.7	-2.7	-7.7	-3.0	-5.0

Portfolio Performance and Activity

Emerging markets underperformed developed market equities by 5% during the period April 2011 up to March 2012; this was among the weakest relative performance since 2000. The fund's underperformance against the MSCI Emerging markets Index during the period was primarily due to stock selection. The countries which contributed the most were: Taiwan, Indonesia, Peru and Mali, while Brazil, Mexico, South Korea and Russia negatively impacted performance. The sectors which positively impacted performance were: materials, information technology and industrials, while consumer staples, financials and consumer discretionary sectors were negative. Asset allocation accounted for 1.7% of the underperformance. Our overweight position in Mali delivered a strong positive contribution due to the performance of our gold miner Randgold. Indonesia also contributed positively where we were correctly overweight for most of the period and then correctly underweight since October 2011. However these were more than offset by our overweight position in Russia which was negatively impacted by a rise in investor risk aversion over the year. Hard-landing fears in China weighed on our Chinese overweight position; however we expect this to reverse. The beginning of 2012 has shown evidence of our China investment thesis unfolding with inflation bottoming and a cyclical recovery underway. Thailand and South Africa also detracted from performance as investors sought refuge in these defensive markets while we remained underweight as we feel they don't offer a compelling value/growth trade-off. At a stock level, Lenovo was the strongest positive contributor as it continues to benefit from the growing Chinese market but also from its superb execution which continues to deliver market share gains and margin improvement. Hon Hai precision Industry also was a key contributor as it benefitted from strong growth as it supply's 50% of Apple's products, at the same time the firm expanded their operating margins. Despite these positives, stock selection overall was the primary detractor from performance over the year. The Russian retailer company X5 was the largest detractor as it suffered from margin compression and weaker than expected sales productivity. China Mobile was not held by the fund but outperformed as investors rotated into defensive companies with a low level of growth, yet a high amount of certainty. Ping An, a Chinese Insurance firm, was negatively affected by the China hard-landing fears. Of these, Ping An is the only name we continue to hold and has enjoyed better performance over the past quarter as local market conditions in China have improved.

In the Far Eastern portfolio, we continue to favour companies with strong franchises that are well positioned to benefit from the long-term secular growth in domestic demand across the region. In terms of strategy, China, Korea and Indonesia are our preferred markets while we remain cautious on Malaysia and Taiwan. While our broader strategy remains largely unchanged, we have decided to position the portfolio more defensively as risk aversion increases due to a soft macroeconomic backdrop. Over the first six months of the review period, we raised cash though trimming some of our positions, locking in profits in Korea following a period of strong performance. As we re-deployed cash in the second half of the year, we did so by adding to Hong Kong blue chips to reduce the underweight in Hong Kong, as well as buying into smaller markets like Malaysia and Thailand which were included in the benchmark over the course of the period. We also reduced some of our overweight in China particularly the cyclicals to fund some of those moves.

e) Standard Life Investments (7.6%* of investment assets)

Investment Performance 1 April 2011 to 31 March 2012					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Institutional UK Equity Select	1.4	4.4	-3.1	-4.5	-7.5

*returns for the GARS Fund are not included in table as they have not been held for a full year

Portfolio Performance and Activity

Amid much volatility, UK equities finished the 12 month period slightly higher though the fund did underperform the 1.4% benchmark during the reporting period.

The portfolio benefited from its holdings in a number of consumer-facing stocks, with Dixons Retail among the key positive performers over the period. Its shares recovered from their previous lows after competitors discussed cutting back store numbers, and rose further later in the period amid better-than-expected trading in the UK at Christmas in the face of increasingly weak competition.

Debenhams also did well, as easing inflation toward the end of the review period improved the outlook for the UK consumer.

Other strong contributors were easyJet, whose management have been improving operational performance; and BP, which benefited from improving operational performance and a reduction of perceived litigation risk from its oil spill in the Gulf of Mexico. An underweight position in BHP Billiton further boosted performance relative to the benchmark.

On the downside, exposure to mining groups Vedanta Resources and Xstrata detracted from performance. Their shares were hit by macroeconomic concerns and weaker metal prices.

The holding in Lloyds Banking Group was also detrimental, its share price coming under pressure early in the period as a result of uncertainty over new banking regulations and the announcement of higher-than-expected provisions for payment protection insurance.

Despite support at the corporate level from balance sheet strength and low valuations, the key driver of the UK equity market remains swings in macroeconomic sentiment. Increasingly, UK companies are facing headwinds from weak consumer spending and slower European export demand. At the same time, they should continue to benefit from the improving global macroeconomic picture – particularly the strengthening recovery in the US and the strong rates of growth in China and many other Asian economies.

On a historical basis, and when compared to bonds and cash, the UK market remains attractively valued and we expect the market to make further progress this year.

ADMINISTRATION REPORT

1. The Pension Administration Team

1.1 The Pension Team which administers the Greater Gwent (Torfaen) Pension Scheme consists of 20 members of staff administering benefits for over 45,000 members (Active, Deferred and Pensioners) and over 50 Employers (48 active). The Pension Team has an important blend of experience with officers ranging from almost 30 years service to our most recent recruit who has two years service.

1.2 The past 18 months has seen significant developments in our pension administration software with the pension administration system being upgraded to a new platform and the introduction of a fully integrated pensioner payroll solution. This project was completed before the end of March 2012. The integration of the Pension Administration system and the Pensioner Payroll system enables the straight through processing of retirement benefits without the need for manual data inputting.

1.3 The Pension Section has also developed a dedicated Pension Fund Web Site which can be accessed at http://www.greatergwentpensionsfund.co.uk. The development of the Web Site will enable us to communicate more effectively with scheme members and employers and to provide timely information relating to Consultations and Regulation changes and any other matters which affect the Pension Fund.

1.4 The economic situation and in particular, budget cuts by employers who participate in the Scheme, continues to impact on the work of the Pension Section in relation to increased enquiries from employers with regard to potential redundancies and staff reduction exercises. This has necessitated some reallocation of work within the section to ensure we are able to meet these challenges.

2. Administration Service and Current Developments

2.1 **Core Work**

The work undertaken by the pension section in relation to the main 'core service' statistics is illustrated on the following table. The table illustrates the work outstanding as at 1st April 2011, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2012.

	Work outstanding 1 April 2011	New	Total	Completed	Work in progress 31 March 2012
Retirements processed	272	975	1,247	957	290
Deferred processed	209	1,432	1,641	1,526	115
Retirement estimates	326	2,163	2,489	2,141	348
Deaths processed	86	446	532	384	148
Transfers in/out	583	822	1,405	807	598
New Starters	533	1,491	2,024	1,204	820
Total	**2,009**	**7,329**	**9,338**	**7,019**	**2,319**

The pension section has continued to review our working practises and procedures in light of changes to the Regulations and the demands of the job. Staff members have demonstrated their flexible approach which has enabled work to be reallocated within the section to manage workloads and developments effectively.

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.

2.2 **Other Activity**

In addition to providing our core service and the implementation of the IT project we have also carried out additional work in relation to the pension scheme including: -

- Participation in Club Vita to provide an analysis of the longevity of the members of the Greater Gwent (Torfaen) Pension Fund.
- Providing Employers with guidance in relation to the Restriction of Pension Tax Relief, including carrying out individual assessments for members who are at risk of incurring a tax charge.
- Participation in the National Fraud Initiative (NFI) and utilising the services of a tracing agency.
- Continuing collaboration with the other seven Local Government Pension Funds within Wales to improve communication and administration systems.
- Development of a designated pension fund web site.
- Introduction of an alternative workplace strategy to enable the section to operate in a more cost effective manner.
- Participation at a National level with regard to the reform of the Local Government Pension Scheme and the establishment of a new scheme with effect from 1st April 2014.

3. Future Challenges

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

3.2 The year 2012/13 will see a major consultation exercise in relation to the proposal for the new Local Government Pension Scheme. Legislation for the new scheme needs to be in place by 31st March 2013 to enable the changes to be taken into account in the Triennial Actuarial Valuation which is due to be carried out as at that date. This will also necessitate a major communications exercise with participating employers and scheme members to ensure that the provisions of the new scheme and the protections which will be afforded are presented in an informative manner.

3.3 October 2012 will see the roll out of Auto enrolment, a Legislative requirement, which is designed to reduce the number of individuals who are not saving for their retirement. It is an Employer responsibility to ensure that they have automatically enrolled their eligible employees into an appropriate pension arrangement by their staging date. (Each employer has a staging date by which they have to have automatically enrolled eligible employees. The staging date is dependent on the size of the employer's payroll.) This will require a major review of Human Resources recruitment procedures, a review of employee contracts, upgrading of HR and Payroll software, a review of the data provided to the pension fund and the timing of these submissions and will have financial implication in respect of additional employer contributions being paid to the pension fund in respect of any employees who are automatically enrolled and do not elect to opt out.

FUND POLICIES

1. Statement of Investment Principles

1.1 Background

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

1.2 Main Objectives

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

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

1.3 Types of Investments

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

1.4 Realisation of Investments

General principles for investment require the issues of liquidity and marketability be considered in making any investment decision. The vast majority of the Pension Fund's assets are readily marketable. Some investments however, such as property, 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.

1.5 Investment Management Arrangements

Investment managers have been appointed to manage virtually all assets of the Fund. Following the changes made during the year there are now six external managers who manage the Fund's assets and who make day to day investment decisions. These are Aberdeen Asset Managers, Baring Asset Management, BlackRock, Lazard Asset Management, Nomura Asset Management and Standard Life Investments. Management agreements are maintained with each of the investment managers which set out the benchmark asset allocation ranges, performance target and any restrictions placed on the manager. The investment managers' actions and performance are monitored 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 internal portfolio includes a limited partnership investment in the M&G UK Companies Financing Fund to which the Fund has invested £8.2 million of a total £9.6 million commitment to the fund which provides FTSE listed companies with an alternative to the banks in sourcing their financing requirements.

1.6 **Risk**

The Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising returns and to limit risk to acceptable levels. This is achieved through a variety of actions and is detailed more fully in the complete version of the SIP available on the Pension Fund's website via the link on Page 25 of this document.

1.7 **Compliance**

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

1.8 **Feedback and Review**

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

2. Socially Responsible Investing & Corporate Governance

2.1 **Socially Responsible Investment**

The Fund has 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 work-plan the Pensions Committee has also reviewed the Fund's approach to Socially Responsible Investment and formed a separate Environmental Social and Corporate Governance (ESG) working group, to specifically consider the Fund's current approach to environmental, social and corporate governance matters within its investment decision making process. The group met throughout 2011/12 and reported back to Pensions Committee in September 2011 following completion of the initial phase of its work programme, reviewing the Fund's current approach and considering options for change. The Group's report to Committee was a positive one as they were generally impressed with the extent of engagement, monitoring and reporting carried out by the Fund's investment managers and content with the Fund's approach to promoting wider representation across LGPS Funds. The Group also recognised within its report that ESG consideration is an area of significant focus for many Funds presently and that there are other areas of the Fund's approach where further consideration of options for change may be appropriate.

2.2 **Myners Compliance**

In accordance with LGPS Regulations, the Fund is required to state the extent to which it complies with the principles of investment practice issued by the Government in response to the recommendations of a review of institutional investment in the UK originally undertaken by Sir Paul Myners. The original review by Myners prompted the Government in 2001 to issue 10 principles of investment practice and 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.

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.

3. Funding Strategy Statement

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

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

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

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

Further details are contained in the Fund's full Funding Strategy Statement, which has been updated to reflect the results of the Fund's 2010 triennial actuarial valuation, and is available via the link on Page 25 of this document.

4. Communications Strategy

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

- The Fund recognises the different needs of its stakeholders who we have identified as follows:-
  - Employers
  - Employees
  - Pensioners
  - Early leavers
  - Staff
  - External bodies
  - Non Fund members
  - (Quasi) Trustees
- The Fund aims to:-
  - Provide a well respected, quality driven, timely and accurate service
  - Treat all our customers with respect
  - Answer queries quickly and efficiently
  - Inform members of changes
  - Inform members of relevant developments
  - Provide sufficient information opportunities for members and potential members to make informed decisions
- The Strategy 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

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

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

5. Pension Fund Annual Report

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

5.2 The Fund has therefore included in the annual report a summary of the following required key documents which are available in full via the hyperlinks on the Pension Funds web site shown below. These documents are also contained in full as Appendices to the full version of the Annual Report and Accounts 2011/12, which is also to be found on the Pension Fund's website:-

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

- **Governance Policy & Compliance Statement**
  http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/GovernancePolicyComplianceStatement2011-2012.pdf

- **Funding Strategy Statement**
  http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/FundingStrategyStatement-April2011.pdf

- **Statement of Investment Principles**
  http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/StatementofInvestmentPrinciples2011-2012.pdf

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

MERCER

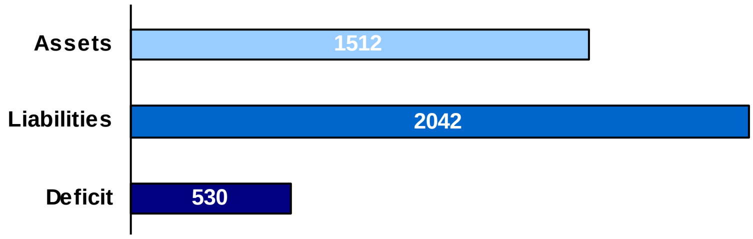
GREATER GWENT (TORFAEN) PENSION FUND

Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements 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.

On the basis of the assumptions adopted, the Fund's assets of £1,512 million represented 74% of the Fund's past service liabilities of £2,042 million (the "Funding Target") 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.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 18 March 2011.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). 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 (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)		
- 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.

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.4% per annum	4.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £2,385 million and £2,611 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £92 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2012

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

I have examined the pension fund accounts and related notes contained in the 2011/12 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 2012 which were authorised for issue on 28 September 2012. 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 2012 which were authorised for issue on 28 September 2012 on which I issued an unqualified opinion.

Name: **Anthony Barrett**
Position: **Appointed Auditor**
Date: **28 September 2012**

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

Electronic publication of financial statements

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

Pension Fund Accounts

Contents	Page Number

Fund Account for the Year Ended 31 March 2012

	Note	2011/12 £000	2010/11 £000
Contributions and benefits			
Contributions receivable	6	(101,652)	(110,304)
Transfers in	7	(7,824)	(7,265)
		(109,476)	(117,569)
Benefits payable	8	84,538	81,491
Payments to and on account of leavers	9	22,967	8,517
Other payments	10	1	25
Administrative expenses	11	1,674	1,675
		109,180	91,708
Net additions from dealing with members		(296)	(25,861)
Returns on investments			
Investment income	12	(21,448)	(17,099)
Profit and losses on disposal of investments and changes in value of investments	14	12,001	(110,151)
Investment management expenses	13	4,357	4,110
Net returns on investments		(5,090)	(123,140)
Net increase in the net assets available for benefits during the year		**(5,386)**	**(149,001)**
Net assets of the Scheme			
At 1st April		1,660,778	1,511,777
Net increase in the net assets available for benefits during the year		5,386	149,001
Closing net assets of the Scheme at 31st March		**1,666,164**	**1,660,778**

Net Assets Statement for the Year Ended 31 March 2012

	Note	As at 31 March 2012 Bid Price basis £000	As at 31 March 2011 Bid Price basis £000	As at 31 March 2010 Bid Price basis £000
Investment assets	14	1,673,634	1,649,900	1,501,677
Investment liabilities	14	(122)	(324)	(118)
Current assets	19	16,145	14,573	13,970
Current liabilities	20	(23,493)	(3,371)	(3,752)
Net assets of the Scheme available to fund benefits at 31st March		**1,666,164**	**1,660,778**	**1,511,777**

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

NOTES TO THE ACCOUNTS

1. Description of Fund

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

The following description of the Fund is designed to be a summary only. For more detail, reference should be made to the Greater Gwent (Torfaen) Pension Fund Annual Report and the references/signposting within that to the other Fund statutory documentation.

1.1 General

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

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

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

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

1.2 Membership

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

There are 48 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table in appendix 3 (page 64) provides some further details in terms of membership.

1.3 Benefits

Pension benefits under the LGPS are currently based on final pensionable pay and length of pensionable service and are summarised below:-

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

1.4 **Funding**

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

Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ended 31 March 2012. Contributions are additionally made by Fund employers which are set by the Fund's triennial actuarial valuations. The last such valuation was at 31 March 2010 and during the year ended 31 March 2012 employer contribution rates ranged from 0% to 55.4% of pensionable pay.

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

2. Basis of Preparation

2.1 The Fund Account summarises the Fund's transactions for the 2011/12 financial year and its position at year end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

2.2 The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 18, page 57.

2.3 The accounts have been prepared in accordance with IAS26 (Accounting and Reporting by Retirement Benefit Plans) except where interpretations or adaptations to fit the public sector are detailed in the 'Code of Practice on Local Authority Accounting in the United Kingdom 2011/12'.

3. Summary of Significant Accounting Policies

3.1 **Fund Account – Revenue Recognition**

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

i) Contribution Income

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

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

ii) Transfers To and From Other Schemes

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

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

iii) Investment Income

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

3.2 **Fund Account – Expense Items**

i) Benefits Payable

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

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

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

ii) Administrative Expenses

This includes two types of expenses:-

- Administration and processing

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

- Actuarial & investment fees and performance service

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

iii) Investment Management Expenses

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

Fees of the external managers are agreed in the respective mandates governing their appointments. The managers' fee structure is based on a percentage of the market value of the managed assets. The fees therefore increase or reduce as the value of these investments change.

In addition the Fund has negotiated with Barings Asset Management that an element of their fee is performance related, however no additional fees have been paid since the year ending 31 December 2007.

iv) Taxation

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Since July 1997 the Fund has been unable to reclaim tax credits on UK dividend income but can reclaim the tax deducted from UK property unit trusts. Investment income in the accounts is, however, shown gross of UK tax with a corresponding amount for irrecoverable UK tax in accordance with FRS16 Current Tax.

Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit. Although the Fund does not have a mandate for segregated overseas investments, some holdings in UK equities are FTSE All Share stocks registered overseas and are therefore eligible for reclaims.

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

3.3 **Net Assets Statement**

i) Financial Instruments

The Fund is required to recognise a financial asset or a financial liability in its Net Assets Statement when, and only when, the Fund becomes a party to the contractual provisions of the instrument.

The assets and liabilities held by the Greater Gwent Torfaen Pension Fund are classified as designated at fair value through profit and loss, loans and receivables and financial liabilities at amortised cost.

- Financial instruments at fair value through profit or loss

A Financial asset or liability at fair value through profit or loss is a financial asset or liability that is either classified as held for trading, or upon initial recognition it is designated by the Fund as at fair value through profit or loss.

The Fund's financial instruments at fair value through profit or loss comprise of investment assets and investment liabilities (excluding cash deposits).

- Loans and receivables

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

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

- Financial liabilities at amortised cost

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

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

ii) Valuation of Investment Assets

The fair values of investments included in the Net Assets Statement as at 31 March 2012 have been determined as follows:-

- Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the bid price at the close of business on 31 March 2012. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market. Unquoted investments are valued by the fund manager at year end in accordance with generally accepted guidelines.

- Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing on 31 March 2012.

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

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

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

- In 2011/12 cash was held partly by fund managers and partly by the administering authority. The administering authority has the option of investing fixed term in specified investments or alternatively in instant access money market fund accounts, in accordance with the Fund's Cash Management Strategy which is reviewed and approved annually by the Pensions Committee. (The lending party is the Pension Fund rather than Torfaen County Borough Council as administering authority).

iii) Investment Liabilities

Any 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.

3.4 Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 18, page 57).

3.5 **Additional Voluntary Contributions**

The Greater Gwent (Torfaen) Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. There are no employers' contributions to an AVC. Members of the pension fund can chose to have their AVCs paid to various funds administered by Standard Life or Clerical Medical. Some AVC contributions from prior years are also held with Equitable Life. The purpose of AVCs is to provide additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)b of the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 21, page 59).

4. Critical Judgement in Applying Accounting Policies

4.1 **Pension Fund Liability**

The triennial formal valuation of the Fund per the LGPS Regulations 1997 (as amended) differs from the IAS19 annual valuations of the promised retirement benefits at the Balance Sheet date.

The Pension Fund Valuation is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 17, page 55. This estimate is subject to significant variances based on changes to the underlying assumptions.

The Code requires disclosure of the actuarial value of promised retirement benefits for the whole Fund at Balance Sheet date. See paragraph 3.4 above and note 18, page 57. Since this depends upon a number of complex judgements, an actuary advises on the assumptions employed and carries out the calculation. The assumptions employed for IAS19 accounting purposes can differ from those employed for the triennial valuation of the Fund and could affect the value calculated.

5. Events after the Balance Sheet Date

The on-going theme within this report in respect of investments is turbulence and since the balance sheet date, this has continued to be the case. 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 2012 and the date that the accounting statements are authorised for issue.

6. Contributions Receivable

The assessed rate for the Fund as a whole for 2011/12 was 11.1% of pensionable pay with individual adjustments applicable to individual Authorities (as shown on Appendix 2 on page 63). The 'rates paid' percentages reflect the fact that during the year some employers have paid additional contributions over and above the rate set for them by the Actuary (as shown on Appendix 3 on page 64). The Deficit Funding contains employers' contributions paid over the 11.1%.

2010/11 £000		2011/12 £000
	From Employers	
(52,558)	Normal contributions	(41,542)
(29,180)	Deficit funding	(31,524)
(3,814)	Augmentation	(4,448)
	From Members	
(24,741)	Normal contributions	(24,084)
(11)	Additional Contributions	(54)
(110,304)	**Total**	**(101,652)**

2010/11 £000		2011/12 £000
(102,810)	Scheduled Bodies	(93,904)
(218)	Deemed Bodies	(261)
(7,276)	Admitted Bodies	(7,487)
(110,304)	**Total**	**(101,652)**

7. Transfers in from Other Pension Funds

2010/11 £000		2011/12 £000
(7,265)	Individual transfers in from other schemes	(3,856)
-	Group transfers in from other schemes*	(3,968)
(7,265)		**(7,824)**

*This figure includes an accrual of £3.6m in respect of the Magistrates group transfer

8. Benefits Payable

2010/11 £000		2011/12 £000
43,078	Pensions - statutory	46,124
16,126	Pension increases	17,258
20,275	Commutation of pensions and lump sum retirement benefits	18,148
1,498	Lump sum death benefits	2,344
514	Additional allowances	664
81,491		**84,538**

2010/11 £000		2011/12 £000
77,572	Scheduled Bodies	80,654
1,416	Deemed Bodies	1,116
2,503	Admitted Bodies	2,768
81,491		**84,538**

Analysis of Benefits Payable and Contributions Receivable by Employing Body in 2011/2012

Authorities		Benefits Payable £000	Contributions Receivable £000
Administering Authority	Torfaen CBC	11,557	14,526
Scheduled Bodies	Blaenau Gwent CBC	11,621	13,505
	Caerphilly CBC	17,432	26,239
	Monmouthshire CC	7,830	12,666
	Newport City Council	13,522	16,915
	Caldicot & Wentloog LDB	47	66
	Valuation Panel	37	40
	University of Wales, Newport	1,550	2,531
	Coleg Gwent	914	2,049
	Chepstow Town Council	5	13
	Brynmawr Town Council	-	7
	Gwent Police Authority	2,166	4,965
	Central Supplies	150	-
	Silent Valley Waste Disposal	9	28
	Caldicot Town Council	-	11
	Nantyglo & Blaina Town Council	49	8
	Monmouth Town Council	1	5
	Gwent Cremation Committee	38	41
	Cwmbran Community Council	11	40
	Pontypool Community Council	10	31
	Tredegar Town Council	-	8
	Rogerstone Community Council	1	13
	Bargoed Town Council	10	3
	Shirenewton Community Council	8	1
	Henllys Community Council	-	2
	Magor with Undy Community Council	-	3
	Former Rhymney Valley DC	1	-
	Welsh Water and Hartshead	3	188
Previously Scheduled Bodies	Gwent County Council	12,283	-
	Commission for New Towns	994	-
	DHSS	27	-
	Gwent Magistrates Courts	378	-
Deemed Bodies	Islwyn Transport	147	-
	Newport Transport	969	261
Admitted Bodies	Big Pit (Blaenafon) Trust	32	-
	Melin Homes	4	268
	Careers Wales Gwent	360	869
	Citizen Advice Bureau Caerphilly	1	46
	Mitie (formerly Ballast)	3	8
	CWVYS	18	3
	Capita Gwent Consultancy	745	1,252
	Hafod Care	99	69
	Monitor	3	47
	Archives	31	43
	OCS Ex Monmouth & Ex UWCN	2	39
	United Response	13	-
	Monmouthshire HA	276	608
	Bron Afon	399	1,921
	Newport City Homes	339	967
	Tai Calon	388	1,093
	Manpower UK Ltd	16	22
	DRIVE	29	16
	Regent Ex Monmouth & Ex Newport	-	12
	ABM Catering	-	2
	Vinci	2	10
	Compass Catering	8	191
	National Trust	-	1
Total		**84,538**	**101,652**

9. Payments to and on Account of Leavers

2010/11 £000		2011/12 £000
3	Contributions returned to employees	5
2	Payments in lieu of graduated pension contributions	(3)
8,512	Individual transfers out to other schemes	2,965
-	Group transfers out to other schemes*	20,000
8,517		**22,967**

* This figure includes an accrual of £20.0m in respect of the Probation group transfer

10. Other Payments

2010/11 £000	Other Payments	2011/12 £000
20	Prior period AVC adjustment	-
5	Printing costs and review of Welsh LGPS	1
25		**1**

11. Administrative Expenses

2010/11 £000	Administrative expenses	2011/12 £000
1,461	Administration and processing	1,460
214	Actuarial & investment fees and performance service	214
1,675		**1,674**

12. Investment Income

2010/11 £000		2011/12 £000
	Dividends and Interest	
(17,366)	Equities	(21,865)
(26)	Pooled investments (M&G)	(215)
(1,156)	Pooled property investments	(1,216)
(235)	Interest on cash deposits	(273)
1,684	UK tax, irrecoverable	2,121
(17,099)		**(21,448)**

13. Investment Expenses

2010/11 £000		2011/12 £000
4,110	Fund management fees	4,357
4,110		**4,357**

14. Investments

Value at 31.03.10 bid price £000	Value at 31.03.11 bid price £000		Value at 31.03.12 bid price £000
		Investment assets	
499,124	555,422	Equities	514,552
940,353	1,020,599	Pooled investments	1,089,807
29,867	34,685	Pooled property investments	35,626
29,898	36,253	Cash deposits	29,791
2,400	2,941	Investment income due	3,858
35	-	Amounts receivable for sales	-
1,501,677	**1,649,900**	**Total investment assets**	**1,673,634**
		Investment liabilities	
(118)	(324)	Amounts payable for purchases	(122)
(118)	**(324)**	**Total investment liabilities**	**(122)**
1,501,559	**1,649,576**	**Net investment assets**	**1,673,512**

a) Reconciliation of movements in investments

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £1.113 million (£1.215 million in 2010/11). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

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

Major asset class	Market Value 1 April 2011 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2012 £000
Equities	**555,422**	170,321	(197,878)	(13,313)	**514,552**
Pooled investments	**1,020,599**	274,586	(204,182)	(1,196)	**1,089,807**
Pooled property investments	**34,685**	-	-	941	**35,626**
	1,610,706	444,907	(402,060)	(13,568)	**1,639,985**
Other investment balances:					
• Cash deposits	**36,253**			1,567	**29,791**
• Investment income due	**2,941**				**3,858**
• Amounts payable for purchases of investments	**(324)**				**(122)**
Net investment assets	**1,649,576**			**(12,001)**	**1,673,512**

Major asset class	Market Value 1 April 2010 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2011 £000
Equities	**499,124**	188,768	(163,222)	30,752	**555,422**
Pooled investments	**940,353**	5,773	(1,358)	75,831	**1,020,599**
Pooled property investments	**29,867**	3,000	-	1,818	**34,685**
	1,469,344	197,541	(164,580)	108,401	**1,610,706**
Other investment balances:					
• Cash deposits	**29,898**			1,750	**36,253**
• Amount receivable for sales of investments	**35**				**-**
• Investment income due	**2,400**				**2,941**
• Amounts payable for purchases of investments	**(118)**				**(324)**
Net investment assets	**1,501,559**			**110,151**	**1,649,576**

Major asset class	Market Value 1 April 2009 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market Value 31 March 2010 £000
Equities	**305,160**	615,280	(565,166)	143,850	**499,124**
Pooled investments	**657,081**	234,915	(241,723)	290,080	**940,353**
Pooled property investments	**15,751**	12,363	-	1,753	**29,867**
	977,992	862,558	(806,889)	435,683	**1,469,344**
Derivative contracts:					
• Futures	**1,166**	-	(1,311)	145	**-**
	979,158	**862,558**	**(808,200)**	**435,828**	**1,469,344**
Other investment balances:					
• Cash deposits	**61,271**			(25,014)	**29,898**
• Amount receivable for sales of investments	**-**				**35**
• Investment income due	**2,009**				**2,400**
• Amounts payable for purchases of investments	**(1,204)**				**(118)**
Net investment assets	**1,041,234**			**410,814**	**1,501,559**

b) Analysis of investments - by asset class

Major Asset Class	31 March 2011 £000 Bid Price		%	31 March 2012 £000 Bid Price		%
Equities						
UK						
Quoted	555,422	**555,422**	**33.7**	514,552	**514,552**	**30.7**
Unquoted Pooled funds – additional analysis						
UK						
Unit Trusts						
Gilt Fund	109,340			145,465		
Corporate Bond Fund	59,102	**168,442**	**10.2**	87,251	**232,716**	**13.9**
Unitised Insurance Policies						
UK Equities Smaller Companies Fund	4,249			3,298		
UK Equities Fund	75,669	**79,918**	**4.8**	73,351	**76,649**	**4.6**
Other Managed Funds						
M&G Limited Partnership	4,013	**4,013**	**0.2**	8,317	**8,317**	**0.5**
Overseas						
Unit Trusts						
Gilt Fund	14,391			(2,651)		
Corporate Bond Fund	60,831	**75,222**	**4.6**	44,977	**42,326**	**2.5**
Unitised Insurance Policies						
European Equities Fund	233,484			198,275		
US Equities Fund	118,936			129,469		
Japanese Equities Fund	37,510			-		
Global Equities Fund	-			154,766		
GARS Fund	-	**389,930**	**23.6**	52,771	**535,281**	**31.9**
Other Managed Funds						
Far East Equities Fund	102,718			94,598		
Emerging Markets Equities Fund	53,490			46,081		
Global Equities Fund	146,866			-		
Japanese Equities Fund	-	**303,074**	**18.4**	53,839	**194,518**	**11.7**
Unquoted Pooled Property Investments						
UK Property Unit Trusts	34,685	**34,685**	**2.1**	35,626	**35,626**	**2.1**
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	3,189			5,230		
Cash on deposit with financial institutions	33,064	**36,253**	**2.2**	24,561	**29,791**	**1.9**
Other Investment Balances						
Accrued dividend entitlements and tax reclaims receivable	2,941	**2,941**	**0.2**	3,858	**3,858**	**0.2**
Total Investment Assets	**1,649,900**	**1,649,900**	**100**	**1,673,634**	**1,673,634**	**100**

c) Analysis of investments - by fund manager

Fund Manager	Proportion of Fund (%)	Value of Funds Held (£000)	Portfolios Held (actively managed unless otherwise stated)
BlackRock	12.4	207,529	UK Equities (Indexed)
	0.2	3,298	UK Equities Smaller Companies Fund (Indexed)
	7.7	129,469	US Equities Fund (Indexed)
	8.5	142,814	Gilt Fund
	7.9	132,228	Corporate Bond Fund
	11.8	198,275	European Equities Fund
	0.1	614	Cash
	0.1	1,340	Other Investment Balances
Total Assets held by BlackRock	**48.7**	**815,567**	
Baring Asset Management	5.7	94,598	Far East Equities Fund
	2.8	46,081	Emerging Markets Equities Fund
Total Assets held by BAM	**8.5**	**140,679**	
Lazard Asset Management	18.3	307,023	UK Equities
	0.3	4,616	Cash
	0.1	2,137	Other Investment Balances
Total Assets held by LAM	**18.7**	**313,776**	
Aberdeen Asset Managers	9.2	154,766	Global Equities Fund
Total Assets held by Aberdeen	**9.2**	**154,766**	
Standard Life Investments	4.4	73,351	UK Equities Fund
	3.2	52,771	GARS Fund
Total Assets held by SLI	**7.6**	**126,122**	
Nomura Asset Management	3.2	53,839	Japanese Equities Fund
Total Assets held by Nomura	**3.2**	**53,839**	
Total Assets held by Fund Managers	**95.9**	**1,604,749**	
Torfaen County Borough Council	2.1	35,626	UK Property Unit Trusts
	1.5	24,561	Cash on deposit with financial institutions
	0.5	8,317	M&G Limited Partnership
	-	381	Other Investment Balances
Total Assets held via Administering Authority	**4.1**	**68,885**	
Total Investment Assets	**100**	**1,673,634**	

d) Employer Related Investments

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

e) Investments Held in Pooled Investment Vehicles

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

Company	Country of Registration
BlackRock Advisors (UK) Limited	UK
Aberdeen Asset Management	UK
Standard Life Investments	UK
Baring Asset Management	England & Wales
Nomura Asset Management	Ireland

15. Financial Instruments

a) Classification of financial instruments

Accounting policies (note 3, page 32) describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities by category as at 31 March 2012. The assets and liabilities held by the Fund are classified as designated at fair value through profit and loss, loans and receivables and financial liabilities at amortised cost.

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2011				31 March 2012		
£000	£000	£000		£000	£000	£000
			Financial Assets			
555,422			Equities	514,552		
1,020,599			Pooled investments	1,089,807		
34,685			Pooled property investments	35,626		
	36,253		Cash		29,791	
2,941			Other investment balances	3,858		
	14,573		Debtors		16,145	
1,613,647	**50,826**	**-**		**1,643,843**	**45,936**	**-**
			Financial liabilities			
(324)			Other investment balances	(122)		
		(3,371)	Creditors			(23,493)
(324)	**-**	**(3,371)**		**(122)**	**-**	**(23,493)**
1,613,323	**50,826**	**(3,371)**	**Total**	**1,643,721**	**45,936**	**(23,493)**

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	
31 March 2010			
£000	£000	£000	
			Financial Assets
499,124			Equities
940,353			Pooled investments
29,867			Pooled property investments
	29,898		Cash
2,435			Other investment balances
	13,970		Debtors
1,471,779	**43,868**	**-**	
			Financial liabilities
(118)			Other investment balances
		(3,752)	Creditors
(118)	**-**	**(3,752)**	
1,471,661	**43,868**	**(3,752)**	**Total**

b) Net gains and losses on financial instruments

31 March 2010 £000	31 March 2011 £000		31 March 2012 £000
		Financial assets	
435,828	108,401	Fair value through profit and loss	(13,568)
(25,014)	1,750	Loans and receivables	1,567
-	-	Financial liabilities measured at amortised cost	-
		Financial liabilities	
-	-	Fair value through profit and loss	-
-	-	Loans and receivables	-
-	-	Financial liabilities measured at amortised cost	-
410,814	**110,151**	**Total**	**(12,001)**

c) Fair value of financial instruments and liabilities

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

31 March 2011 Carrying value £000	31 March 2011 Fair value £000		31 March 2012 Carrying value £000	31 March 2012 Fair value £000
		Financial assets		
1,167,351	1,613,647	Fair value through profit and loss	1,250,167	1,643,843
50,826	50,826	Loans and receivables	45,936	45,936
1,218,177	**1,664,473**	**Total financial assets**	**1,296,103**	**1,689,779**
		Financial liabilities		
(324)	(324)	Fair value through profit and loss	(122)	(122)
(3,371)	(3,371)	Financial liabilities measured at amortised cost	(23,493)	(23,493)
(3,695)	**(3,695)**	**Total financial liabilities**	**(23,615)**	**(23,615)**

31 March 2010 Carrying value £000	31 March 2010 Fair value £000	
		Financial assets
1,115,003	1,471,779	Fair value through profit and loss
43,868	43,868	Loans and receivables
1,158,871	**1,515,647**	**Total financial assets**
		Financial liabilities
(118)	(118)	Fair value through profit and loss
(3,752)	(3,752)	Financial liabilities measured at amortised cost
(3,870)	**(3,870)**	**Total financial liabilities**

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

d) Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

The following table presents the changes in level 3 financial instruments:

	31 March 2012 £000	**31 March 2011** £000
Opening balance	**4,013**	**-**
Contributions	4,216	3,954
Distribution of income	(215)	(26)
Net income and expenses	329	81
Net change in unrealised appreciation/(depreciation)	(26)	4
Closing balance	**8,317**	**4,013**

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

Values at 31 March 2012	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	518,410	1,117,116	8,317	1,643,843
Loans and receivables	45,936			45,936
Total financial assets	**564,346**	**1,117,116**	**8,317**	**1,689,779**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(122)			(122)
Financial liabilities at amortised cost	(23,493)			(23,493)
Total financial liabilities	**(23,615)**	**-**	**-**	**(23,615)**
Net financial assets	**540,731**	**1,117,116**	**8,317**	**1,666,164**

Values at 31 March 2011	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	558,363	1,051,271	4,013	1,613,647
Loans and receivables	50,826			50,826
Total financial assets	**609,189**	**1,051,271**	**4,013**	**1,664,473**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(324)			(324)
Financial liabilities at amortised cost	(3,371)			(3,371)
Total financial liabilities	**(3,695)**	**-**	**-**	**(3,695)**
Net financial assets	**605,494**	**1,051,271**	**4,013**	**1,660,778**

Values at 31 March 2010	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	501,559	970,220		1,471,779
Loans and receivables	43,868			43,868
Total financial assets	**545,427**	**970,220**	**-**	**1,515,647**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(118)			(118)
Financial liabilities at amortised cost	(3,752)			(3,752)
Total financial liabilities	**(3,870)**	**-**	**-**	**(3,870)**
Net financial assets	**541,557**	**970,220**	**-**	**1,511,777**

16. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

Overall procedures for managing risk

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

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

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

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

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

a) Market Risk

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

The Pension Fund's funding position is sensitive to market price changes on two levels. Changes in the market price of investments such as equities, affect the net assets available to fund promised member benefits. Changes in the yields (and thus price) of bonds, as well as affecting asset values, also affect the value placed on the Pension Fund's liabilities within its overall funding calculations. To give an indication of scale, the change in the market value of the Pension Fund's investment assets during the year was an increase of £23,733,564.

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

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

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

Asset price risk

Asset Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market.

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

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

Asset price risk – sensitivity analysis

Following, in consultation with advisors, analysis of historic market data for the indices against which the Fund benchmarks its investments, the Fund has determined that the following movements in market price are reasonably possible for the 2012/13 reporting period:

Asset Type	Potential market movement (+/-)
UK Equities	15.22%
Overseas Equities (as at 31 March 12)	17.05%
Fixed Interest (Gilts)	5.48%
Fixed Interest (Corporate Bonds)	5.22%
Pooled property investments	5.80%
Alternative Investments	5.77%

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

Asset Type	Long Term performance expectations p.a. (+)
Equities	7.0%
Fixed Interest (Gilts)	3.1%
Fixed Interest (Corporate Bonds)	4.1%
Property investments	6.0%

Ignoring the potential for long term positive performance however and considering potential market price changes (volatility) only, had the market price of the fund investments increased/decreased in line with the potential market movements noted above, the change in the net assets available to pay benefits would have been as follows (the prior year comparators using the same assumptions are also shown below):

Asset type	Value as at 31 March 2012	Percentage Change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	**29,791**	**0.0**	**29,791**	**29,791**
Investment portfolio assets:				
UK Equities	591,201	15.22	681,182	501,220
Overseas Equities	677,028	17.05	792,461	561,595
Fixed Interest (Gilts)	142,814	5.48	150,640	134,988
Fixed Interest (Corporate Bonds)	132,228	5.22	139,130	125,326
Pooled property investments	35,626	5.80	37,692	33,560
Alternative Investments	61,088	5.77	64,613	57,563
Investment income due	3,858	0.00	3,858	3,858
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	(122)	0.00	(122)	(122)
Total assets available to pay benefits	**1,673,512**		**1,899,245**	**1,447,779**

Asset type	Value as at 31 March 2011 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	**36,253**	**0.0**	**36,253**	**36,253**
Investment portfolio assets:				
UK Equities	635,340	15.22	732,039	538,641
Overseas Equities	693,005	17.46	814,004	572,006
Fixed Interest (Gilts)	123,731	5.48	130,511	116,951
Fixed Interest (Corporate Bonds)	119,933	5.22	126,194	113,672
Pooled property investments	34,684	5.80	36,696	32,672
Alternative Investments	4,013	5.77	4,245	3,781
Investment income due	2,941	0.00	2,941	2,941
Amounts receivable for sales	-	0.00	-	-
Amounts payable for purchases	(324)	0.00	(324)	(324)
Total assets available to pay benefits	**1,649,576**		**1,882,559**	**1,416,593**

Asset type	Value as at 31 March 2010 £000	Percentage Change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	**29,898**	**0.0**	**29,898**	**29,898**
Investment portfolio assets:				
UK Equities	575,968	15.22	663,630	488,306
Overseas Equities	633,880	17.39	744,112	523,648
Fixed Interest (Gilts)	116,395	5.48	122,773	110,017
Fixed Interest (Corporate Bonds)	113,234	5.22	119,145	107,323
Pooled property investments	29,867	5.80	31,599	28,135
Alternative Investments	-	5.77	-	-
Investment income due	2,400	0.00	2,400	2,400
Amounts receivable for sales	35	0.00	35	35
Amounts payable for purchases	(118)	0.00	(118)	(118)
Total assets available to pay benefits	**1,501,559**		**1,713,474**	**1,289,644**

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Certain Fund investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

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

Asset Type	As at 31 March 2012 £000s	As at 31 March 2011 £000s	As at 31 March 2010 £000s
Cash on deposit with financial institutions	24,561	33,064	27,513
Cash held by Managers	5,230	3,189	2,385
Total	**29,791**	**36,253**	**29,898**

Interest rate risk sensitivity analysis

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

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

Asset Type	Carrying amount as at 31 March 2012	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash on deposit with financial institutions	24,561	246	(246)
Cash held by Managers	5,230	52	(52)
Total change in assets available	**29,791**	**298**	**(298)**

Asset Type	Carrying amount as at 31 March 2011	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash on deposit with financial institutions	33,064	331	(331)
Cash held by Managers	3,189	32	(32)
Total change in assets available	**36,253**	**363**	**(363)**

Asset Type	Carrying amount as at 31 March 2010	Change in year in the net assets available to pay benefits	
		+1%	-1%
	£000	£000	£000
Cash on deposit with financial institutions	27,513	275	(275)
Cash held by managers	2,385	24	(24)
Total change in assets available	**29,898**	**299**	**(299)**

Currency risk

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

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

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

Currency exposure - asset type	Value as at 31 March 2012 £000	Value as at 31 March 2011 £000	Value as at 31 March 2010 £000
Overseas Equities	677,028	693,005	633,880
Overseas Fixed Income (Gilts)	(2,651)	14,391	1,297
Overseas Fixed Interest (Corporate)	44,977	60,831	37,814
Global Absolute Return Strategies Fund (GARS)	52,771	-	-
Total overseas assets	**772,125**	**768,227**	**672,991**

Currency risk sensitivity analysis

Following analysis of historical data in consultation with advisors, the Fund considers the likely volatility associated with foreign exchange rate movements for its exposure to overseas currencies at the reporting date, 31 March 2012, to be 8.07%. This has been calculated by examining the Fund's overseas asset allocation by country/region as and where appropriate, and calculating an overall figure for likely currency volatility to which the Fund could theoretically be exposed. Similar percentages have also been calculated based on the Fund's asset allocation for the prior two reporting periods. Consolidation of the data and analysis carried out indicates that, assuming that all other variables such as price movement and interest rates remain constant, a strengthening/weakening of sterling against the various currencies in which the Fund indirectly holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset Value as at 31 March 2012 £000	Potential change in Exchange Rates %	Value on Increase £000	Value on Decrease £000
Overseas Equities	677,028	8.25%	732,883	621,173
Overseas Fixed Income (Gilts)	(2,651)	7.15%	(2,841)	(2,461)
Overseas Fixed Interest(Corporate)	44,977	7.15%	48,193	41,761
GARS Fund	52,771	6.55%	56,228	49,314
Total change in assets available	**772,125**	**8.07%**	**834,463**	**709,787**

Currency exposure - asset type	Asset Value as at 31 March 2011 £000	Potential change in Exchange Rates %	Value on Increase £000	Value on Decrease £000
Overseas Equities	693,005	8.09%	749,069	636,941
Overseas Fixed Income (Gilts)	14,391	7.15%	15,420	13,362
Overseas Fixed Interest (Corporate)	60,831	7.15%	65,180	56,482
Total change in assets available	**768,227**	**8.00%**	**829,669**	**706,785**

Currency exposure - asset type	Asset Value as at 31 March 2010 £000	Potential change in Exchange Rates %	Value on Increase £000	Value on Decrease £000
Overseas Equities	633,880	8.13%	685,414	582,346
Overseas Fixed Income (Gilts)	1,297	7.15%	1,390	1,204
Overseas Fixed Interest (Corporate)	37,814	7.15%	40,518	35,110
Total change in assets available	**672,991**	**8.07%**	**727,322**	**618,660**

b) Credit Risk

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

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

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

The Pension Fund's Cash Management Strategy for 2011/12 (and its forward looking strategy for 2012/13 which is now in place) sets out the type and minimum acceptable criteria for investments; the institutions with which they can be placed; the maximum value that can be placed with each institution and the maximum period for which money can be invested. The strategy references and details the Fund's processes and procedures in terms of its cash management and how specialist external advice is used within the process. In terms of this external advice then the Pension Fund utilises the services of Sector Treasury services for formulating and monitoring the Fund's list of approved counterparties. Sector uses a comprehensive method of assessing counterparty's credit ratings which includes overlaying the three credit rating agencies' scores with additional data, relative to each institution, such as rating watches and CDS spreads to advise of a maximum suggested investment period with that counterparty. The Fund believes that it has, through a continuing difficult period for financial markets and institutions, adequately managed its exposure to credit risk. There have been no instances of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2012 was £25.2 million (31 March 2011 was £29.8 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	**Rating (Fitch Long Term)** (at 31 March 2012)	**Balances as at 31 March 2012** £000	**Balances as at 31 March 2011** £000
Money Market Funds			
BlackRock	AAA	3	4,405
Deutsche Bank	AAA	6,038	-
Ignis	AAA	6,000	7,893
Standard Life	AAA	-	3,480
State Street	AAA	3,205	-
Bank Deposit Accounts			
Lloyds TSB	A	3,000	8,000
Royal Bank of Scotland	A	7,000	6,000
Bank Current Accounts			
TCBC Pension Fund		(685)	3,286
Total		**24,561**	**33,064**

c) Liquidity Risk

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

The Pension Fund further manages its liquidity risk by maintaining a large proportion of its cash investments within money market funds or call accounts allowing virtually same day access to cash deposited without penalty. The remainder of the Fund's cash is held on fixed term deposits but, in accordance with the cash management strategy, these must currently be of maximum 6 months duration and placed with UK banks. The whole of the Fund's cash investments can therefore be deemed to be reasonably liquid in that they could be 100% redeemed within a maximum 6 month period if required, and, in practice the vast majority being available to a much shorter timescale.

The Fund understands and manages the timing of its cash flows and this is helped by the current profile of the Fund in which contributions received continue to exceed the value of benefits paid out. The Fund's financial statements show that, during the 2011/12 financial year, it accumulated an excess of £17.387 million income received over expenditure paid out. This means that the Fund continues to be cash generative and, though the Fund's strategic asset allocation contains a 3% allocation to cash. The Fund has been comfortable (documented via its cash management strategy) to allow cash levels to float at or around the 2% level during the 2011/12 financial year. Where surplus cash is accumulated in excess of the desired level, these funds are re-allocated to investments in accordance with the Fund's overall investment strategy.

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. Both the Fund and its managers are however aware of the very low interest rates available on cash deposits and therefore the desire is to be as fully invested as possible in higher yielding assets whilst ensuring adequate liquidity to meet cash commitments when they fall due.

Refinancing risk

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

17. Funding Arrangements

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

The Fund's statement includes:-

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

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

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

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

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

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

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

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

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

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

17.5 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.

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

	2010 Funding Target	**2010 Normal Cost**
Investment return pre-retirement	7.0%	6.75%
Investment return post-retirement	5.5%	6.75%
Pensionable pay increases	4.5%	4.5%
Pension increases	3.0%	3.0%

17.7 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 that can be found on the Pension Fund's website:-

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

18. Actuarial Present Value of Promised Retirement Benefits

18.1 The Code requires the disclosure of 'actuarial present value of promised retirement benefits' and for this purpose the actuarial assumptions and methodology used should be based on IAS19, which differ from those assumptions used in the formal valuation of the Fund.

The value of the benefits has been assessed by the Actuary on this basis using the following financial assumptions:-

	31 March 2011	31 March 2012
Rate of return on investments (discount rate)	5.5% p.a.	4.9% p.a.
Rate of pay increases	4.4% p.a.	4.0% p.a.
Rate of increase in pensions (in excess of Guaranteed Minimum Pension)	2.9% p.a.	2.5% p.a.

The valuation methodology in connection with ill-health and death benefits is also consistent with IAS19. Demographic assumptions are the same as those used for funding purposes.

18.2 On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £2,385 million and £2,611 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £92 million.

19. Current Assets

31 March 2011 £000		31 March 2012 £000
	Contributions due from employing bodies:-	
2,047	- Employees contributions	2,004
6,580	- Employers contributions	6,188
5,633	Early retirement costs	4,116
313	Baring fee rebate	223
-	Nomura fee rebate	39
-	Pension payroll	4
-	Group transfer receivable	3,571
14,573		**16,145**

Analysis of debtors

31 March 2011 £000		31 March 2012 £000
7	Central Government bodies	3,574
13,126	Other Local Authorities	11,208
1,440	Other entities and individuals	1,363
14,573		**16,145**

a) Funding of Early Retirement Costs

During 2011/12, the cost to the pension fund of early retirements arising in that year was £4,320,473.85 which is paid by instalments over periods of up to five years. The cost includes the extra years of pension payments as a result of employees retiring early, plus the augmented costs. The cost of early retirements is worked out by specialist computer software, and is recovered from the respective employers. The actuary has reflected this approach in the contribution levels.

The amounts included within the accounts are the instalments that are due in 2011/12 and in future financial years for early retirements known as at 31 March 2012. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2011/12 in respect of:		
Prior Years	2,269	
Current Year	2,843	5,112
Balances b/f 1 April 2011	5,634	
Payments Received in 2011/12	(5,966)	
Reversal of previous instalments due	(4,487)	(4,819)
Instalments due for 2012/13	1,487	
Instalments due for 2013/14 & later years	2,336	3,823
2011/12 Debtor		**4,116**

The instalments due for 2012/13 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2011.

20. Current Liabilities

31 March 2011 £000		31 March 2012 £000
(1,907)	Unpaid benefits	(1,302)
(25)	Refund of contributions due to employing bodies	(1)
-	Pension Payroll	(639)
(1,432)	Management fees	(1,504)
(7)	AVC	(47)
-	Group transfer payable	(20,000)
(3,371)		**(23,493)**

Analysis of creditors

31 March 2011 £000		31 March 2012 £000
-	Central Government bodies	(633)
(1,557)	Other Local Authorities	(1,216)
(1,814)	Other entities and individuals	(21,644)
(3,371)		**(23,493)**

21. Additional Voluntary Contributions

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

Provider	Standard Life	Clerical and Medical	Equitable Life	TOTAL
	£000	£000	£000	£000
Contributions received 2011/12	571	231	14	816
Market value of AVC Investments 31st March 2012	4,198	1,809	1,467	7,474

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

22. Related Party Transactions

22.1 In the course of fulfilling its role as administering authority to the Fund, Torfaen CBC provided services to the Fund. Costs are normally in respect of those staff employed in ensuring the pension service is delivered and are included in the accounts within Administration Expenses (note 11, page 39) and Investment Management Expenses (note 13, page 39). 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.

22.2 **Governance**

There are two members of the Pension Fund Committee who are in receipt of pension benefits from the Fund (Councillors Aneurin James and John Killick). In addition, Councillors Maria Graham (Chair) and Julianna Biggs are active contributors.

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

22.3 **Key Management Personnel**

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

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

23. Contingent Assets

23.1 On 1 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.

23.2 A settlement figure, payable to the Greater Gwent (Torfaen) Pension Fund, of £3,968,220 (equivalent to 10 annual instalments of £396,822) has now been agreed. The first instalment was received on 15 April 2011 and the remainder has been accrued in the accounts.

23.3 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 2011 and this was backdated to include all payments made since April 1st 2008. The Pension Fund recognises that this will result in additional contributions due to the Fund and has contacted the largest employers in the Fund to collate an overall position and understand each employer's treatment of their payments in this regard. Where indications of accruals being made in employers' accounts are available the level is such that it is not considered material or appropriate to be recognised in the Pension Fund accounts.

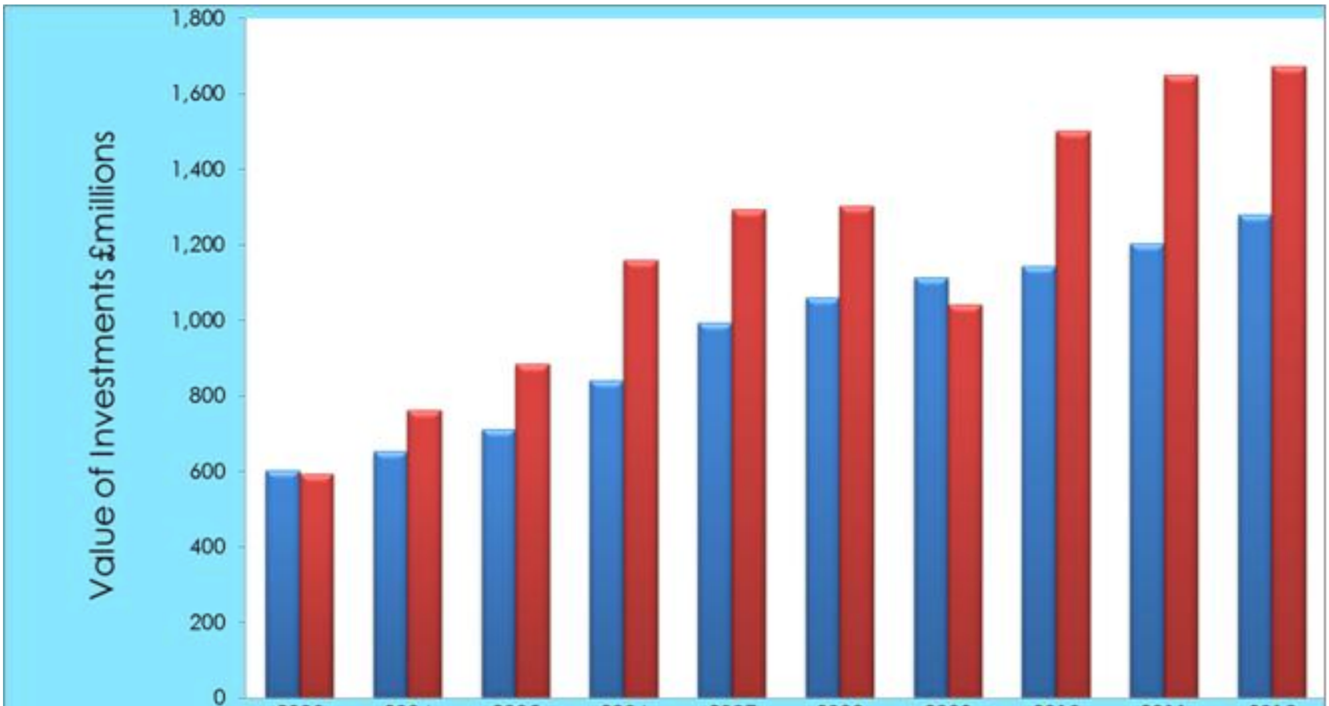
24. Contingent Liabilities

24.1 The Gwent Probation Service has left 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. The actuaries are in the process of assessing and calculating the final figure and the Funds accounts include an accrual in the sum of £20 million as an estimate of the potential transfer sum.

24.2 The Fund also invests in the M&G UK Companies Financing Fund and committed to invest up to £15 million in this fund. The amount invested as at 31 March 2012 was £8.2 million, with a market value of £8.3 million. In July 2012 the investment period was closed by M&G Investment and the undrawn commitment as at 31 March 2012 was reduced to £1.4 million, making a total investment in this fund of £9.6 million by the end of December 2012.

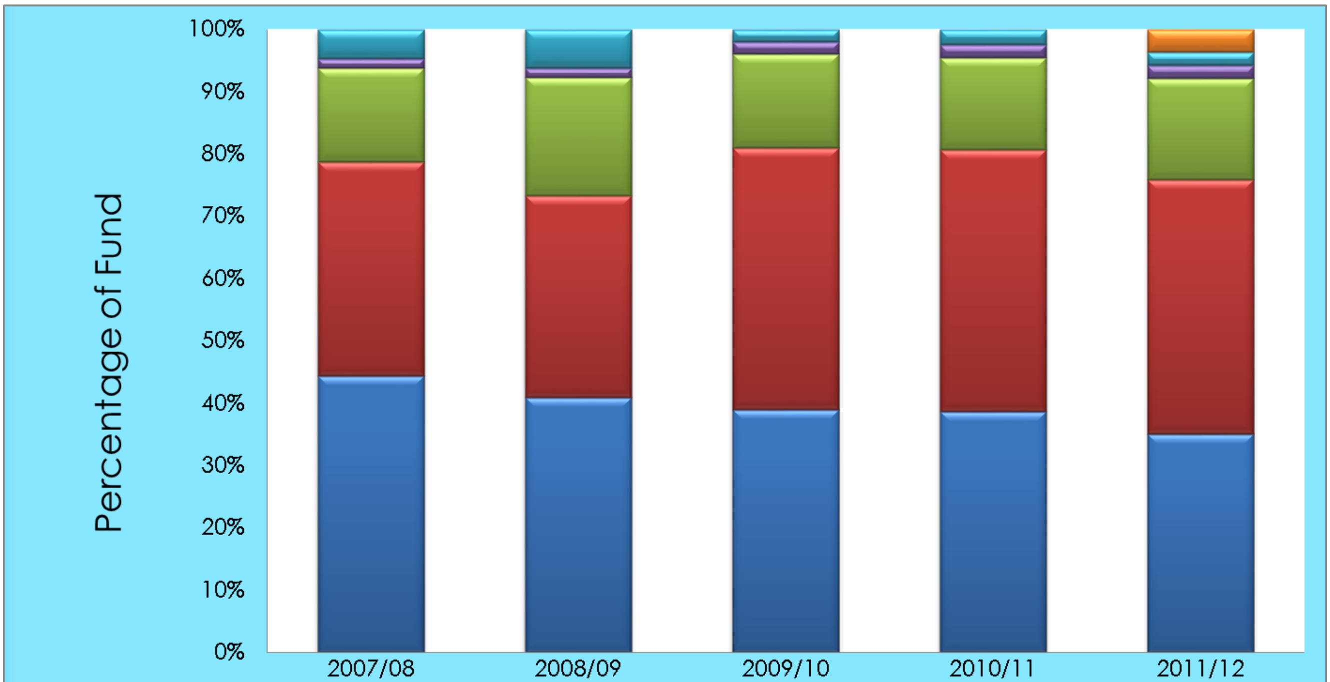
Appendices

Ten Year Valuation of Investments



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Book Cost	603	654	712	842	994	1,062	1,115	1,145	1,204	1,280
Market Value	593	762	885	1,160	1,294	1,303	1,042	1,502	1,650	1,673

Tactical Asset Allocation



	2007/08	2008/09	2009/10	2010/11	2011/12
Alternatives					4
Cash	5	6	2	2	2
Property Unit Trust	2	2	2	2	2
Fixed Interest	15	19	15	15	16
Overseas Equities	34	32	42	42	41
UK Equities	44	41	39	39	35

Appendix 2

Greater Gwent (Torfaen) Pension Fund Contribution Schedule

Actuarial Valuation as at 31 March 2010

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

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

Appendix 3

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		2011/12	
		31/03/11	31/03/12	Target Rate %	Rates Paid %
Administering Authority					
1	Torfaen CBC	2,709	2,695	21.2	21.2
Current Scheduled Bodies					
2	Blaenau Gwent CBC	2,803	2,676	21.5	21.5
3	Caerphilly CBC	5,655	5,605	19.5	19.5 + £0.9m
4	Monmouthshire CC	2,367	2,275	21.1	21.1
5	Newport City Council	4,046	3,724	19.2	19.2
6	Caldicot & Wentloog LDB	19	18	13.8	13.8
7	Valuation Panel	4	4	19.7	25.0
8	University of Wales, Newport	493	489	14.8	14.8
9	Coleg Gwent	428	449	17.0	17.0
10	Chepstow Town Council	4	4	18.3	19.1
11	Brynmawr Town Council	1	1	34.8	34.8
12	Gwent Police Authority	931	928	13.9	15.8
13	Gwent Probation Service	210	-	-	-
14	Silent Valley Waste Disposal	5	3	21.6	21.6
15	Caldicot Town Council	2	2	18.4	18.4
16	Nantyglo & Blaina Town Council	1	1	28.0	28.0
17	Monmouth Town Council	1	2	11.9	11.9
18	Gwent Cremation Committee	11	11	13.5	13.5
19	Cwmbran Community Council	8	8	16.8	16.8
20	Pontypool Community Council	8	8	17.2	17.2
21	Tredegar Town Council	2	2	15.8	15.8
22	Rogerstone Community Council	4	4	15.8	15.8
23	Bargoed Town Council	1	1	19.5	19.5
24	Portskewett Community Council	1	-	19.7	-
25	Shirenewton Community Council	1	1	17.5	17.5
26	Henllys Community Council	1	1	14.3	20.0
27	Magor with Undy Community Council	1	1	-	12.5
Deemed Bodies					
28	Newport Transport	24	23	55.4	55.4
Admitted Bodies					
29	Melin Homes	48	45	13.0	13.0
30	Careers Wales Gwent	140	133	14.8	15.8 + £0.12m
31	Citizen Advice Bureau Caerphilly	9	9	17.0	17.0
32	Mitie (formerly Ballast)	2	2	15.2	15.2
33	Capita Gwent Consultancy	102	97	27.6	27.6
34	Hafod Care	36	36	4.9	4.9
35	Monitor	9	6	13.4	13.4
36	Archives	15	13	8.8	8.8
37	OCS Ex Monmouth & UWCN	19	19	20.4 + 7.4	20.4
38	Monmouthshire Housing	136	137	10.3	11.6
39	Bron Afon	454	472	10.7	10.7
40	Newport City Homes	231	229	8.5	11.2
41	Tai Calon	234	241	12.8	12.8
42	Manpower UK Ltd	4	-	-	-
43	DRIVE	6	5	10.5	10.5
44	Regent Ex Monmouth & Ex Newport	6	6	12.7 + 14.8	12.7 + 14.8
45	ABM Catering	3	3	13.6	13.6
46	Vinci	1	1	13.9	13.9
47	Compass Catering	-	150	17.5	17.5
48	National Trust	-	10	14.5	14.5
Total Membership		**21,196**	**20,550**		

Appendix 4

Top Ten UK Equity Segregated Holdings as at 31 March 2012

Company	Bid Market Value £
BP plc.	29,394,929
GlaxoSmithKline	23,522,614
Royal Dutch Shell B Shares	23,004,087
HSBC Holdings plc.	22,897,528
British American Tobacco	22,069,221
Vodafone Group	21,234,128
Rio Tinto	15,917,315
BG Group	15,864,224
Diageo plc.	14,070,552
Standard Chartered	13,445,156

Appendix 5

5 Year Summary of Statistics

Revenue Account	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Contributions	99,087	105,720	113,894	110,304	101,652
Transfer Values Received	11,378	6,672	12,603	7,265	7,824
Investment Income	18,682	18,096	16,043	17,099	21,448
Total Income	**129,147**	**130,488**	**142,540**	**134,668**	**130,924**
Pensions and Other Benefits	62,146	69,411	76,190	81,491	84,538
Transfer Values Paid	5,901	3,499	8,875	8,512	22,965
Refunds of Contributions	37	13	15	5	2
Fees and Other	5,179	4,199	4,667	5,810	6,032
Total Expenditure	**73,263**	**77,122**	**89,747**	**95,818**	**113,537**
Net Surplus for Year	55,884	53,366	52,793	38,850	17,387
Net Profit/(Loss) on Sale of Investments	12,152	(936)	(20,183)	20,631	40,620
Unrealised Change in Market Value	(64,259)	(310,662)	430,997	89,520	(52,621)
Increase/(Decrease) in the Fund	**3,777**	**(258,232)**	**463,607**	**149,001**	**5,386**

Investment Assets	£000	£000	£000	£000	£000
Book Cost at 31 March	1,061,990	1,114,650	1,144,901	1,203,604	1,279,958
Market Value at 31 March	1,302,616	1,042,438	1,501,677	1,649,900	1,673,634

Membership					
Contributors	21,834	22,143	21,667	21,196	20,550
Pensioners	12,183	12,610	13,091	13,576	13,910
Number of Preserved Benefits	9,067	9,735	10,577	11,378	12,189
Total	**43,084**	**44,488**	**45,335**	**46,150**	**46,649**

Appendix 6

Glossary of Terms

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.

Benefits

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

Contributions

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

Market Value

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

Passive (Indexed) Investment Management

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.

Preserved Benefits

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

‘Risk on - Risk off’

A concept within stock trading that describes the current market sentiment as either ‘Risk on’ or ‘Risk off’. During a market sentiment of 'Risk on', the market is optimistic and more willing to take risk in exchange for possibly better returns. At this time there will be a greater interest in equities and commodities. When the market sentiment is ‘Risk off’, there is pessimism in the market and it will favour perceived lower risk investments.

Appendix 6

Rate of Return

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

Transfer Value

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

Unit Trust

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

Points of Contact

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If you need more information you can write to:-

Torfaen County Borough Council
Civic Centre
Pontypool
Torfaen NP4 6YB

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