



Greater Gwent (Torfaen) Pension Fund

Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2013/2014

Nigel Aurelius, CPFA
Assistant Chief Executive Resources



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INTRODUCTION

- 1.1 Pension Funds are seldom out of the news these days and whilst the fundamental principle of saving for a pension remains, the options, the choices and the factors that individuals now have to consider are more bewildering than ever. It used to be you put money aside, hopefully your employer did as well and you had a defined pension at retirement based on service and pay; or, your pension pot provided you with an income stream in retirement (through the purchase of an annuity). The choices now however are endless and changes around the taxation of pensions, the levels of allowances and tax relief, the contracting out status and state pension changes all influence the choice of whether to opt out of your employers pension scheme (having been auto-enrolled automatically into it) or how to use your money on retirement, either in a lump sum form or as an income stream. One thing remains clear however amongst this sea of change. The Local Government Pension Scheme remains a high quality and highly valued defined benefit pension scheme for public sector workers that we should work hard to retain by ensuring it is both affordable and sustainable in the face of substantial change. This is the challenge for the Pensions Committee in shaping changes for the future that not only protect the well being of the Fund but ensure a transparency and accountability to all stakeholders.
- 1.2 In recent years, my introduction has tended to focus on the global economic impact on pension funds and national developments in this context. Whilst these factors remain important, it appears we have entered a period when markets generally are a little more resilient to the political upheavals and global economic events that have continued to provide the backdrop in 2013/14. This therefore enables Funds to focus more precisely in how they can flourish within this newer world of what some might call "benign turbulence" where uncertainty remains but at less volatile levels than in recent years. In this environment and in a year where markets have traded both up and down, the Fund has achieved a positive annual investment return of 7.49% with a positive increase in its market value from £1,924 million to £2,081 million. Our investment performance return for the year was an out-performance against our benchmark (7.28%) that we set ourselves of 0.21%. This now places the Fund ahead of its benchmarks over both short and longer term performance measurement periods. This has not been easily achieved. The Pensions Committee have kept a close eye on investments resulting in the ending of the relationship with one manager and the appointment of two new managers following an exhaustive search. The Pensions Committee have however also focussed on both the actual and proposed changes for the LGPS brought about by national Government legislation and consultations.
- 1.3 The passage of the Public Sector Pensions Act 2013 provided the map for the introduction of National Boards for the major public sector pension schemes such as the LGPS. The LGPS Shadow Board has thus been in existence for almost 12 months and advises the Secretary of State on the Scheme and its administration. Councillor Mary Barnett, Chair of the Greater Gwent Fund acts as the Welsh representative on the Shadow Board and thus ensures that there is a Welsh perspective at the highest levels.
- 1.4 The new Local Government Pension Scheme was introduced in April 2014 as a Career Average Revaluation of Earnings (CARE) scheme where pension benefits are based on average pay over an individual's working life rather than the level of final salary at the point of retirement. The introduction of the new scheme design has proved difficult with late publication of Regulations and both Software and Actuarial challenges resulting in a difficult environment for some Funds with certain key tools still awaited. Communication to employers and employees alike has been a massive task and employer data requirements have created additional work for all which is still bedding in. This has inevitably placed disproportionate additional workloads on pension teams.

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- 1.5 I mentioned last year that there is increased attention being paid to how individual Funds can most effectively deliver their services and that collaboration and/or merger of organisational structures was being considered by Government. In recent weeks Central Government have launched a consultation that strikes at the core of how Funds manage their investments and could in due course alter the tapestry of how Funds achieve investment returns with a reduced cost base. The essence is that mergers should not be considered further at this time, collaboration through collective investment Funds should be the norm, and that Funds should move their active investments to an entirely passive approach thereby tracking market movements through index related funds. The collaborative approach shares the same conclusion as reached by the Welsh Treasurers' study the previous year but the proposed move to entirely passive management is somewhat of a surprise but can be understood in that it would immediately reduce investment costs. There remains considerable on-going debate however, as to whether Pension Funds can still achieve a similar level of return through passive rather than active investment. Many would argue that there is an appropriate place for both types of management but unless clearly understood and justifiable, then passive should be the default position. This will present challenges to Funds such as our own where active management currently accounts for 80% of the assets under management and has certainly added value over the last 10 years. We will await the final Government decisions but certainly there will be ramifications on how the Fund adapts its approach to investing.
- 1.6 Amidst all the above, further changes are due for the LGPS in terms of how the future Governance of individual funds should be undertaken. Whatever the finer detail, there is no doubt that a "governance premium" can be created through sound and transparent governance of Fund matters that help to build quality processes in support of sound decision making. The Fund will welcome any proposals aimed to achieve this result.
- 1.7 The combined effect of Public Sector Pensions reform, wider Central Government policy on pay and pensions, auto enrolment, collaboration, moves to passive management and governance initiatives, together with increasing workloads all provide for challenging and difficult times. In this context I can only thank and pay tribute to colleagues within the wider pensions team who have had to cope in the face of these changes whilst attempting to maintain, and indeed improve, the service provided to our scheme members. I would like to formally place on record my specific thanks to them for their hard work, perseverance and commitment throughout the year. They continue to place the scheme members first and I know how much this is valued by our customers.
- 1.8 Finally, I end on a somewhat sad note. For the first time in 25 years, the name of Mike Lewis no longer appears in this report as the Fund's independent investment advisor. Mike passed away prematurely in April 2014 having been part of the Gwent and then Torfaen Pension Fund family since the late 1980's. Mike's insight into all investment related matters, and his experience and wealth of knowledge made him an integral part of what the Fund has achieved and his support and advice have been invaluable in building the position the Fund has to-day. He will be sadly missed by all connected with the Fund.

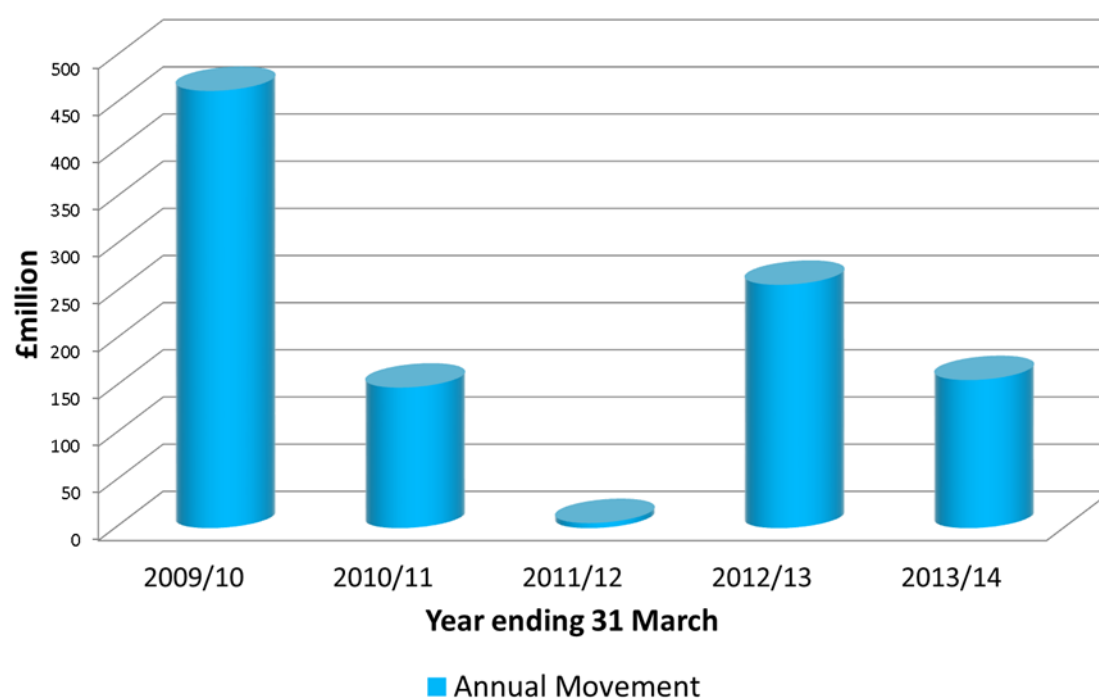
**NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES
TORFAEN COUNTY BOROUGH COUNCIL
JUNE 2014**

OVERVIEW

1. 2013/2014 In Summary

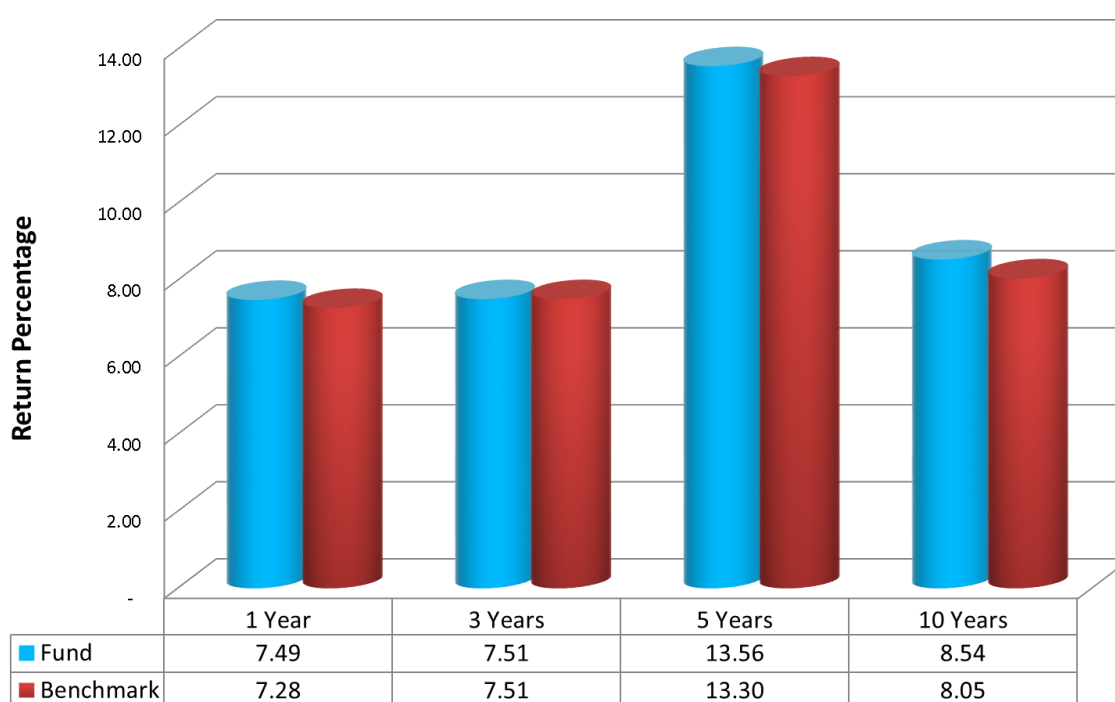
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
51,614	£2.081bn	£95.175m	£109.666m

Annual Increase in the Net Assets of the Fund



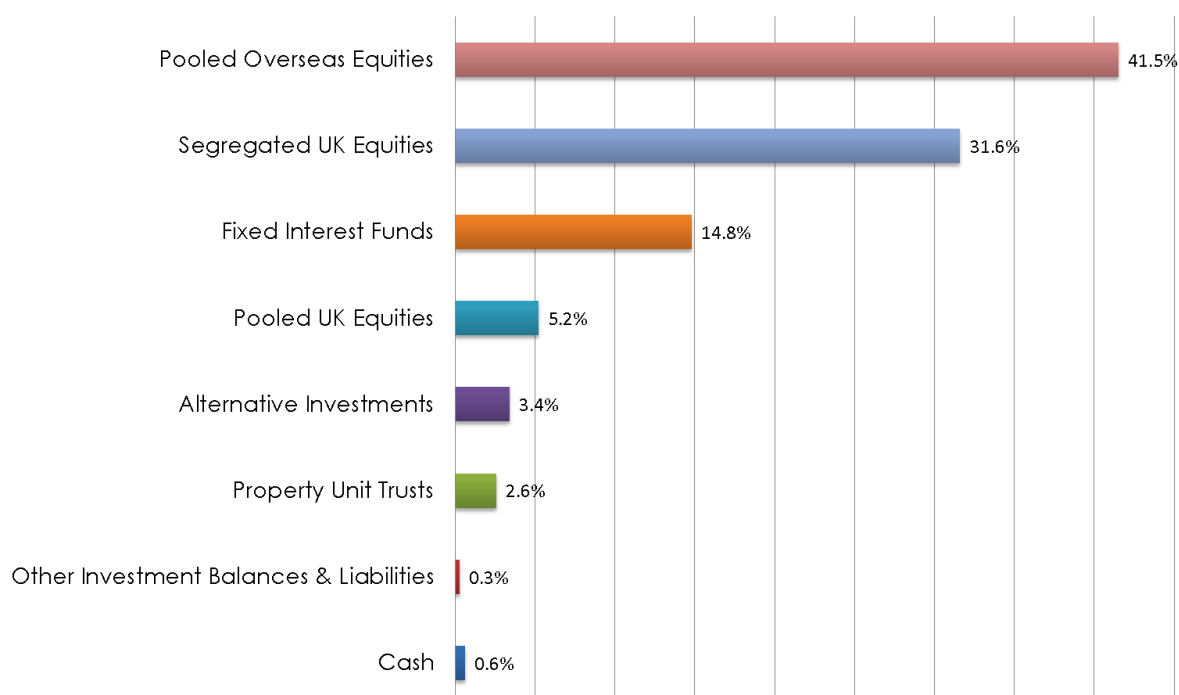
2. Investments

Periodic Performance to 31 March 2014



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Portfolio distribution as at 31 March 2014



3. Membership

Contributing Members

22,435

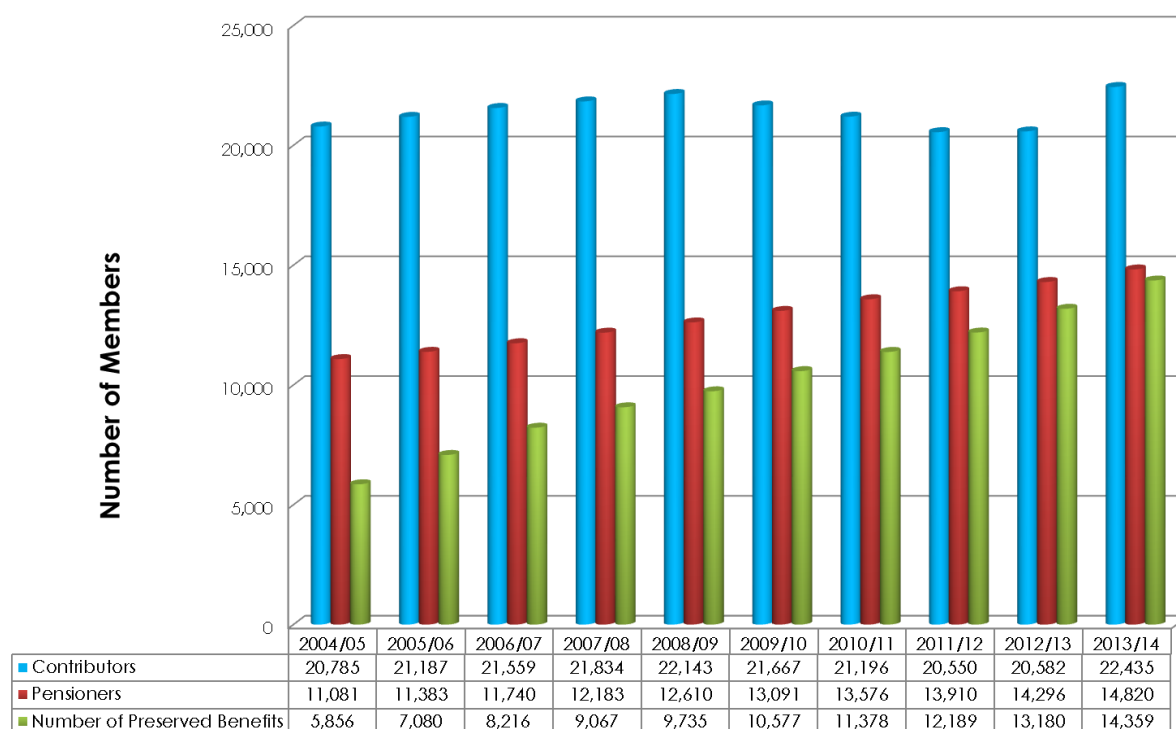
Members in Receipt of Pension

14,820

Members with Preserved Benefits

14,359

Split of Fund Membership as at 31 March



MANAGEMENT STRUCTURE

- 1.1 The Greater Gwent (Torfaen) Pension Scheme is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (The Benefit Regulations), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (The Administration Regulations) and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended) (The Transitional Regulations). It is the appropriate occupational pension scheme for employees of local authorities in the Greater Gwent area with the exception of teachers and lecturers, who have a separate scheme which applies to them. In addition, the employees of certain bodies providing public services are admitted to the Fund. Details of the authorities covered by the scheme are given on page 39.
- 1.2 Torfaen has established a Pensions Committee to discharge the duties of the Council as Administering Authority of the Fund. The Pensions Committee has been established and operates within the Council's constitutional arrangements.
- 1.3 This committee deals with all matters relating to the fund. As at 31 March 2014 the structure of the Pensions Committee was as follows:-

Chair

County Borough Councillor - Mary Barnett

Committee Members

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



Chair

County Borough Councillor
Mary Barnett



Assistant Chief Executive Resources

Nigel Aurelius

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

Assistant Chief Executive Resources

Nigel Aurelius, CPFA

Head of Human Resources and Pensions

Graeme Russell, B Com (Hons.), CPFA

Consulting Actuary

Mercer Limited

Independent Investment Consultant

Mercer Limited

Investment Fund Managers

Aberdeen Asset Management

BlackRock

Fidelity Worldwide Investment

Invesco Perpetual

Lazard Asset Management

Nomura Asset Management

Standard Life Investments

Global Custodian

BNY Mellon Asset Servicing

- 1.4 Mercers are the appointed actuary to the Fund. They also provide investment advice where required. Torfaen's Chief Legal Officer and Monitoring Officer is the legal advisor to the Fund.
- 1.5 The Fund's secondary committee, the Pension Fund Management Group (PFMG), provides wider stakeholder representation and communication in matters relating to the Fund. This group is made up of representatives of the Greater Gwent Unitary Authorities, a number of other significant employers and trade unions. It has also, since April 2011, included pensioner representation. The PFMG meets twice each year to consider the annual report, together with other matters related to the fund.
- 1.6 The management of Fund investments is the responsibility of the Pensions Committee. Day to day investment decisions are made by the external fund managers who are paid a percentage management fee. The managers' fees are calculated in relation to the market value of the Fund, with a performance element also included for Fidelity Worldwide Investment. Fees are also payable to the fund's global custodian and other advisors.
- 1.7 When the Pensions Committee was formed by the Council in early 2009, Committee members commenced a programme of training aimed to provide them with the necessary knowledge and skills to undertake the fundamental requirements of their role and to help equip them to take effective decisions. Since this time Member training has been developed, monitored and reviewed on an individual member basis via regular inclusion on Committee meeting agendas, allowing members to discuss training received and identify further training required. The year under review has, once more, seen some changes in Committee membership, including a new Chair in Cllr Mary Barnett. 2013/14 has therefore again been predominantly a year of "refresh" of previous fundamental training now made available to the new Committee membership, combined with some considerable practical knowledge and skill acquisition during the appointment process for two new investment managers that took place during the year. The training programme will continue, as with the previous Committee membership, to develop to reflect suitable and necessary areas of advancement in knowledge and skills identified in conjunction with individual members and the Committee as a whole.
- 1.8 The Chartered Institute of Public Finance and Accountancy (CIPFA) has published a Code of Practice relating to Pensions Knowledge and Skills, which the Fund has adopted. Pension Funds are encouraged to adopt this framework and support the Code to demonstrate their commitment to providing the necessary training to decision makers and practitioners. In addition to the training needs of the Pensions Committee, the PFMG and officers who support the Fund will all be considered within further phases of training. Updates on training undertaken and knowledge and skills development will continue to be included within the Pensions Committee workplan and meeting agendas. An annual review will continue to be provided within future Pension Fund Annual Reports.

FINANCIAL REPORT

- 1.1 The annual financial statements of the Fund have been influenced by a number of factors over the last year including investment growth and a changing national pension and LGPS landscape. The number of Fund pensioner and deferred members has continued to rise, however it has been encouraging to see the number of active contributors to the Fund increase by 9% to reach a ten year high, as the impact of auto enrolment is more widely felt.
- 1.2 The Fund Account (page 31) indicates a considerable net increase in the net assets of the scheme available to fund benefits during the year of £157.087 million for 2013/14, following the £257.636 million increase in the Fund in 2012/13. The summarised figures are shown in the table below.

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

- 1.3 Contributions to the Fund from members and employers have increased by £8.638 million from £101.028 million in 2012/13 to £109.666 million in 2013/14.
- 1.4 Transfer values received have increased from £4.942 million to £7.946 million and those paid out have decreased from £6.303 million to £3.177 million. The 2012/13 transfers out figure included an accrual for an agreed group transfer (note 10, page 40).
- 1.5 Payments to beneficiaries in respect of pensions have increased by £6.319 million from £88.856 million in 2012/13 to £95.175 million in 2013/14.
- 1.6 The net assets of the Fund are represented primarily by investments (see below and page 41). Appendix 1 (page 61) illustrates the movement in the market value of investments since March 2005 and the tactical asset allocation.

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

INVESTMENT REPORT

1. Investment Objectives

- 1.1 From an investment perspective this report reflects on a year that has, despite some periods of market uncertainty and volatility, generally seen a continuation of the post financial crisis global economic recovery. This has been reflected in another generally good period for global investment markets. The news has not been universally good however. Markets in developed countries have done well but less developed markets in Asia and the Emerging World have seen negative overall returns for the year. This demonstrates the need for a diversified investment strategy to spread investment risk as far as is possible within the constraints of return required by the Fund to help meet its long term funding target of 100% cover for member benefits payable into the future.
- 1.2 The objective in investing Fund monies is thus the maximisation of the return on the money entrusted to the Fund, consistent with acceptable levels of risk. The portfolio's investment performance directly influences the contribution employers need to make to the Fund to pay for the statutory benefits payable from it. However, two particular factors need to be borne in mind. Firstly, the Fund's liabilities are very long term and secondly, those liabilities will increase with inflation and the rising level of employees' salaries and wages to the time of retirement. The need to ensure liquidity to pay benefits as they fall due is also a consideration in determining investment strategy. At present Fund income is exceeding expenditure and so the Fund has not been faced with the prospect of enforced realisation of investment. This requires regular monitoring however as the Fund will not remain cash-positive forever as the profile of its membership and liabilities will change over time.
- 1.3 The objectives of the Fund's investment strategy can therefore be summarised as to:-
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the tax payers and employers;
 - manage employers' liabilities effectively;
 - ensure sufficient resources are available as they fall due; and
 - maximise the returns from investments within reasonable risk parameters.

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

- 1.4 In addition to setting the Fund's investment strategy via the most appropriate asset allocation, the Committee, in conjunction with the Fund's advisors, also determines the most appropriate mix of investment management arrangements for the Fund. This enables an appropriate and diversified blend of passive (market matching) and active (aiming to out-perform markets) management. It also enables managers to be appointed with varying performance targets, risk targets, investment philosophies and investment styles. This allows for even further diversification of investment risk for the Fund.
- 1.5 The reporting period has seen some change in the Fund's management arrangements. The Fund's Emerging Market and Far Eastern equity mandates were managed by Barings for over 10 years with an excellent working relationship enjoyed during that time. The Fund regularly reviews its manager performance but also believes that stability is important over the long term. Occasionally however the Fund will choose to "review and refresh" its arrangements to improve investment return and in the case of Barings, performance, consistency and team changes all combined and resulted in a decision to change.

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

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

2. Asset Allocation

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

Greater Gwent (Torfaen) Pension Fund Strategic Asset Allocation as at 31 March 2014			
Mandate	Approach	Manager	%
UK Equities			
UK Equities	Passive	BlackRock	13.8
UK Equities	Active	Lazard	19.6
UK Equities	Active	Standard Life	4.6
Overseas Equities			
US Equities	Passive	BlackRock	7.0
European Equities	Active	BlackRock	14.0
Japanese Equities	Active	Nomura	3.0
Far East Equities	Active	Invesco	4.0
Emerging Markets	Active	Fidelity	2.0
Global Equities	Active	Aberdeen	9.0
Fixed Interest			
Government Bonds	Active	BlackRock	7.0
Corporate Bonds	Active	BlackRock	7.0
Alternative Investments			
Diversified Alternatives	Active	Standard Life	3.0
Other	Active	M&G	1.0
Other (via TCBC)			
Cash	Active	TCBC	3.0
Property Unit Trusts	Active	TCBC	2.0
Total			100

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

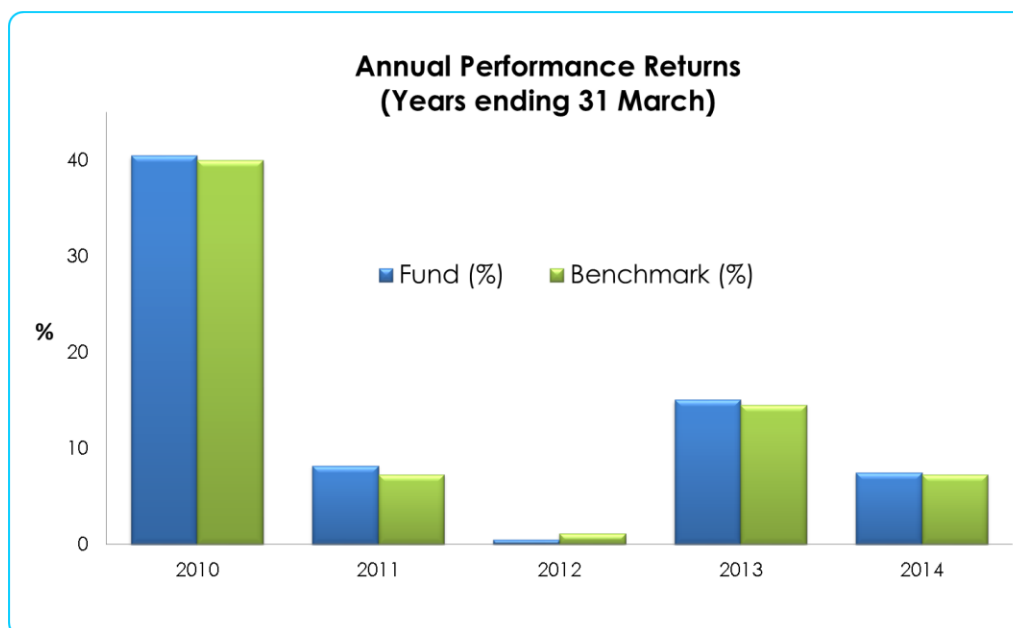
Investments at Market Value			%	Cash & Other Balances		%	Investment Liabilities		%	Net Investment Assets		%
£000				£000			£000			£000		
BlackRock	1,019,247	49.4	100,806	4.9	(98,837)	(4.8)	1,021,216	49.5				
Lazard	402,120	19.5	5,547	0.3	-	-	407,667	19.8				
Aberdeen	185,982	9.0	-	-	-	-	185,982	9.0	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

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

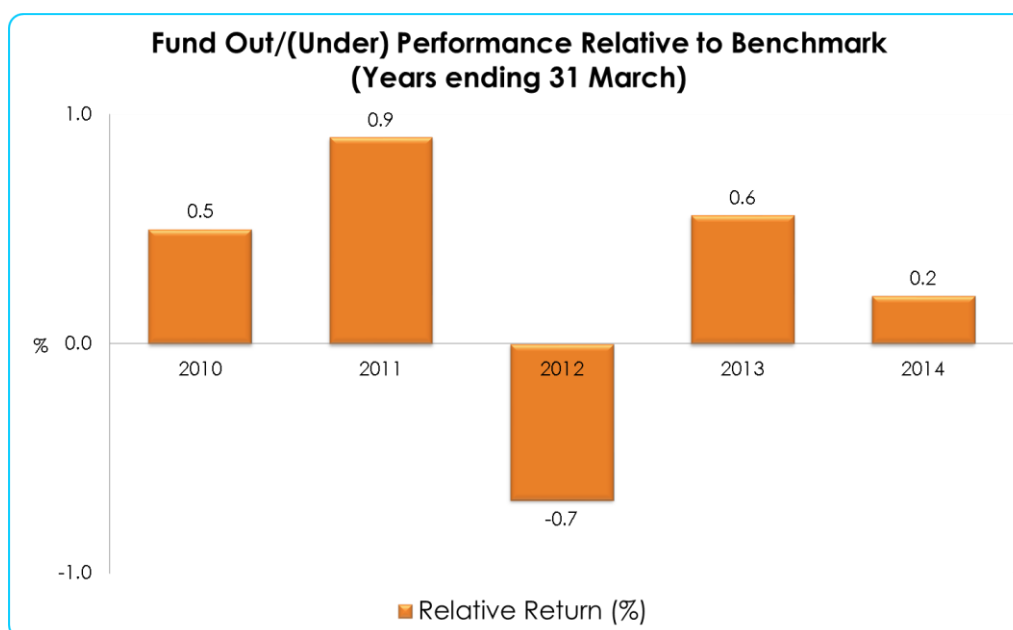
3. Investment Performance Summary

- 3.1 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2014 the Fund made an overall investment return of 7.49% compared with 7.28% for the benchmark return.
- 3.2 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's strategic asset allocation weightings of 38% UK Equities, 30% Overseas Equities, 9% Global Equities, 14% Fixed Interest, 2% UK Property Unit Trusts, 4% Alternative Investments and 3% Cash.
- 3.3 The +0.21% out-performance for 2013/14 means that the Greater Gwent Fund has achieved an above average performance in 4 out of the last 5 years.
- 3.4 The Fund also subscribes to the WM State Street Local Authority performance service, which shows that the return for the average Local Authority fund for the year ending 31 March 2014 was 6.4%. We therefore outperformed the 1 year average by 1.09% and we remain in excess of this average over the longer term.
- 3.5 The following graphs illustrate the Greater Gwent (Torfaen) Pension Fund annual performance returns as compared to the BNY Mellon benchmark return over the last five financial years. The absolute return is simply whatever an asset or portfolio returned over a certain period. Relative return is the difference between the absolute return and the performance of the market, which is gauged by a benchmark, or index. Longer term returns can be seen in the graph on page 3.

a) Absolute Performance Returns



b) Relative Performance Returns



4. Economic Background And How The Markets Performed

4.1 Global Overview

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

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

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

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

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

4.2 Market Performance Summary

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

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

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

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

5. How did our Managers Perform?

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

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

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

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

Performance data supplied by BNY Mellon Asset Servicing

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

BLACKROCK

Active European Equities

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

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

Gilt Bond Fund

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

Corporate Bond Fund

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



UK Equities

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

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

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



Global Equities

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

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

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



UK Equities

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

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

Global Absolute Return Strategies (GARS)

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

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



Japanese Equities

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

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

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

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

ADMINISTRATION REPORT

1. The Pension Administration Team

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

- 1.1 In recognition of the challenges we were facing, a major restructuring exercise was carried out in the early part of last year. The outcome of this restructuring was an increase in the staffing level of the Pension Team from 20 to 24 which included a designated systems manager, a designated communications and training officer, a re-organisation of the work of the Benefits Team and a strengthening of the Support Team. The restructuring was implemented on 1st June 2013 and impacted on the majority of posts as all members of staff were given new job descriptions and working practices, and procedures were amended to reflect new ways of working and the increased use of electronic communication. I am pleased to report that both the existing staff, who saw changes in their roles and responsibilities, and the new staff have risen to the challenges they are facing.
- 1.2 The Pension Fund has invested in an electronic interface which facilitates the transfer of membership data from each of the employers' payroll systems to the pension administration system. This facility is continuing to be rolled out to the employers to assist them with meeting their Automatic Enrolment responsibilities as well as meeting the challenges of the complexities surrounding the 2014 Scheme and the desire to move away from paper forms. This facility has enabled information to be transferred to the pension administration system on a monthly basis which eliminates the year end submission and cleansing of data. We are actively encouraging all employers to sign up for this facility, which will provide benefits for both the Pension Fund and employers. This will also help in meeting the Central Government desire for increased frequency and quality of data reporting and comply with the Pension Regulator requirements in relation to the accuracy of data held by the Pension Fund.
- 1.3 The wider economic environment and in particular, budget reductions by employers who participate in the Scheme, continues to impact on the work of the Pension Section in relation to increased enquiries from employers with regard to potential redundancies, staff reduction exercises and the out-sourcing of services.

2. Administration Service and Current Developments

2.1 Core Work

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

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

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

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

2.2 Other Activity

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

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

2.3 Other Activity

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

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

2.4 Current Challenges

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

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

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

3. Future Challenges

- 3.1 The Pensions environment continues to change and the Pension Fund needs to be able to adapt to reflect these changes. The changes which will occur over the next few years will have an impact on the work of the Pensions Team.
- 3.2 The Public Service Pension Scheme Act 2013 will be implemented in full in April 2015. This Act covers all public service pension schemes including the LGPS.
- 3.3 The Pension Regulator will have a statutory role in respect of the LGPS. The Government has issued Draft record keeping Regulations and the Pension Regulator has issued a Draft Code of Practice which the Pension Fund will be required to comply with.
- 3.4 The removal of Contracting out will have an impact on the Pension Fund funding and employer costs as the rebate currently paid will cease.
- 3.5 The new Governance arrangements are likely to impose more prescriptive reporting requirements on the Pension Fund.
- 3.6 The Pension Fund will continue to develop its policies and procedures to meet these challenges and will continue to work with Scheme Employers to ensure compliance with the new requirements.

FUND POLICIES

1. Statement of Investment Principles

1.1 Background

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

1.2 Main Objectives

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

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

1.3 Types of Investments

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

1.4 Realisation of Investments

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

1.5 Investment Management Arrangements

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

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

1.6 Risk

The Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising returns and to limit risk to acceptable levels. This is achieved through a variety of actions and is detailed more fully in the complete version of the SIP available on the Pension Fund's website or in appendix 7 page 68 of this document.

1.7 Compliance

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

1.8 Feedback and Review

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

2. Socially Responsible Investing & Corporate Governance

2.1 Socially Responsible Investment

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

2.2 Myners Compliance

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

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

As part of its on-going review of good practice and compliance with the principles, the Fund will be giving further consideration to these and related issues each year. A detailed position statement showing the extent of the Fund's compliance with the revised set of principles is contained within the full Statement of Investment Principles available via the link on Page 26 of this document or in appendix 7 on page 68.

3. Funding Strategy Statement

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

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

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

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

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

4. Communications Strategy

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

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

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

➤ The Fund aims to:-

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

➤ The Strategy is designed to:-

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

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

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

5. Pension Fund Annual Report

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

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

- **2010 Actuarial Valuation**
<http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/ActuarialValuationReportasat31March2010.pdf>
- **2013 Actuarial Valuation**
http://www.greatergwentpensionsfund.co.uk/wp-content/uploads/2012/02/RpS_CA_Torfaen-AVR-FINAL.pdf
- **Governance Policy & Compliance Statement**
<http://www.greatergwentpensionsfund.co.uk/wp-content/uploads/2012/02/Governance-Policy-Compliance-Statement-2014-15.pdf>
- **Funding Strategy Statement**
<http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/FundingStrategyStatement.pdf>
- **Statement of Investment Principles**
<http://www.greatergwentpensionsfund.co.uk/wp-content/uploads/2012/02/Statement-of-Investment-Principles-2014-15.pdf>
- **Communications Strategy Statement**
<http://www.torfaen.gov.uk/en/Related-Documents/LocalGovernmentPensionScheme/CommunicationsStrategy2005-2006.pdf>

5.3 The full versions of the following key documents are also included as appendices at the back of this annual report:-

Statement of Investment Principles - Appendix 7 page 68

Governance Policy & Compliance Statement - Appendix 8 page 105

Funding Strategy Statement - Appendix 9 page 121

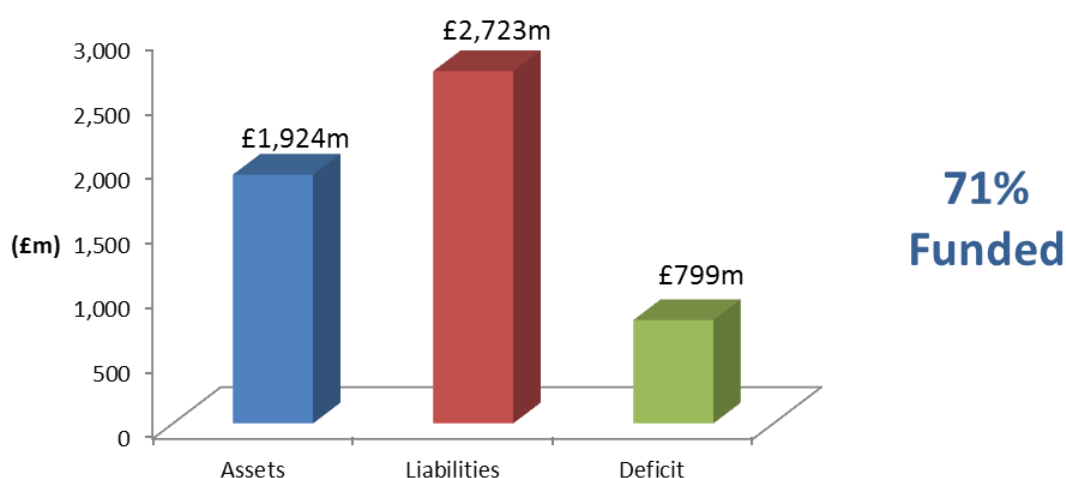


GREATER GWENT (TORFAEN) PENSION FUND

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

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

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



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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

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

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

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

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

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

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

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

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

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

Respective responsibilities of the Administering Authority and the Independent Auditor

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

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

Opinion

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

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



Anthony Barrett
Appointed Auditor

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

Date: 24 September 2014

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

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Fund Account for the Year Ended 31 March 2014

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

Net Assets Statement for the Year Ended 31 March 2014

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

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

NOTES TO THE ACCOUNTS

1. Description of Fund

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

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

1.1 General

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

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

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

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

1.2 Membership

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

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

1.3 Benefits

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

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

1.4 Funding

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

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

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

2. Basis of Preparation

- 2.1 The Fund Account summarises the Fund's transactions for the 2013/14 financial year and its position at year end as at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.
- 2.2 The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 19, page 56.
- 2.3 The accounts have been prepared in accordance with IAS26 (Accounting and Reporting by Retirement Benefit Plans) except where interpretations or adaptations to fit the public sector are detailed in the 'Code of Practice on Local Authority Accounting in the United Kingdom 2013/14'.

3. Summary of Significant Accounting Policies

3.1 Fund Account – Revenue Recognition

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

i) Contribution Income

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

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

ii) Transfers To and From Other Schemes

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

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

iii) Investment Income

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

3.2 Fund Account – Expense Items

i) Benefits Payable

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

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

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

ii) Administrative Expenses

This includes two types of expenses:-

- Administration and processing

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

- Actuarial & investment fees and performance service

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

iii) Investment Management Expenses

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

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

iv) Taxation

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

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

3.3 Net Assets Statement

i) Financial Instruments

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

- Financial instruments at fair value through profit or loss

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

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- Loans and receivables

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

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

- Financial liabilities at amortised cost

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

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

- ii) Valuation of Investment Assets

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

- Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the bid price at the close of business on 31 March 2014. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market. Unquoted investments are valued by the fund manager at year end in accordance with generally accepted guidelines.
- Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing on 31 March 2014.
- Pooled investment vehicles are valued at the closing price under single pricing system, or bid price under dual pricing system. Where securities do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment vehicle.
- Pooled property investments are in unit trusts and are valued by the fund managers.
- BlackRock can use Exchange Traded Futures (ETF) in the management of their segregated UK equity portfolio for the purpose of efficient portfolio management. There are currently no futures used in the portfolio.
- In 2013/14 cash was held partly by fund managers and partly by the administering authority. The administering authority has the option of investing fixed term in specified investments or alternatively in instant access money market fund accounts, in accordance with the Fund's Cash Management Strategy which is reviewed and approved annually by the Pensions Committee. (The lending party is the Pension Fund rather than Torfaen County Borough Council as administering authority).

- iii) Investment Liabilities

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

3.4 Actuarial Present Value of Promised Retirement Benefits

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

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

3.5 Additional Voluntary Contributions

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

4. Critical Judgement in Applying Accounting Policies

4.1 Pension Fund Liability

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

5. Events after the Balance Sheet Date

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

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

6. Contributions Receivable

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

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

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

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

7. Transfers in from Other Pension Funds

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

8. Other Income

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

9. Benefits Payable

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

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

Pension Fund Accounts 2013/2014

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

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

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

10. Payments to and on Account of Leavers

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

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

11. Other Payments

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

12. Administrative Expenses

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

13. Investment Income

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

14. Investment Expenses

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

15. Investments

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

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a) Reconciliation of movements in investments

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

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

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

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

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b) Analysis of investments

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

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

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c) Investments analysed by fund manager

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

d) Employer Related Investments

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

e) Investments held in Pooled Investment Vehicles

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

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

16. Financial Instruments

a) Classification of financial instruments

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

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

b) Net gains and losses on financial instruments

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

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c) Fair value of financial instruments and liabilities

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

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

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

d) Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

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

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

17. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

Overall procedures for managing risk

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

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

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

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

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

a) Market Risk

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

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

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

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

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

Asset price risk

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

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

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

Asset price risk – sensitivity analysis

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

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

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

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

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

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

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

Interest rate risk

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

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

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

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

Interest rate risk sensitivity analysis

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

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

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

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

Currency risk

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

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

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

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

Currency risk sensitivity analysis

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

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

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

b) Credit Risk

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

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

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

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

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

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

c) Liquidity Risk

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

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

Refinancing risk

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

18. Funding Arrangements

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

The Fund's statement includes:-

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

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

The Strategy is geared to:-

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

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

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

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

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

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

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

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- 18.5 A new Actuarial Valuation was carried out as at 31 March 2013 and the resulting changes in contribution rates will apply from 1 April 2014. The market value of the Fund's assets at the 2013 valuation was £1,924 million. At the valuation date, the Fund's liabilities exceeded the assets by £799 million giving a revised funding level of 71% (the funding level at the 2010 valuation was 74%). The main factor that contributed to the change in funding position was a change in the financial assumptions.
- 18.6 The Actuary used the Projected Unit method at this and the previous valuation. For the majority of employers the contribution rates which apply are based upon recovery of the deficit over a maximum period of 20 years. Another revaluation of the Fund will take place as at 31 March 2016.
- 18.7 The financial assumptions adopted by the Actuary were as follows:-

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

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

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

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

19. Actuarial Present Value of Promised Retirement Benefits

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

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

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

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

- 19.2 The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.
- 19.3 During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

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- 19.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £3,085 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£211 million. Adding interest over the year increases the liabilities by a further c£130 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£22 million. Finally, allowing for actual vs. expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£55 million. The net effect is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £2,971 million.
- 19.5 The Fund, in parallel, also uses its Actuarial assumptions and methodology as referred to in note 18 to provide an interim funding position on an annual basis between valuations as an appropriate monitoring mechanism.

20. Current Assets

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

Analysis of debtors

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

a) Funding of Early Retirement Costs

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

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

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

21. Current Liabilities

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

Analysis of creditors

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

22. Additional Voluntary Contributions

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

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

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

23. Related Party Transactions

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

23.2 Governance

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

23.3 Key Management Personnel

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

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

24. Contingent Liabilities and Contractual Commitment

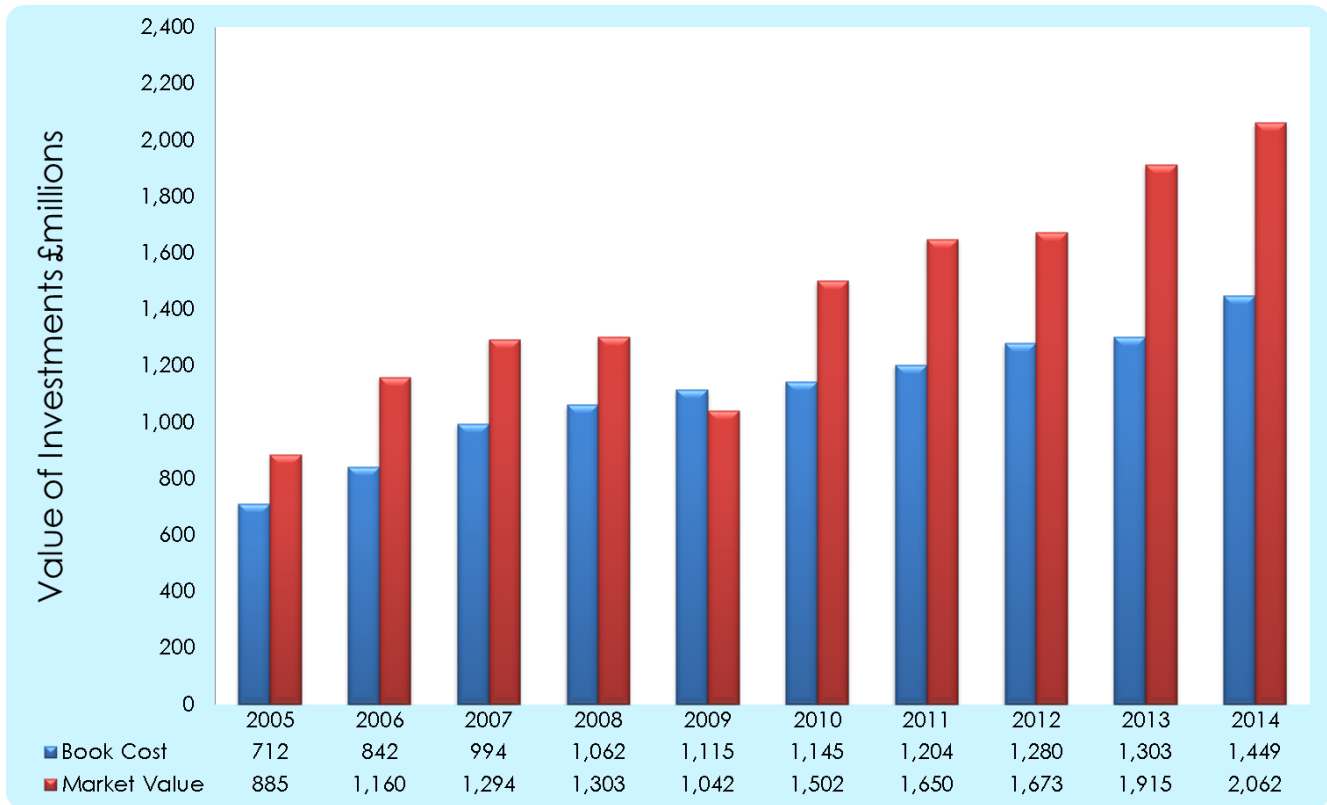
- 24.1 The fund invests in the Prudential/M&G UK Companies Financing Funds (Funds I and II) which are in the form of Limited Liability Partnerships. As at 31 March 2014 no further liability remains for Financing Fund I but it does for Financing Fund II. This investment has a committed amount of £8 million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

Appendices

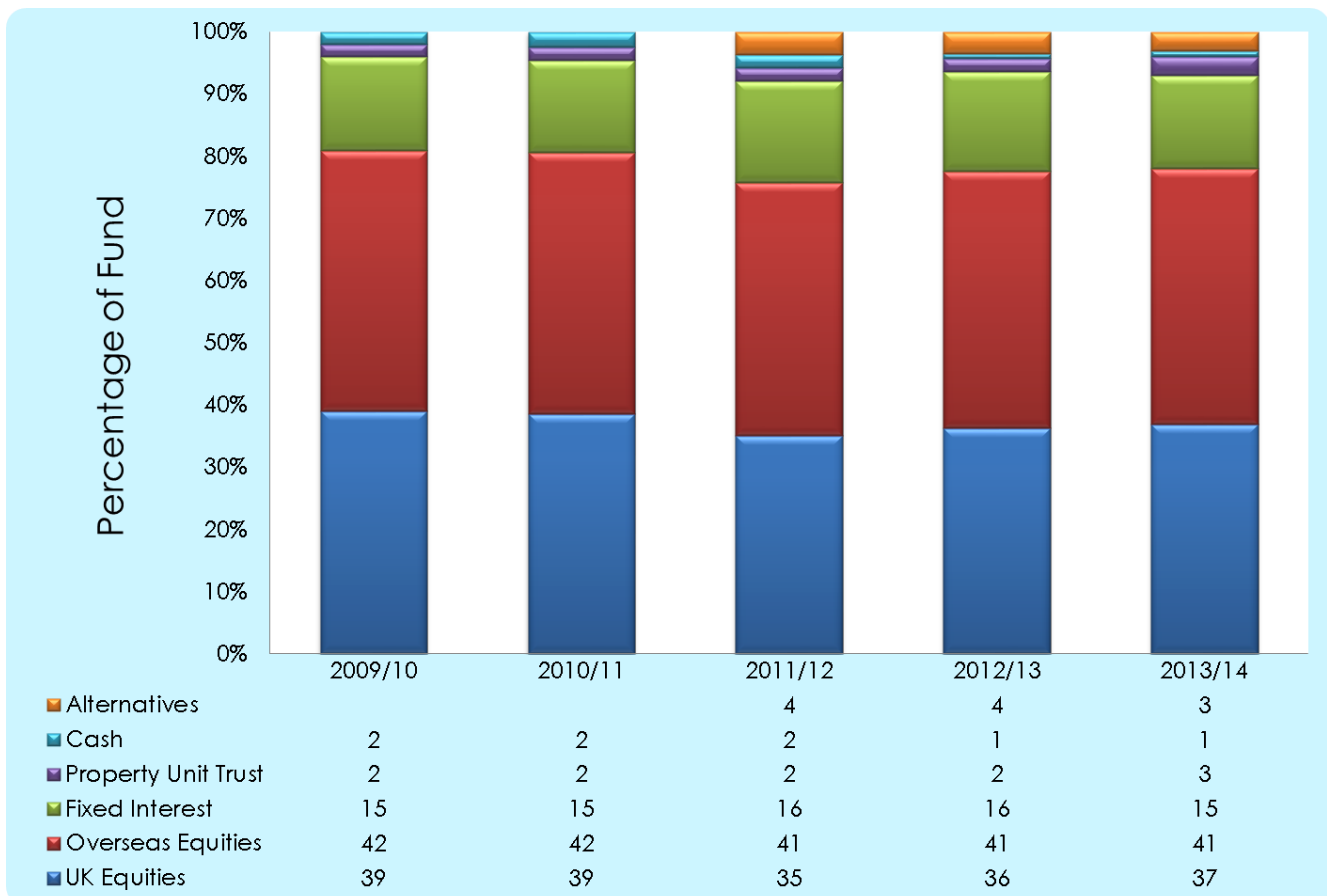
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Appendix 1

Ten Year Valuation of Investments



Tactical Asset Allocation



Appendix 2

Greater Gwent (Torfaen) Pension Fund Contribution Schedule

Actuarial Valuation as at 31 March 2010

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

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






Appendix 3

Fund Membership

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

Appendix 4

Top Ten UK Equity Segregated Holdings as at 31 March 2014

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

Ten Year Summary of Statistics

Revenue Account	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Contributions	78,576	85,798	91,427	99,087	105,720	113,894	110,304	101,652	101,028	109,666
Transfer Values Received	8,771	10,590	10,755	11,378	6,672	12,603	7,265	7,824	4,942	7,946
Investment Income and Other	16,946	20,401	19,043	18,682	18,096	16,043	17,099	21,448	20,659	26,095
Total Income	104,293	116,789	121,225	129,147	130,488	142,540	134,668	130,924	126,629	143,707
Pensions and Other Benefits	48,423	52,743	56,102	62,146	69,411	76,190	81,491	84,538	88,856	95,175
Transfer Values Paid	6,399	8,480	6,421	5,901	3,499	8,875	8,512	22,965	6,303	3,177
Refunds of Contributions	356	184	33	37	13	15	5	2	5	8
Fees and Other	2,857	3,084	4,257	5,179	4,199	4,667	5,810	6,032	6,642	7,623
Total Expenditure	58,035	64,491	66,813	73,263	77,122	89,747	95,818	113,537	101,806	105,983
Net Surplus for Year	46,258	52,298	54,412	55,884	53,366	52,793	38,850	17,387	24,823	37,724
Net Profit/(Loss) on Sale of Investments	12,781	76,604	96,856	12,152	(936)	(20,183)	20,631	40,620	14,317	118,239
Unrealised Change in Market Value	65,175	145,332	(17,694)	(64,259)	(310,662)	430,997	89,520	(52,621)	218,496	1,124
Increase/(Decrease) in the Fund	124,214	274,234	133,574	3,777	(258,232)	463,607	149,001	5,386	257,636	157,087
Investment Assets	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Book Cost at 31 March	711,865	841,761	993,537	1,061,990	1,114,650	1,144,901	1,203,604	1,279,958	1,302,617	1,449,212
Market Value at 31 March	884,927	1,160,168	1,294,237	1,302,616	1,042,438	1,501,677	1,649,900	1,673,634	1,914,788	2,062,483
Membership										
Contributors	20,785	21,187	21,559	21,834	22,143	21,667	21,196	20,550	20,582	22,435
Pensioners	11,081	11,383	11,740	12,183	12,610	13,091	13,576	13,910	14,296	14,820
Number of Preserved Benefits	5,856	7,080	8,216	9,067	9,735	10,577	11,378	12,189	13,180	14,359
Total	37,722	39,650	41,515	43,084	44,488	45,335	46,150	46,649	48,058	51,614

Glossary of Terms

Actuary

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

Actuarial Valuation

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

Active Investment Management

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

Benefits

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

Contributions

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

Market Value

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

Passive (Indexed) Investment Management

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

Pooled Investment Vehicles

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

Preserved Benefits

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

Rate of Return

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

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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Or visit the websites:-

<http://www.greatergwentpensionsfund.co.uk/>

Or

<http://www.torfaen.gov.uk/en/CouncilTaxAndBenefits/LocalGovernmentPensionScheme/The-Local-Government-Pension-Scheme.aspx>

Statement of Investment Principles

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1. Background

- 1.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) (Amendment) Regulations of 1999 were the original legislation requiring administering authorities to prepare, and review from time to time a written statement recording the investment policy of the Pension Fund. These regulations also stipulated certain key issues that must be covered within the Statement. These regulations and subsequent amendments have recently been consolidated within The Local Government Pension Scheme (Management and Investment of Funds) Regulations (2009) and this document has been updated in compliance with these regulations.
- 1.2 Torfaen County Borough Council is the administering authority for the Greater Gwent (Torfaen) Pension Fund under the terms of the Local Government Pension Scheme (Local Government Re-organisation in Wales) Regulations 1995. As the statutory administering authority for the Fund, Torfaen is responsible for making sure appropriate arrangements are in place to administer all aspects of the Fund.
- 1.3 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 and as a Committee of the Council is subject to the rules of political balance. Torfaen has also established a Pension Fund Management Group to provide wider stakeholder representation and communication in matters relating to the Fund. It consists of Member representatives of the Greater Gwent unitary authorities, a number of other significant employers, trade union representation and pensioner representation.

2.0 Organisational and Management Arrangements of the Fund

2.1 Overview

- 2.1.1 The Council has delegated its functions as administering authority of the Fund to the Pensions Committee which routinely meets on a quarterly basis, supplemented as required. The Committee makes proper arrangements for the governance, management, benefits & financial administration and investment of the Pension Fund, and as such decides on the investment policy most suitable to meet the liabilities within the Fund and has ultimate responsibility for the investment strategy.
- 2.1.2 The members of the Pensions Committee, together with advisors and dedicated internal officers for the Fund are as follows:-
 1. Chair of the Pensions Committee - Councillor Mary Barnett
 2. Members of the Pensions Committee:
 - Cllr Huw Bevan
 - Cllr Stephen Brooks KSS JP
 - Cllr Pamela Cameron
 - Cllr Stuart Evans
 - Cllr Maria Graham
 3. Administrator - Nigel Aurelius, Assistant Chief Executive Resources
 4. External Investment Advisor - Mr. M. Lewis
 5. Internal Investment Officer - Graeme Russell, Head of Human Resources and Pensions
 6. Actuary - Mercer Human Resource Consulting (John Livesey)

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7. Investment Consultant - Mercer Investment Consulting (Joanne Holden)
8. Solicitor and Legal Advisor to the Fund - Lynda Willis, Chief Legal Officer & Monitoring Officer
9. Investment Managers
 - Aberdeen Asset Managers
 - BlackRock
 - Fidelity Worldwide Investments
 - Invesco Perpetual
 - Lazard Asset Management
 - Nomura Asset Management
 - Standard Life Investments
10. Custodians
 - Bank of New York Mellon

2.1.3 The policy in relation to asset allocation is dealt with later in this Statement. Assets held by the Fund are grouped to individual portfolios comprising either investments in a particular geographic area or of a particular asset class. These portfolios are generally managed externally by organisations appointed by the Pensions Committee. Performance targets have been set for each portfolio and the Fund receives formal reports from each manager on a quarterly basis with performance reported to and monitored via the Pensions Committee.

2.1.4 The advisors' fees are either based on fixed quotes for particular projects or on a time cost basis. The approach results in fees proportionate to the work carried out and to the value of the advice received.

2.2 Investment Responsibilities

2.2.1 The terms of reference of the Pensions Committee include overseeing the following investment responsibilities:

- i) To determine the strategy for the investment of Fund monies including the variety and suitability of investments and to monitor investment performance.
- ii) To ensure appropriate investment management arrangements are in place for the Fund monies and to review investment manager performance.
- iii) In undertaking the above, to consult as appropriate and consider any views expressed by employing organisations and staff representatives.

2.2.2 The Pension Fund Management Group has responsibility for:

- Exercising a scrutiny and advisory role by questioning and evaluating the impact of the decisions and actions of the Pensions Committee; and reviewing the performance of the Pension Fund.

2.2.3 The Investment Manager(s) is responsible for:

- the investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by the Fund's policy documents and the detailed Investment Management Agreement.
- where specified, tactical asset allocation around the strategic benchmark and security selection within asset classes.
- preparation of quarterly reports including a review of investment performance and attending quarterly meetings with officers and also with the Pensions Committee if requested.

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- assisting the Pensions Committee in the preparation and review of policy documents.
- voting shares in accordance with the Fund's policy.
- providing details in a timely manner to BNY Mellon the Fund's performance measurer.

2.2.4 The Custodian is responsible for:

- keeping the assets of the Fund safe, settling trades and dealing with corporate actions.
- its own compliance with prevailing legislation.
- providing the Administering Authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter,
- collection of income and tax reclaims.

2.2.5 The Investment Advisor is responsible for:

- assisting the Pensions Committee in the preparation and review of this document.
- assisting the Pensions Committee and Internal Investment Officer in their regular monitoring of each Investment Manager's performance.
- assisting the Pensions Committee in the selection and appointment of Investment Managers and Custodians.

2.2.6 The Actuary/Investment Consultant is responsible for:

- assisting the Pensions Committee in the preparation and review of this document and the Funding Strategy Statement.
- providing advice as to the liability profile of the Pension Fund and its funding level in order to aid the Pensions Committee in balancing the short term and long term objectives of the Pension Fund, i.e. preparing the actuarial valuation setting employer contribution rates and asset-liability modelling etc.
- providing additional advice as requested and as required.

2.2.7 The Assistant Chief Executive Resources is responsible for:

- advising the Pensions Committee in respect of issues within the scope of this document
- ensuring compliance with this document and bringing breaches thereof to the attention of the Pensions Committee.
- ensuring that this document is regularly reviewed and updated in accordance with the Regulations and other relevant legislation
- implementing investment decisions made by the Pensions Committee.

3.0 Pension Fund Liabilities

3.1 The Pension Fund is a defined benefit scheme which has, historically, provided benefits related to final salary for members. From 1st April 2014 the scheme will be changed to a career average scheme. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Pension Fund assets. Full details of Pension Fund benefits are set out in the LGPS regulations.

3.2 All active members of the Pension Fund are required to make pension contributions which are based upon a percentage of their pensionable pay as defined in the LGPS regulations.

3.3 The Administering Authority is responsible for meeting from the Pension Fund the balance of costs necessary to finance the benefits payable. The Administering Authority's and Employers' contribution rates are determined triennially based on the advice of the Pension Fund Actuary and are subject to inter-valuation monitoring. The Administering Authority therefore has a direct accountability for the investment return achieved on the Pension Fund assets, subject to market conditions which are outside the control of the Administering Authority.

4.0 Pension Policy

4.1 Main Objectives

4.1.1 The Investment Policy of the Pension Fund is:-

- * 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.
- * To manage employers' liabilities effectively.
- * To ensure that sufficient resources are available to meet all liabilities as they fall due.
- * To maximise the returns from investments within reasonable risk parameters.
- * To ensure that all statutory payments made from the Pension Fund are at minimal cost to local tax payers.
- * To achieve a funding level within the range 95% to 105% liabilities.
- * To aim for upper quartile investment returns over rolling 3 year periods.

4.2 Types of Investments

4.2.1 Investments are made in accordance with the LGPS (Management and Investment of Funds) Regulations 2009. These Regulations allow a degree of flexibility within investment limits for local government pension schemes whilst maintaining fundamental principles of prudence and diversification.

4.2.2 These Regulations allow an administering authority to decide to increase investment limits up to specified amounts for different investment types. For example, the Regulations allow the pension scheme to invest up to 10% of the fund in any single holding and 25% in unit trust schemes managed by one body. There is however the potential to increase these amounts to 15% and 35% respectively under the regulations. This "head room" is not mandatory and the extent to which it is used in practice remains a matter for decision by the individual LGPS administering authorities, having taken proper advice in the matter. The Fund therefore has the option of adhering to the original scheduled percentages as set out in the Regulations or to consider the opportunities that the increased head room offers.

4.2.3 The Regulation schedule includes a 25% normal limit for "All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body".

This matter has been considered by the Fund specifically in respect of the BlackRock portfolio that is invested in a range of such investment vehicles. Changes in the tax treatment of US Equity holdings placed the Fund in an adverse financial position and a switch to a life fund covered under the above clause increased the sums held by the Fund and managed by one company to above the 25% limit. The Fund has therefore exercised its discretion and initiated "head room" in respect of this aspect to 35%. This position and the impact of the investment limits on the Fund's investments as a whole continue to be routinely monitored.

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4.2.4 Two particular factors also need to be borne in mind. Firstly, the Pension 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. The Pensions Committee therefore attempts to meet its objectives by securing in the light of the economic climate, the most advantageous mixture of cash, fixed interest investments, equity, property and alternative investments. Assets may be invested in the UK and/or overseas.

4.3 Realisation of Investments

4.3.1 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. The Pension Fund is not currently regarded as mature. Income is therefore presently exceeding expenditure and so the Pension Fund has not been faced with the prospect of enforced realisation of investments. The level of cash that the Fund generates has however been reducing slightly year on year and the position is also the subject of regular and detailed monitoring. Some investments, such as some alternative investments can be less easy to realise in a timely manner (less liquid), but this constitutes a very small portion of the Fund and is not considered material and hence has no adverse consequences.

4.4 Investment Management Arrangements

4.4.1 Seven investment managers manage the majority of the Fund's assets. The Fund's strategy primarily follows a fundamental investment review undertaken during 2003 which provided the foundation for the current Fund structure in the context of its liabilities and the objectives set out in para 4.1.1. The strategic asset allocation is weighted towards equities given the profile of the Fund, its funding position and the longer term belief that equities will out-perform fixed interest holdings. Further asset allocation refinement took place in 2006, 2009 and 2011 and further refinement maybe considered by the Pensions Committee during 2014 following any review prompted by the 2013 tri-ennial actuarial valuation and in the context of the on-going consideration of risk and return levels across the Fund. Details of the types of investment each manager may hold, together with the ranges allowed are set out in the table overleaf:-

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STRATEGIC ASSET ALLOCATION OF GREATER GWENT (TORFAEN) PENSION FUND – 31 March 2014

Asset Class by Fund Manager	Investment Type	% of Total GGTPF	Bandwidths of Total GGTPF	Performance Reference for Managers' portion of the Total GGTPF	Performance Target for Managers' portion of the Total GGTPF (measured over rolling 3 year periods)
ABERDEEN ASSET MANAGERS		9.0%			
- Global Equities	Unitised Insurance Policy	9.0%	(+/- 1.0%)	MSCI World	Outperform index by 3% p.a.
ABERDEEN Total		9.0%			
BLACKROCK EQUITIES		34.8%			
- UK Equities	Segregated	13.8%	(+/-1.0%)	FTSE All-Share Index	Match
- US Equities	Unitised Insurance Policy	7.0%	(+/-1.0%)	FTSE All-World USA Index	Match
- European Equities	Unitised Insurance Policy	14.0%	(+/- 1.0%)	FTSE All-World Developed Europe ex-UK Index	Outperform index by 1.5% p.a.
BLACKROCK FIXED INTEREST		14.0%			
- UK gilts	Unit Trust	7.0%	(+/- 1.0%)	FTSE A All Stocks UK Gilt Index	Outperform index by 1.5% p.a. on the aggregate holding of both asset classes
- UK Non-Gilt bonds	Unit Trust	7.0%	(+/- 1.0%)	iBoxx Sterling non-gilts Index	
BLACKROCK Total		48.8%			
FIDELITY WORLDWIDE INVESTMENTS		2.0%			
- Emerging Market Equities	Managed Fund	2.0%	(+/- 1.0%)	MSCI Global Emerging Mkts Index	Outperform index by 2% p.a.
FIDELITY Total		2.0%			
INVESCO PERPETUAL		4.0%			
- Asia (ex Japan) Equities	Managed Fund	4.0%	(+/- 1.0%)	MSCI AC Asia Pacific (ex Jap) Index	Outperform index by 2% p.a.
INVESCO Total		4.0%			
LAZARD ASSET MANAGEMENT		19.6%			
- UK Equities	Segregated	19.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 2% p.a.
LAZARD Total		19.6%			
NOMURA ASSET MANAGEMENT		3.0%			
- Japan Equities	Managed Fund	3.0%	(+/- 1.0%)	TOPIX	Outperform Index by 3% p.a.
NOMURA AM Total		3.0%			
STANDARD LIFE INVESTMENTS		7.6%			
- UK Equities	Unitised Insurance Policy	4.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 3% p.a.
- Diversified Alternatives	Unitised Insurance Policy	3.0%	(+/- 1.0%)	6 mth LIBOR	Outperform index by 5% p.a.
STANDARD LIFE Total		7.6%			
OTHER (TCBC)		6.0%			
- Cash	Cash	3.0%	(+/- 1.0%)	LIBID 7 Day	Match
- Property Unit Trusts	Unit Trust	2.0%	(+/- 1.0%)	CAPS Property	Outperform index by 1% p.a.
- Alternative Investments	Limited Partnership	1.0%	(+/- 1.0%)	6 mth LIBOR	Outperform index by 4-6% pa
OTHER Total		6.0%			
GGTPF TOTAL		100.0%			

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4.4.2 The above arrangements reflect two changes since the last publication of this Statement. Following parallel European procurement processes during 2013/14, Barings no longer manage Emerging Market equities and Asia (ex Japan) equities for the Fund. With effect from late March 2014, Fidelity Worldwide Investments were appointed to manage the Fund's allocation to Emerging Markets equities and Invesco Perpetual appointed to manage Asia (ex Japan) equities.

4.4.3 Management agreements are maintained with each of the investment managers which set out the benchmark asset allocation ranges, performance targets and any restrictions placed on the manager. The investment manager's actions and performance are monitored quarterly and reviewed annually. The manager's fee structure is based on a percentage of the market value of the managed assets. The percentage varies between the asset classes, the sums under management and in some cases performance.

4.5 Derivatives

4.5.1 Within the overall asset allocation set by the Fund, managers are required to determine a suitable asset mix having regard to funding levels, cash needs and risk tolerance. The limits on individual investments are those specified in schedule 1 of the Local Government Pension Scheme (Management and Investment of Fund Regulations) 2009. In addition, it is important to note that the Fund has agreed the use of derivatives and other financial instruments within pre-agreed limits for specific purposes such as asset allocation switches and hedging as detailed in the investment management arrangements. Stock lending and commission recapture are also permitted subject to the terms of the investment management arrangements.

4.6 Performance Criteria

4.6.1 The performance criteria are set out in paragraph 4.4.1 above.

5.0 Risk – Measurement and Management.

5.1 Investment Risk

5.1.1 Risk is inherent in any investment activity but 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 number of actions:-

1. By the appointment of a number of regulated external investment managers appointed directly by the Council with the scope of investments and the control and risk issues addressed in an investment management.
2. By the appointment of a regulated external third party custodian appointed directly by the Council with control and liability issues addressed in a custody agreement.
3. Documenting control and liability issues relating to relationships with the appointed external fund managers in fund manager agreements.
4. By officers of the Fund's Investment Team and Accountancy Section of Torfaen County Borough Council 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.
5. By officers of the Council's Internal Audit section reviewing the internal procedures maintained within Torfaen.

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In a wider investment sense, risk is also managed by:-

- * Diversifying the portfolio by the number of investment managers and across different types of investment.
- * Restricting external appointed fund manager investment activity in accordance with LGPS Regulations and as documented in fund management agreements.
- * By selecting appropriate investment benchmarks and variance parameters to control the risk.
- * By taking appropriate internal and external professional advice.
- * Via meetings of the Pensions Committee quarterly and the Pension Fund Management Group twice per year. Pensions Committee meetings monitor asset allocation against investments benchmarks and fund activity and performance.

5.2 Custody of Assets

- 5.2.1 Bank of New York Mellon provides a custody service for the Fund. The agreement clearly defines matters relating to safe keeping and security of the Fund's assets. They are essentially held in specific custody accounts with the custodian and are subject to audit by their internal and external auditors and regulated by various appropriate bodies.
- 5.2.2 The Custodians' fees are predominantly based on a percentage basis of market value in relation to the safekeeping of assets. Transaction charges and ancillary services are based on fixed quotes. The approach results in fees proportionate to the work carried out.

6.0 Monitoring

- 6.1 The Pension Fund Management Group meets at least twice per year to consider the annual report and accounts, together with other matters related to the management and investments of the Fund. Fund officers meet investment managers routinely on a quarterly basis and receive full and written reports of investment activities undertaken. Detailed performance reports are prepared following these meetings containing recommendations for any actions deemed necessary. Pensions Committee meetings receive quarterly investment reports and consider and/or determine any recommended/appropriate actions. The Pensions Committee additionally considers operational and administrative issues in support of the investment regime.
- 6.2 In a broad sense the performance measurement of the Pension Fund is undertaken on a quarterly and annual basis, together with an assessment on a rolling 3, 5 and 10 year basis. The Fund participates in the combined actuarial performance service provided by BNY Mellon Asset Servicing; State Street Investment Analytics (WM) and also obtains some performance measurement details from IPF (CIPFA) and industry wide reports.

7.0 Socially Responsible Investment

- 7.1 The Fund has considered how Social, Environmental and Ethical factors should be taken into account in the selection, retention and realisation of investments. This was initially considered under the Fund's previous governance arrangements by its Investment Panel when members considered that they should, in all circumstances, act in the best financial interests of the Beneficiaries. In view of the Investment Strategy adopted by the Fund, where this primary consideration is not prejudiced, Investment Managers are required to take account of Social, Environmental or Ethical factors to the extent that they consider it appropriate.

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- 7.2 The Fund's governance arrangements changed during 2009 with the Pensions Committee established as its primary decision making body. The Committee's work-plan provided opportunity for the Fund to consider its approach to Socially Responsible Investment within its new governance arrangements and to update its policy if deemed necessary. As a result of this the Committee decided that a separate working group, the Environmental Social and Corporate Governance Working Group, should be set up to specifically consider the Fund's current approach to environmental, social and corporate governance matters within its investment decision making process.
- 7.3 The Group was established in October 2010 to research these issues, consider any options for change and report any proposals back to the Pensions Committee for consideration. The Group met regularly during the remainder of 2010 and early 2011 and reported back to the Pensions Committee in September 2011 with its initial conclusions and recommendations. The following are extracts from these:-
- the Group were generally impressed by the comprehensive approach taken with regard to ESG issues by the Fund's investment managers and the level of resource and detail devoted to this area.
 - the Group were generally content with the ESG policies and procedures of the Fund's investment managers and the way that these are implemented in practice.
 - the Group recommended that the Fund should continue membership of the Local Authority Pension Fund Forum as the Group considered it to be of particular value and benefit in achieving a collective level of ESG monitoring and engagement that the Fund could not achieve in isolation.
 - that despite not being a direct signatory to UNPRI or the UK Stewardship Code, the Group were however comfortable that the majority of the Fund's managers are themselves either directly code signatories or operating to code standards and thus the Fund's investments are predominantly managed in accordance with Code principles.
- 7.4 The Pensions Committee welcomed the conclusions and approved the Group's initial recommendations in full for adoption by the Fund in the consideration of Environmental, Social and Corporate Governance within its investment process. Within their approval, the Committee recognised that Group members had gained much knowledge and understanding from its initial work and acknowledged the importance of the ESG Working Group, the quality and amount of work undertaken and the contribution of individual members. The Committee further agreed that the ESG Working Group should continue its work in the consideration of ESG matters within the Fund's investment process and within the context of the Funds wider governance processes. It should, continue to meet and provide work plan updates to future meetings of the Pensions Committee as appropriate. This view has since been specifically endorsed by the new Pensions Committee that has been in place since May 2012 following the most recent local elections. The new Committee confirmed that they were content that the Group be "reconvened" and take forward the future potential work areas it had identified. It is anticipated that the ESG Working Group will therefore reconvene and report further during 2014 and any subsequent policy decisions made by the Pensions Committee will be incorporated in future versions of this Statement of Investment Principles.

8.0 Corporate Governance

- 8.1 Good Corporate Governance provides a structure for maximising returns to shareholders and thereby to stakeholders within the Pension Fund. The Fund makes full use of its voting powers at UK and European company meetings based on the current Corporate Governance Policies of the Investment Managers which have been previously considered and approved by the Fund, and most recently reviewed by the Fund's ESG Working Group.

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The Fund also continues to be a member of the Local Authority Pension Fund Forum (LAPFF) as an appropriate pressure group designed to benefit the interests of the members. Additionally, in December 2013, the Pensions Committee Chair, Cllr Mary Barnett, was co-opted on to the Executive Committee of the LAPFF which will provide the Fund with valuable additional insight and experience in respect of Corporate Governance and also the wider Environmental and Social aspects of the investment process. Additional clarity is provided via the framework attached at Appendix 2. These Policies are based on the guidelines established by the combined code of the Cadbury, Greenbury and Hampel Committees and the London Stock Exchange Committee on Corporate Governance.

- 8.2 The Pension Fund's Policy on the exercise of rights attached to investments, including voting rights, is that these rights should be exercised by the Investment Managers in accordance with the Pensions Committee instructions having regard to the best financial interests of the Beneficiaries. A summary of the current views of the Fund is attached as Appendix 2. It should be noted that where the primary consideration of the best financial interests is not prejudiced, the Investment Managers should take account, where they believe it appropriate, of Social, Environmental and Ethical factors in the exercise of such rights. Paragraphs 7.3 and 7.4 (above) should however be noted as the remit of the working group to consider environmental, social and corporate governance matters in respect of the Fund's investment decision making process. The Group's continuing work may result in future recommendations for change in respect of the Fund's approach to corporate governance as set out in this statement and as contained in Appendix 2. Again any subsequent policy decisions made by the Pensions Committee will be incorporated in future versions of this Statement of Investment Principles.

9.0 Compliance

- 9.1 Organisations and individuals involved with the management of the Fund have a duty to ensure compliance with this Statement of Investment Principles. The Pensions Committee and Pension Fund Management Group will review this Statement each year with the advice of the investment advisor, actuary and the Assistant Chief Executive Resources as required. Investment managers submit quarterly reports to the Fund that include:-
- * Valuation of all investments held for the Fund.
 - * Records of all transactions together with a cash reconciliation.
 - * A review of the economic outlook.
 - * A review of corporate governance activity.
- 9.2 The Investment managers also provide regular statements to the Fund confirming their compliance with this Statement.
- 9.3 The Custodian will also certify on an annual basis that they have complied with this document.
- 9.4 The Pensions Committee is also responsible for monitoring the qualitative performance of the investment managers, custodians and external consultants and advisors employed to ensure that they remain suitable investment managers, custodians and advisors for the Fund. These qualitative aspects include changes in ownership, changes in personnel, or administration etc.
- 9.5 The Fund's actuary undertakes the statutory triennial valuation as well as any interim valuation work considered necessary by the Pensions Committee.
- 9.6 The independent investment advisor provides ongoing independent investment advice to the Fund as well as monitoring wider activities and performance within the industry that may affect the Fund.

10. Myners Compliance

- 10.1 In accordance with LGPS Regulations, the Greater Gwent (Torfaen) Pension Fund is required to state the extent to which it complies with the principles of investment practice issued in response to the recommendations of a review of institutional investment in the UK originally undertaken by Sir Paul Myners.
- 10.2 The original review by Myners prompted the Government in 2001 to issue 10 principles of investment practice and previous versions of this 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 requires the Fund, within its Statement of Investment Principles, to state the extent of compliance with a revised set of 6 principles covering pension fund investment; scheme governance; consultation and disclosure.
- 10.3 **Appendix 1** provides details of the Fund's extent of compliance against these revised 6 Principles which are now the accepted code of practice applying to Local Government Pension Funds throughout the United Kingdom. The degree of compliance has been assessed by way of reference to examples of good practice published by the CIPFA Pensions Panel within its 2009 guidance "Investment Decision Making and Disclosure". This guidance is the Secretary of State's relevant guidance issued under Regulation 12(3) of the 2009 Investment Regulations. The guidance is specifically designed to enable administering authorities to use the examples of good practice to help demonstrate the extent to which the principles have been applied and whether compliance has been achieved. The guidance makes clear that Funds are not expected to implement every example of good practice, but the majority have been incorporated within Appendix 1 for completeness to clearly identify any specific examples that the Fund may not currently follow. This is to enable the Pensions Committee to consider, over time, any areas of good practice highlighted that the Fund does not currently adopt and to subsequently update future versions of this document with their decisions.
- 10.4 Within the Appendix a "traffic light" system has been used to clearly demonstrate the level of compliance with the full list of good practice principles:-
- =  Full compliance.
 - =  Partial compliance for action/consideration as noted.
 - =  Non-compliance for action/consideration as noted.
- 10.5 The Greater Gwent (Torfaen) Pension Fund fully supports and endorses the original Myners principles and these revised principles that have influenced various sections of this Statement.

11.0 Additional Voluntary Contributions

- 11.1 The Council provides a facility for members to pay additional voluntary contributions (AVC's) to enhance their benefits. Members have a choice of buying added years of service or accumulating their AVC's to purchase benefits on a money purchase basis. Investment of money purchase AVC's is undertaken through Standard Life, Clerical Medical and The Equitable Life Assurance Society. (The Equitable Life option is closed to new members).





12.0 Feedback and Review




- 12.1 This statement will be subject to regular review for any material change that could affect the policy, with appropriate consultation.
- 12.2 A copy of this Statement is available to scheme members and other stakeholders upon request from the council at the address below. It will also be published to the Fund's website at the following address:-
http://www.greatergwentpensionsfund.co.uk/?page_id=252
- 12.3 Feedback is welcome on this Statement of Investment Principles and this should be sent to the Council for the attention of the Head of Human Resources and Pensions, Civic Centre, Pontypool, Torfaen, NP4 6YB or by email to graeme.russell@torfaen.gov.uk.





Principle 1 : Effective Decision Making



Administering Authorities should ensure that :

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Examples of Good Practice	Extent of Compliance	Actions Required
Establish a committee of elected members assigned with responsibility for the management and administration of the Pension Fund.	 Fully compliant. The council 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 as a Committee of the Council.	None.
Set out clear roles for officers with responsibility for ensuring the proper running of the committee including a process for declaration of conflicts of interest.	 Fully compliant. The Pensions Committee is subject to the council's usual constitutional arrangements and each meeting provides an opportunity to declare any such conflicts.	None.
Publish a Governance Compliance Statement in accordance with CLG statutory guidance to include review of the Committee's structure and composition.	 Fully compliant. Governance Policy & Compliance Statement published and updated annually.	None. The Fund will continue to update the document annually or more frequently if material changes.
Appointments to the committee should, where possible, be based on consideration of relevant skills, experience and continuity.	 Partially compliant. Previous Committee reviews have resulted in only minimal change to Pensions Committee membership. The 2012 elections however resulted in many previous members became unavailable and this,	To ensure appropriate training is available to new Committee members and that ongoing knowledge and skills development is tailored to individual needs.





Examples of Good Practice	Extent of Compliance	Actions Required
	together with the requirement to maintain political balance, led to a complete change of Committee membership. This demonstrates that the nature of Local Government therefore means that continuity of membership and thus retention of acquired knowledge and skills cannot be guaranteed. A focus on knowledge and skills development is therefore of particular importance for the Fund within its governance arrangements.	
Ensure specific terms of reference for the Committee with clear definition of those responsible for taking investment decisions. To include clarity of the process for delegating authority to officers and/or investment managers and the role of external advisors.	 Fully compliant. Clear terms of reference for the Committee are included within the Fund's Governance Policy & Compliance Statement. Additionally a specific, detailed scheme of delegation operates with regard to the Pensions Committee.	None
The committee should ensure, and regularly assess, that it has the appropriate skills to facilitate effective decision making. Specific CIPFA guidance provides a framework to assess training and development needs and the Fund's Annual Report should include a statement of progress made against this.	 Partially compliant. The Committee receives a training update at each meeting and regularly considers further training requirements. As noted above, natural turnover in Committee membership means an ongoing required focus on knowledge and skills development and the Committee's training plan takes account within its development of the CIPFA Knowledge & Skills guidance to provide a framework for member training.	Members of the Pensions Committee consider and undertake appropriate training to develop their knowledge and skills using the CIPFA Knowledge & Skills guidance to provide a training framework. The Pensions Committee continue to receive regular updates in terms of training available and undertaken. Fund Annual Reports will include an update in terms of the Fund's progress in developing member knowledge and skills in accordance with the CIPFA framework.
The committee may consider establishing sub-committees where necessary to take responsibility for progressing significant areas of activity and/or to provide appropriate focus to certain activities (e.g. investment)	 Fully compliant. The Pensions Committee has established an Environmental, Social & Corporate Governance (ESG) Working Group to consider the Fund's approach to these factors. The Group has researched related issues,	None. Though the effectiveness of the ESG Working Group can be assessed to establish the merits of using a similar approach in other areas of the Committee's future operations where deemed appropriate.






Examples of Good Practice	Extent of Compliance	Actions Required
	considered options for change, and reported initial conclusions and recommendations back to Pensions Committee. The Pensions Committee has welcomed and approved their conclusions to date, and agreed that the Group should continue to develop and progress their work in this area.	
The committee should obtain appropriate advice at reasonable intervals and where appropriate from suitably qualified persons, both externally and from officers of the authority. The committee should ensure it has sufficient internal resources and access to external resources to effectively carry out its responsibilities.	 Fully compliant. The Fund has regular access to adequate and varied sources of internal and external advice all as noted within this Statement of Investment Principles (SIP).	None.
Allowances paid to elected members of the committee should be set out in a published allowances scheme; be commensurate with the roles performed and regularly reviewed.	 Fully compliant. The Pensions Committee operates as a full committee within the council's constitutional arrangements which includes provision for review and publication of elected member allowances.	None.
Committee papers and related documentation should be clear, comprehensive and circulated sufficiently in advance of meetings to allow them to be read and understood.	 Fully compliant. Again the council's constitutional arrangements, procedures and standards ensure that this applies to the Pensions Committee.	None.
<p>The Chief Finance Officer should have specific responsibility for:</p> <ul style="list-style-type: none"> assessing the need for proper advice and recommending to the committee when such advice is necessary from an external advisor. 	 Fully compliant. External advice recommended when appropriate.	None.




Examples of Good Practice	Extent of Compliance	Actions Required
<ul style="list-style-type: none"> • providing a training plan for committee members to help them make effective decisions and to ensure they are aware of their statutory and fiduciary responsibilities and their stewardship role. • ensuring that a medium term business plan is created for the Pension Fund and submitted to the committee for consideration The Plan to include major milestones; issues to be considered by the committee; financial estimates for both investment and administration; a review of available resources and key targets for the Fund and method of measurement. 	<p> Fully compliant. A training plan and access to training is provided and monitored via inclusion in each Pensions Committee meeting agenda and ongoing assessment of training requirements.</p> <p> Partially compliant. Though no formal business plan is in place for the Fund, the Pensions Committee agrees and adopts an annual work-plan including planned work areas and outputs for the year ahead. The Committee also routinely receives from the Chief Financial Officer reports on administration and investment estimates together with actual costs over time.</p>	<p>None.</p> <p>The Pensions Committee may wish to consider further developing and extending current planning and reporting arrangements into a full medium term business plan for the Fund.</p>



Principle 2 : Clear Objectives

- An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The committee should demonstrate that an overall investment objective has been set mindful of :</p> <ul style="list-style-type: none"> the Fund's liabilities in the context of its contribution inflows; maturity profile and cash flow. the adequacy of the Fund's assets to meet its liabilities as advised by its actuary. 	<p> Fully compliant. Fully documented with the Funds SIP and Funding Strategy Statement (FSS).</p> <p> Fully compliant. Fully documented with the Funds SIP and Funding Strategy Statement (FSS).</p>	<p>None.</p> <p>None.</p>
<p>The committee should demonstrate that it has sought proper advice, including specialist external where appropriate, as to how the investment objective might be expressed in terms of the required annual return and measurement against appropriate benchmarks.</p>	<p> Fully compliant. Fully documented within SIP.</p>	<p>None.</p>
<p>In making asset allocation decisions the committee should consider all asset classes currently available to investors. When deciding on asset mix and active/passive management they should however remain mindful of the risk appetite of both the committee and the Fund employers.</p>	<p> Fully compliant. The committee will consider all asset classes but remains mindful that it should ensure members have the necessary knowledge of the more specialist asset classes prior to any investment decisions e.g. investment in alternative investments has been gradual but has evolved as knowledge of the asset class has further developed.</p>	<p>None. Expansion in membership of the Fund's Pension Fund Management Group to include Pensioner representation and additional Trade Union members has afforded even greater scrutiny and review from employer groups of the Fund's investment operations.</p>





Examples of Good Practice	Extent of Compliance	Actions Required
The use of peer group benchmarks for comparison purposes but not to define investment objectives.	 Fully compliant. The committee does not use information available on other funds to set investment objectives and arrangements but does compare itself with other funds for information purposes, including increased recent participation in benchmarking studies. It however remains mindful that each fund is different and have different liability profiles and thus differing investment objectives.	None.
The Fund should include within its objectives of achieving value for money and operational efficiency.	 Partially Compliant. Though the Committee remains mindful of the likely cost/benefit in respect of decisions this is not specifically defined at present within its objectives.	To achieve full compliance the Committee would need to define its understanding of value for money and produce measures that could be used to monitor its operational efficiency.
<p>The committee and Chief Financial Officer should consider:</p> <ul style="list-style-type: none"> the impact of funding levels and employer contribution rates on council tax levels over time, <p>and</p> <ul style="list-style-type: none"> the nature of the membership profiles and financial position of the employers in the Fund. 	<p> Fully compliant. A main Fund objective as documented within SIP. In line with this objective, the Fund's actuary is required to advise in such a way that employer contribution rates remain as constant as possible over time.</p> <p> Fully compliant. The Fund consults with employers in determining its funding strategy & employer contribution levels and regularly reviews the strength of the employer covenant, including any bond or guarantee requirements.</p>	<p>None.</p> <p>None.</p>
The committee should consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	 Fully compliant. The committee considers the value of such a study in conjunction with its actuary following each triennial valuation.	None.





Examples of Good Practice	Extent of Compliance	Actions Required
<p>In making strategic asset allocation decisions, the committee should:</p> <ul style="list-style-type: none"> • give such decisions a level of attention and resource that fully reflects the contribution they can make to achieving the Fund's investment objectives. • evaluate the equities/bonds split in the light of forecast liabilities before considering any other asset class. • state the range of investments it is prepared to include in its asset allocation decision with reasons why some asset classes have been excluded. • have regard to the diversification and suitability of investments. 	 Fully compliant. The range of diversified investments across which the Fund invests is fully documented within the SIP (Section 4) and the included asset allocation table. The level of attention and resource given to any changes to the Fund's asset allocation can be evidenced most recently by the level of committee attention given to the Fund's refinement of investment strategy and management arrangements during 2009; 2011 and 2013, and the subsequent manager appointments	None.
<p>In considering receipt of proper advice, the committee should:</p> <ul style="list-style-type: none"> • include advice from specialist independent advisors where appropriate. • appoint advisors in open competition in accordance with both the administering authority's and EU procurement rules. 	 Fully compliant. The Fund has access to appropriate independent advice when required.  Fully compliant. The Fund's current advisors have been in place for some time. As with the letting of investment management contracts any future advisor appointments will comply with procurement rules.	None. None.





Examples of Good Practice	Extent of Compliance	Actions Required
<ul style="list-style-type: none"> Set advisors clear strategic investment performance objectives and state how advisor's overall performance will be measured in the short, medium and longer term. 	 Non compliant. Setting specific investment performance objectives for advisors is not something that the Fund has pursued to date.	<p>The Fund should consider this within any future changes to its overall approach to advisor performance assessment (refer Principle 4 below).</p>
<p>The committee should have a full understanding of transaction related costs (including commissions) including ensuring these costs are properly controlled. Understanding these costs should be a clear consideration in letting and monitoring investment management contracts and independent expert advice should be taken where appropriate.</p>	 Partially compliant. The Fund ensures that all investment management fees are clearly defined, evaluated and agreed before letting any new investment management contracts. These costs are monitored to ensure compliance with the agreements on an ongoing basis. Though the Fund's investment managers provide regular details of transaction costs and commissions, these are not currently reported to the Pensions Committee	<p>The Fund should continue to monitor investment manager's fees and transaction costs on an ongoing basis. It should also consider a basis for reporting these routinely to the Pensions Committee.</p>

Principle 3 : Risk and Liabilities

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.
- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.



Examples of Good Practice	Extent of Compliance	Actions Required
<p>The committee should set an overall investment objective for the Fund that:</p> <ul style="list-style-type: none"> • represents its best judgement of what is necessary to meet the Fund's liabilities mindful of likely employer/employee contribution levels. • takes account of its overall attitude to risk and specifically the level of acceptability of under-performance due to market conditions. 	<p> Fully compliant. The committee considers actuarial advice both ad-hoc and more formally as part of the valuation process in terms of setting and refining investment objectives and strategy.</p> <p> Fully compliant. Risk considerations and acceptable tolerance levels to market indices are explicit within investment documented within SIP.</p>	<p>None.</p> <p>None.</p>
<p>The committee should:</p> <ul style="list-style-type: none"> • with regard to assets benchmarked to market indices, be aware of its willingness to accept underperformance due to market conditions and set appropriate benchmarks and acceptable performance tolerance levels against these benchmarks. • with regard to assets where performance benchmarks are expressed in terms of absolute return, be aware of rates of return that are feasible and acceptable for these asset classes irrespective of market returns. 	<p> Fully compliant. Acceptable tolerance levels to market indices are explicit within this SIP and relevant investment manager agreements.</p> <p> Fully compliant. Documented within SIP asset allocation table. (Section 4.4.1).</p>	<p>None.</p> <p>None.</p>




Examples of Good Practice	Extent of Compliance	Actions Required
<ul style="list-style-type: none"> State whether a scheme specific benchmark has been considered / established and what level of risk, both active and market risk, is acceptable to it. 	 Fully compliant. Documented within SIP asset allocation table (Section 4.4.1).	None.
<p>The committee should ensure that its investment strategy:</p> <ul style="list-style-type: none"> is suitable for its objectives. takes account of the ability to pay of employers in the Fund. takes account of the level of need and timing to match cash flows from Fund assets with liabilities. takes account of the volatility of returns that the committee is prepared to accept. 	 Fully compliant. These requirements are documented within the Fund's statutory documents as noted: <ul style="list-style-type: none"> Refer SIP (Section 4) Refer Funding Strategy Statement (Section 5) Refer SIP (Section 4.3.1) Documented within SIP (Section 5.1.1) and SIP asset allocation table. (Section 4.4.1) 	None
<p>The Fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.</p>	 Fully compliant. Documented within SIP (Section 5.1.1).	None.
<p>Objectives for the overall Fund should be expressed with regard to its liabilities, not relative to other funds or a market index.</p>	 Fully compliant. Documented within SIP (Section 4.1).	None.



Examples of Good Practice	Extent of Compliance	Actions Required
The committee should receive a risk assessment in respect of the valuation of its liabilities as part of its triennial valuation, and at any other time that the chief financial officer considers it appropriate, so that risk mitigation actions can be considered.	 Fully compliant. Documented within FSS including risk types and factors to help minimise these risks	None.
The committee should, at the time of its triennial valuation, analyse factors affecting long term performance and how these may impact the scheme and its liabilities.	 Fully compliant. Documented within FSS including assumptions made and probability analysis.	None.
The committee should use reports from both internal and external auditors to ensure satisfaction with : <ul style="list-style-type: none"> • levels of internal control applied to the Fund's administration and investment operations. • the overall governance structure of the Fund. 	 Fully compliant. The Chief Financial Officer ensures that the Pension Fund is audited, both internally as part of the audit plan and externally, separately from the Council, via the Welsh Audit Office's annual audit of its accounts. Both audits cover internal controls and governance structure.	None.
The Pension Fund annual report should include an overall risk assessment in relation to the Fund's activities and factors likely to impact the Fund's financial and reputational health. Risk analysis should be regularly reported to committee.	 Fully compliant. The Annual Report includes, within the annual accounts, a detailed section on the nature and extent of risks that potentially impact the Fund's financial health and a hyper link to the SIP which also documents the Fund's Risk policy and considerations. The Council's overall risk register also takes account of the need to ensure sound management of the Pension Fund to protect financial and reputational risk.	None.



Principle 4 : Performance Assessment

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.
- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Examples of Good Practice	Extent of Compliance	Actions Required
<p><u>Investment Performance</u></p> <p>The committee should:</p> <ul style="list-style-type: none"> • consider, in conjunction with investment managers, the construction, appropriateness and divergence limits of selected index benchmarks. • consider, for each asset class invested, the appropriateness of passive or active management mindful of the efficiency, liquidity and transaction cost levels in the market concerned. • where it believes active management to have greater potential, set appropriate targets and risk controls to allow managers to pursue genuinely active returns. Divergence from benchmark should not be so constrained to imply index tracking or so wide as to imply unconstrained risk. 	<p> Fully compliant. The committee considers these issues on the appointment of a new investment manager and subsequently documents agreed management style, benchmarks and targets within individual Investment Management Agreements and also cumulatively within the SIP.</p>	None.
<p>The committee should remain mindful that the mandate is the instruction to the manager as to how the portfolio is to be managed and the prescribed objective, asset allocation, benchmark flexibility, risk parameters, performance targets and measurement timescales will all combine to drive the management of the portfolio.</p>	<p> Fully compliant. Quarterly individual manager reviews and cumulative performance reporting continues to take account of these factors.</p>	None.

Examples of Good Practice	Extent of Compliance	Actions Required
Performance targets in relation to a benchmark should be related to clear time periods and risk limits and monitoring reports should include tracking error calculations.	 Fully compliant. Performance reporting conforms with these requirements.	None.
Investment activity in relation to benchmark allocation should be monitored regularly to check any divergence and any impact on overall asset allocation strategy.	 Fully compliant. The Fund's asset allocation is monitored monthly and appropriate re-balancing carried out when necessary to ensure compliance with the Fund's agreed strategic and tactical asset allocations.	None.
<p>Investment returns should be measured:</p> <ul style="list-style-type: none"> • by a specialist performance measurement agency to ensure independence from investment managers. • on both overall fund return and individual asset class, to enable regular monitoring against bespoke and peer group benchmarks. • on both a quarterly basis and a longer time frame to assess the effectiveness of investment management arrangements and the continuing compatibility of the Fund's asset/liability profile. • against agreed benchmarks attributing variations to asset allocation, stock selection, sector selection and currency risk. 	 Fully compliant. The Fund subscribes to the Bank of New York Mellon performance measurement company and reporting fully complies with these requirements.	None.




Examples of Good Practice	Extent of Compliance	Actions Required
<p><u>Advisor Performance</u></p> <p>The committee should devise a performance framework against which to measure cost, quality and consistency of advice from its actuary and to market test its actuarial service periodically.</p>	 Non compliant	<p>A potentially significant work area for the Fund. To achieve compliance the Fund would need to examine its current actuary appointment and agree measurement and monitoring processes for quality and cost effectiveness of advice and service.</p>
<p>When assessing any advisors it is first necessary to consider the extent to which advice has been heeded by officers and committee members. Advisors / Consultants should then be assessed on:</p> <ul style="list-style-type: none"> • the appropriateness of asset allocation recommendations (relative to liabilities). • the quality of advice in choosing benchmarks, performance targets and risk profiles. • the quality and the appropriateness of investment managers recommended. • the extent to which advisors are proactive and consistent in recommending subsequent changes. • The nature of the assessments provided e.g. qualitative (subjective) assessments or quantitative (factual) reviews. 	 Non compliant.	<p>A further potentially significant work area for the Fund. To achieve compliance the Fund would need to examine its current advisor appointments; ensure appropriate targets are set; agree measurement and monitoring processes for quality and cost effectiveness of advice and service.</p>





Examples of Good Practice	Extent of Compliance	Actions Required
<p><u>Decision-making bodies</u></p> <p>The self assessment process should involve both officers and members of the committee reviewing:</p> <ul style="list-style-type: none"> • asset allocation and benchmarking decisions • manager selection • external appointments, and • best value outcomes <p>to consider whether outcomes were as anticipated, appropriate or could have been improved.</p>	<p> Non compliant.</p>	<p>Also a potentially significant work area for the Fund. The Pensions Committee needs to formulate a self assessment framework and a measurement and monitoring process to achieve compliance.</p>
<p>The committee should set out expectations of its own performance in its business plan and report on outcomes and targets in its annual report. This could include:</p> <ul style="list-style-type: none"> • expected progress on various work items • reviews of governance • reviews of performance • attendance targets, training standards and outcomes • administration (e.g. agenda and minute distribution) 	<p> Partially compliant. The Committee does have an annual work-plan that measures work progress. This is not however necessarily a measurement of the success of the outcomes of the decisions it makes with regard to these work items</p>	<p>To achieve compliance the Committee would need to evolve its current work plan into a business plan with expected outcomes and targets with measurement of and reporting of performance against these stated targets.</p>






Principle 5: Responsible Ownership

Administering authorities should:

- adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
- include a statement of their policy on responsible ownership in the Statement of Investment Principles.
- report periodically to scheme members on the discharge of such responsibilities.

Examples of Good Practice	Extent of Compliance	Actions Required
Policies regarding responsible ownership should be disclosed in the Statement of Investment Principles and within the Fund's annual report.	 Fully compliant. Documented within SIP (Section 7) and by hyperlink within the Annual Report.	None required – however consideration of the Fund's approach to responsible ownership will continue via the ESG Working Group and Pensions Committee. Any policy changes will be reflected within future SIP's.
Policies should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance (ESG) issues.	 Fully compliant. Documented within SIP (Section 7) and by hyperlink within the Annual Report.	None required – however consideration of the Fund's approach to responsible investing and ESG is within the remit of the ESG Working Group and Pensions Committee. Any policy changes will be reflected within future SIP's.
The committee should discuss the potential for consideration of ESG issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performance.	 Partially compliant. Consideration of an investment manager's ESG policy is an element of the evaluation of any new manager appointments. The basis of this evaluation has been further developed by the Fund's ESG Working Group. Additionally as a result of the Group's work, dialogue with managers and reporting in terms of their ESG engagement has been improved and is now at a much more detailed. It is most likely that the level and detail of manager engagement will evolve further as a result of the future work of the Group.	The continued work of the Fund's ESG Working Group will direct any required increased level of engagement on these issues and also the approach and resources required to enable any further development and changes.



Examples of Good Practice	Extent of Compliance	Actions Required
The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	 Fully compliant. This is set out within the respective investment manager agreement and their own corporate governance policies. Investment managers are also required to comply with the Fund's SIP (Refer Appendix 2).	None.
The committee should ensure that investment consultants adopt the Institutional Shareholders' Committee (ISC) Statement of Practice relating to consultants.	 Non compliant.	The work of the ESG Group could include a review of consultant's compliance against this Statement of Practice.
The ISC's 2007 Statement of Principles on the responsibilities of shareholders and agents and its 2009 Code on the Responsibilities of Institutional Investors, both provide best practice for institutional shareholders and/or agents in relation to their responsibilities in respect of investee companies. The best practice covers discharging shareholder responsibilities; monitoring investee company performance; ongoing dialogue & intervention and evaluating engagement with investee companies.	 Fully compliant. The ISC Statement of Principles cover UK companies and Investment Managers managing UK equities for the Fund are broadly supportive of the code.	None.
<p>The United Nations Environment Programme Finance Initiative (UNEP FI) has already published the following principles and practical guidance which it has encouraged investors to sign up to and adopt:</p> <ul style="list-style-type: none"> Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles and regularly assess themselves against a "comply or explain" framework. 	 Partially compliant. The Fund itself is not a signatory to the UNPRI principles but the vast majority of its investment managers are themselves signatories and therefore exercise these principles in their engagement with investee companies.	The work of the Fund's ESG Working Group will review and recommend to Pensions Committee any further actions thought necessary for the Fund in respect of these published principles.




Examples of Good Practice	Extent of Compliance	Actions Required
<ul style="list-style-type: none"> legal and practical aspects of integrating environmental, social and governance issues into institutional investment. 	 Non compliant. The Fund has not yet reviewed these principles to assess their relevance to its policy.	This available guidance is also noted in terms of any recommendations that the ESG Working Group may make with regard to ESG issues across the Fund.
It is important to ensure through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager or house policy.	 Fully compliant. All of the Fund's Investment Managers are required to note the requirements of this SIP with regard to voting strategy.	None – though the ESG Working Group's work will continue to consider each manager's voting process and how it links with the Fund's SIP.
Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement.	 Fully compliant. Voting in terms of the Fund's equity investments is carried out by the respective Investment Managers. The Fund does not currently use the services of an external voting agency.	None – though the ESG Working Group's workplan would allow it to review any potential benefits for the Fund in using the services of an external voting agency.
Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken.	 Fully compliant. Corporate Governance is monitored as an element of each manager's Quarterly Investment Report.	None – though the ESG Working Group's work plan will allow continued review of monitoring arrangements and reporting.
Authorities may wish to consider seeking alliances with other pension funds to benefit from collective size where there is a common interest to influence companies to take action on ESG issues. For example the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.	 Fully compliant. The council actively networks with partner Funds on a number of issues but specifically is also a member of the LAPFF, with the Chair of the Pensions Committee recently co-opted on to the LAPFF Executive Committee.	No specific required actions though the Fund will continue, via its ESG Working Group, to look to ensure it obtains maximum benefit from membership of the LAPFF and is sufficiently active to ensure that it is maximising its shareholder influence in terms of corporate governance and broader issues of responsible ownership.




Principle 6: Transparency and Reporting






Administering authorities should:


- act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to scheme members in the form they consider most appropriate.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>Transparency is strengthened by a clear and well communicated governance framework. The committee should :</p> <ul style="list-style-type: none"> • ensure that its Governance Policy and Compliance Statement is maintained regularly. • actively challenge any non-compliance. • be comfortable with the explanations given. 	 Fully compliant. The Fund's Governance Policy and Compliance Statement is updated at least annually and has formed the basis for committee consideration of any areas where the Fund could improve its compliance.	<p>None – other than ongoing monitoring of the statement and updating as necessary.</p>
<p>The fund's Communication Strategy Statement must set out the administering authority's policy on:</p> <ul style="list-style-type: none"> • the provision of information and publicity about the scheme to members, representatives of members and employing authorities. • the format, frequency and method of distributing such information or publicity. • the promotion of the scheme to prospective members and their employing authorities. 	 Partially compliant. The Fund's Communication Strategy Statement meets these requirements but does require some updating to reflect some recent changes in the way the Fund communicates with its stakeholders. The Fund has however taking a significant step in terms of communication development via the establishment of its own website and the appointment of a Training and Communication Officer to manage Communications and Training internally and externally with all Fund stakeholders.	<p>Updating of the Statement required together with continuing to develop methods of communication to ensure the Fund is fully exploiting opportunities presented by the recent establishment of its own website and the appointment of a Training and Communication Officer to manage Communications and Training internally and externally with all Fund stakeholders.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>In considering its communication with stakeholders the committee should</p> <ul style="list-style-type: none"> • have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted or informed. • build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders. This should be packaged in ways that make the information relevant and accessible to each particular group of stakeholders. • seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. 	<p> Fully compliant. The Fund recognises that stakeholder groups should have a role in the governance of the Fund. Its Governance Policy & Compliance Statement confirms that a Pensions Fund Management Group has been established to provide this stakeholder representation. The Group meets formally twice per year and is consulted as required by legislation and also on an ad-hoc basis as felt appropriate.</p> <p> Partially compliant. Meetings of the Pensions Committee and Pension Fund Management Group (PFMG) are public meetings and, as such, agendas, report and minutes are publically available together with access to officers to provide background material if needed. Though this information is accessible to all stakeholders, the Fund does not currently attempt to dissect and “package” such information for different stakeholder groups. The PFMG does however allow representation from all stakeholder groups in the Fund’s governance arrangements.</p> <p> Fully compliant. This is achieved by viewing other fund’s documents on line and by way of active networking via practitioner groups and also bodies where the Fund holds membership such as the CIPFA Pensions Network.</p>	<p>None required. The membership of the Group has recently been reviewed to ensure it continues to provide adequate representation across all stakeholder groups including employers, trade unions and scheme members.</p> <p>This can be examined further when the Fund next reviews its Communications Strategy,</p> <p>The Fund should ensure that the Fund is maximising the benefit it can achieve from this networking and information sharing.</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<ul style="list-style-type: none"> the full range of available media should be considered and used as appropriate. 	 Partially compliant. The Fund uses a number of mediums including the administering authority's website. It has however recently established its own website which will provide greater opportunities to maximise use of technology in communicating with its members and other stakeholders.	Evaluating current methods of communication particularly to ensure the Fund is fully exploiting opportunities presented by current technology and especially via its newly established website.
<p>The committee should compare regularly its annual report to the regulations setting out the required content and, if the report does not comply fully with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible. However, the committee will wish to ensure that the content is, if necessary, extended and presented in the way that is most useful and relevant to its many stakeholders. This may require a thorough review of its data capture and management processes to ensure as efficient an approach to production and use of data as possible.</p>	 Fully compliant. The Fund's Annual Report is comprehensive in this regard.	None – though the Fund will consider ongoing advice and guidance from CIPFA in terms of Annual Report content. The Fund will continue to review this guidance annually and consider its current annual reporting in the context of best practice principles.
<p>The Fund's other statutory policy documents are core source documents produced to explain the Fund's approach to investment and risks. With regard to the Funding Strategy Statement and the Statement of Investment Principles :</p> <ul style="list-style-type: none"> it is unlikely that decisions on overall strategy and asset allocation can be delegated effectively whereas day-to-day investment decisions are most likely to be taken by the investment manager, whether internal or external. The process by which such decisions are delegated 	 Fully compliant. This is clearly documented within the SIP (Section 2.2) detailing the investment roles and responsibilities of the relevant parties regarding the setting of strategy and operational arrangements. Investment Management Agreements provide a further level of detail regarding operational	None.

Examples of Good Practice	Extent of Compliance	Actions Required
<p>and authorised should be described with the roles of members, officers, external advisors and managers differentiated and specified.</p> <ul style="list-style-type: none"> the process for monitoring the actions, decisions and performance of external advisors and managers should be clearly stated. the process by which the overall fund asset allocation has been determined should include reference to future investment return assumptions as to and to any asset/liability study undertaken. the mandates given to each manager should be described. fee structures should include the scale of charges in operation, whether ad valorem or fixed, and any performance element built in, stating the implications for risk control. although there is no requirement to provide copies of the SIP to members, a copy should be made available on request and its availability should be made clear in the publication process. 	<p>arrangements.</p> <p> Non compliant.</p> <p> Fully compliant. This is clearly documented within the Funding Strategy Statement.</p> <p> Fully compliant. Documented within SIP asset allocation table. (Section 4.4.1).</p> <p> Non compliant. Though manager fees are fully documented within respective Investment Management Agreements they are considered as commercially sensitive information and thus not published in any of the Fund's statutory documentation.</p> <p> Fully compliant. Availability both in hard copy and via the council's website is clearly stated in the document.</p>	<p>As detailed within Principle 4 (above)</p> <p>The Fund could look to develop a clear monitoring link between the investment return assumptions used within actuarial valuations and actual investment returns from the relevant asset classes</p> <p>None.</p> <p>None. In line with Investment Management arrangements the Fund will continue to protect this commercially sensitive data and it will not be published unless requested under Freedom of Information legislation and then only with the manager's express permission.</p> <p>None</p>

Examples of Good Practice	Extent of Compliance	Actions Required
<p>The Governance Policy and Compliance Statements must include information on whether the administering authority delegates the whole or part of its function to a committee, a subcommittee or an officer of the administering authority. If it does delegate functions, the statement must include:</p> <ul style="list-style-type: none"> the frequency of any meetings, the terms of reference, structure and operational procedures of the delegation. whether the committee or subcommittee includes representatives of employing authorities (including non-LGPS employers) or members, and if so, whether those representatives have voting rights. details of the extent to which a delegation (or absence of delegation) complies with CLG guidance. Where the statement does not comply with the guidance, the reasons for non-compliance must be given. <p>A copy of the statement (or revised statement) must be sent to CLG.</p>	<p> Fully compliant. The Fund's Governance Policy and Compliance Statements meet all these requirements. It is updated at least annually and a copy sent to CLG</p>	<p>None – other than ongoing monitoring of the statement and updating as necessary.</p>

Corporate Governance Framework

Issues

Emerging Industry Best Practice

Directors' Contracts

- | | | |
|----|--|---------------------|
| 1. | Combination of Chairman and Chief Executive Posts. | Vote Against |
| 2. | No requirement for subsequent re-election | Vote Against |
| 3. | Rolling Contracts up to two years | Vote for |
| 4. | Rolling contracts longer than two years | Vote Against |
| 5. | Fixed contracts up to 2 years | Vote For |
| 6. | Fixed Contracts over 2 years | Vote Against |

Share Options or Incentive Schemes

- | | | |
|-----|---|---|
| 7. | Where full disclosure of all emoluments received by Directors is not made | Vote against reappointment of all Directors. |
| 8. | Where full and clear disclosure of the basis of performance related is not made | Vote against reappointment of Chairman of Remuneration Committee as a Director |
| 9. | Share Options or Incentive Schemes with no performance targets | Vote Against |
| 10. | Share Options with unclear or unambitious targets | Vote Against |

Internal Committees

- | | | |
|-----|--|---|
| 11. | Where the remuneration Committee is not composed solely of independent Non Executive Directors | Vote Against all executive Directors on Remuneration Committee |
| 12. | Where there is no Audit Committee | Vote Against acceptance of Accounts |
| 13. | Where the Audit Committee does not have a majority of Non Executive Directors | Vote Against acceptance of Accounts |

Other Issues

- | | | |
|-----|--|--|
| 14. | Issue of shares not consistent with pre-emption guidelines | Vote Against |
| 15. | Material inadequacies in the Annual Report and accounts | Vote Against acceptance of Accounts |
| 16. | Resolution to make party political donations | Vote Against |
| 17. | Resolutions that provide short term benefit to a company to the direct and long term detriment of its Pension Fund | Vote Against |

Governance Policy & Compliance Statement

Greater Gwent (Torfaen) Pension Fund

Governance Policy Statement

This Statement has been prepared by Torfaen County Borough Council (the Administering Authority) to set out the governance arrangements for the Greater Gwent (Torfaen) Pension Fund (the Scheme), in accordance with Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended).

1. Introduction

The Local Government Pension Scheme (Amendment) (no.2) Regulations 2005 si 2005 no. 3199 provides the statutory framework from which the Administering Authority is required to prepare a Fund Governance Statement. The key requirements can be summarised as follows:

- After consultation with all relevant interested parties involved with the Scheme the Administering Authority will prepare and publish their governance statement;
- An authority's statement should provide information about all relevant governance structures and arrangements and should describe and explain the authority's approach to governance.
- Regulation 73A(3) requires a revised statement to be published thereafter whenever there is a material change.
- This statement will cover the following areas of governance:-
 - i. Decision making and accountability
 - ii. Written Policies.
 - iii. Communications
 - iv. Risk control

Additionally, Section 73A of the 1997 Local Government Pension Scheme Regulations (as amended) require Local Government Pension Scheme administering authorities to measure their governance arrangements against a number of standards set out within guidance issued by the Department for Communities and Local Government (CLG). The Fund's "Governance Compliance Statement" required under the regulations has previously been published separately but is now, for completeness, appended to this policy statement.

2. Decision Making and Accountability

o TCBC administrative arrangements

Torfaen County Borough Council is the administering authority for the Greater Gwent (Torfaen) Pension Fund ("the Fund") under the terms of the Local Government Pension Scheme (Local Government Re-organisation in Wales) Regulations 1995. As the statutory administering authority for the Fund, Torfaen is responsible for making sure appropriate arrangements are in place to administer all aspects of the Fund. 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 and, as a Committee of the Council, is subject to the rules of political balance.

Torfaen has also established a Pension Fund Management Group to provide wider stakeholder representation and communication in matters relating to the Fund. It consists of Member representatives of the Greater Gwent unitary authorities, a number of other significant employers, trade union and pensioner representation.

o Role/terms of reference of the Pensions Committee

The Council has delegated its functions as administering authority of the Fund to the Pensions Committee which routinely meets on a quarterly basis. The Committee decides on the investment policy most suitable to meet the liabilities within the Fund and has responsibility for the Fund's investment strategy and administrative arrangements.

The membership of the Pensions Committee, together with advisors and dedicated internal officers for the Fund are as follows:-

1. Chair of the Pensions Committee: Councillor Mary Barnett
2. Members of the Pensions Committee:
 - Cllr Huw Bevan
 - Cllr Stephen Brooks KSS JP
 - Cllr Pamela Cameron
 - Cllr Stuart Evans
 - Cllr Maria Graham
3. Administrator: Nigel Aurelius, Assistant Chief Executive Resources
4. External Investment Advisor: Mr. M Lewis
5. Internal Investment Officer: Graeme Russell, Head of Human Resources and Pensions
6. Actuary: Mercer Human Resource Consulting (John Livesey)
7. Investment Consultant: Mercer Investment Consulting (Joanne Holden)
8. Solicitor and Legal Advisor to the Fund: Lynda Willis, Chief Legal Officer & Monitoring Officer
9. Investment Managers:
 - Aberdeen Asset Managers.
 - BlackRock
 - Fidelity Worldwide Investments
 - Invesco Perpetual
 - Lazard Asset Management
 - Nomura Asset Management
 - Standard Life Investments

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10. Custodians: Bank of New York Mellon

The terms of reference of the Pensions Committee include overseeing the following functions:

- i) To ensure proper arrangements are made for the governance, management, benefits and financial administration and investment of the Fund.
- ii) To determine the overall policy objectives and to oversee the formulation and publication of the statutory statements of the Fund in accordance with the best interests of Fund members and in accord with relevant legislation.
- iii) To determine the strategy for the investment of Fund monies including the variety and suitability of investments and to monitor investment performance.
- iv) To ensure appropriate investment management arrangements are in place for the Fund monies and to review investment manager performance.
- v) To establish and maintain arrangements for the effective management and administration of the Fund, including staffing and budgetary arrangements.
- vi) In undertaking the above, to consult as appropriate and consider any views expressed by employing organisations and staff representatives.
- vii) To receive regular training to enable committee members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.
- viii) To establish a scheme of delegation giving officers powers to make decisions on such terms as they consider appropriate within the overall terms of reference of the Pensions Committee.

o **Role/terms of reference of Pension Fund Management Group**

The Pension Fund Management Group has responsibility for:

- Exercising a scrutiny and advisory role by questioning and evaluating the impact of the decisions and actions of the Pensions Committee.
- Reviewing the performance of the Fund.

o **Role/terms of reference of TCBC Resources and Corporate Business Overview and Scrutiny Committee**

The Torfaen Resources and Corporate Business Overview and Scrutiny Committee has responsibility for:

- Exercising a scrutiny and advisory role by questioning and evaluating the impact of the decisions and actions of the Pensions Committee.
- Reviewing the performance of the Fund.

o **Other roles/terms of reference**

The Investment Manager(s) is responsible for:

- the investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by the Funds policy documents and the detailed Investment Management Agreement.

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- where specified, tactical asset allocation around the strategic benchmark and security selection within asset classes.
- preparation of quarterly reports including a review of investment performance and attending quarterly meetings with officers and also with the Pensions Committee if requested.
- assisting the Pensions Committee in the preparation and review of policy documents.
- voting shares in accordance with the Fund's policy.
- providing details in a timely manner to BNY Mellon the Fund's performance measurer.

The Custodian is responsible for:

- keeping the assets of the Fund safe, settling trades and dealing with corporate actions.
- its own compliance with prevailing legislation.
- providing the Administering Authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter.
- collection of income and tax reclaims.

The Investment Advisor is responsible for:

- assisting the Pensions Committee in the preparation and review of policy documents.
- assisting the Pensions Committee and the internal Investment Officer in their regular monitoring of each Investment Manager's performance, and
- assisting the Pensions Committee in the selection and appointment of Investment Managers and Custodians.

The Actuary/Investment Consultant is responsible for:

- assisting the Pensions Committee in the preparation and review of policy documents.
- providing advice as to the liability profile of the Fund and its funding level in order to aid the Pensions Committee in balancing the short term and long term objectives of the Fund, i.e. preparing the actuarial valuation and setting employer contribution rates.
- providing additional advice as requested and as required from time to time on investment matters.

The Assistant Chief Executive Resources is responsible for:

- advising the Pensions Committee in respect of issues within the scope of this document
- ensuring compliance with this document and bringing breaches thereof to the attention of the Pensions Committee.
- ensuring that this document is regularly reviewed and updated in accordance with the Regulations and other relevant legislation.
- implementing the decisions made by the Pensions Committee.

o **Reporting arrangements**

All meetings of the Pensions Committee, Pension Fund Management Group or Resources Overview and Scrutiny Committee are documented and minuted. Any decisions made under The Fund's scheme of delegation outside of formal Pensions Committee meetings are documented, reported to the Pensions Committee Chair and then subject to review by the Pensions Committee in accordance with Torfaen's constitutional arrangements.

As part of the overall approach to Communications, regular engagement takes place with employers via meetings and bulletins and pensioners receive a regular newsletter. All current members receive annual benefits statements. Key documents such as the annual report and accounts are available for viewing in the Governance section of the Fund's website at the following address:- <http://www.greatergwentpensionsfund.co.uk/> and a summary/synopsis of the financial results is produced in plain English each year.

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○ **Role of Internal Audit and the Audit Commission in Wales**

The role of internal audit is to provide an independent appraisal function of the internal control system of the Fund. It objectively examines, evaluates and reports on the adequacy of internal control as it relates to the Fund's affairs.

The Local Government Finance regulatory framework requires an external independent auditor to be appointed. The Audit Commission in Wales act in this role and have appointed Grant Thornton to act on their behalf to ensure the Funds accounts are prepared in accordance with proper practice, together with taking a wider view in considering proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

3. Written Policies

The Pension Fund publishes a number of important documents designed to inform, engage and communicate key messages to the benefit of all stakeholders. These include:-

○ **Annual Report and Accounts**

This document sets out the financial results of the preceding financial year together with a summary of the investment manager performance and a profile of the Fund and its member and asset composition. The full document is available from the Head of Human Resources and Pensions or on the Fund's website at the following address:-

http://www.greatergwentpensionsfund.co.uk/?page_id=256 where the most recent and also prior year Annual Reports are available.

○ **Funding Strategy Statement**

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 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.

Further details are contained in the full Funding Strategy Statement available from the Head of Human Resources and Pensions or from the Fund's web-site at the following address:-

http://www.greatergwentpensionsfund.co.uk/?page_id=260

○ **Statement of Investment Principles**

The Local Government Pension Scheme Management and Investment of Funds) (Amendment) Regulations 2009 set out the requirement for administering authorities to prepare, and review from time to time a written Statement recording the investment policy of the Fund; they also stipulate certain key issues that must be covered in the Statement. Further details are contained in the full Statement of Investment Principles available from the Head of Human Resources and Pensions or from the Fund's web-site at: the following address:-

http://www.greatergwentpensionsfund.co.uk/?page_id=252

○ **Service Improvement Plan**

This document acts as a work plan for the officers of the Fund. It sets out objectives, timescales and key performance indicators for the administration, investment and governance aspects of the Fund. Further details are available from the Head of Human Resources and Pensions.

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o Actuarial Valuation

Current LGPS Regulations stipulate that a Valuation of assets and liabilities of the Fund must be undertaken every 3 years in order to form a view as to the Fund's notional solvency level and to be able to adjust employer contribution rates as required. Extracts of the most recent Valuation report are included in the Annual Report and the full report is available from the Head of Human Resources and Pensions or from the Fund's web-site at the following address:- http://www.greatergwentpensionsfund.co.uk/?page_id=254 where the most recent and also prior year Actuarial Valuation reports are available.

4. Communications

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 has prepared a separate Communications Strategy Statement that is supported by a matrix showing progress towards achieving its communication goals, an action plan and resourcing plan. Further details are available from the Head of Human Resources and Pensions or from the Fund's web-site at: http://www.greatergwentpensionsfund.co.uk/?page_id=258

5. Risk Control

Risk is inherent in many of the Funds activities, particularly as they relate to investments but the Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising investment returns and to limit risk to acceptable levels. This is achieved through a number of actions:-

1. Two layers of Scrutiny and overview by Committee together with reporting.
2. Clear accountability and reporting lines.
3. By the appointment of a number of regulated external third party investment managers appointed directly by the Council with control and risk issues addressed in an investment management agreement.
4. By the appointment of a regulated external third party custodian appointed directly by the Council with control and liability issues addressed in a custody agreement.
5. Documenting control and liability issues relating to relationships with the appointed external fund managers in fund manager agreements.
6. By officers of the Fund's Investment Team and Accountancy Section of Torfaen County Borough Council 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.
7. By officers of the Council's Internal Audit section reviewing the internal procedures maintained within Torfaen across all Fund related areas including governance, payroll, administrative and investments.

In an investment sense, risk is also controlled by:-

- * Diversifying the portfolio by the number of investment managers and across different types of investment.
- * Restricting external appointed fund manager investment activity in accordance with LGPS Regulations and as documented in fund management agreements.

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- * By selecting appropriate investment benchmarks and variance parameters to control the risk.
- * By taking appropriate internal and external professional advice.
- * Via meetings of the Pensions Committee and the Pension Fund Management Group.

6. Review

This Statement will be subject to regular review for any material change that could affect the policy, and then with appropriate consultation. Feedback is also welcomed on this Governance Policy and Compliance Statement and should be sent to the Council for the attention of the Head of Human Resources and Pensions, Civic Centre, Pontypool, Torfaen, NP4 6YB or by email to graeme.russell@torfaen.gov.uk.

Resources Directorate
Torfaen County Borough Council
March 2014

Greater Gwent (Torfaen) Pension Fund



Governance Compliance Statement

Section 73A of the 1997 Local Government Pension Scheme Regulations (as amended) require Local Government Pension Scheme administering authorities to measure their governance arrangements against a number of standards set out within guidance issued by the Department for Communities and Local Government (CLG). Where compliance does not meet the published standard, there is a requirement, under Regulation 73A(1)(c) of the 1997 Regulations, to provide the reasons for not complying. With effect from 1 April 2008, this responsibility to review and, where necessary, revise "Governance Compliance Statements" published under Regulation 73A of the 1997 Regulations, is set out in Regulation 31 of the 2008 Regulations, with reasons for non compliance required under Regulation 31(3) (c).

In accordance with the CLG guidance, the Governance Compliance Statement comprises analysis of the Fund's governance arrangements against 9 Principles, rating the Fund's compliance against each element of these principles.

In accordance with this requirement the Governance Compliance Statement of the Greater Gwent (Torfaen) Pension Fund follows on pages 113 to 120 below.





Within the Statement a "traffic light" system has been used to clearly demonstrate the level of compliance with the 9 Principles of good governance practice:-

- =  Full compliance (with any comments noted in the "Comments" Box below).
- =  Partial compliance (for reasons noted in the "Reasons" Box below).
- =  Non-compliance (for reasons noted in the "Reasons" Box below).

Appendix 8

Principle A - Structure

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant				Fully Compliant
a)					
b)					
c)					
d)					

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).

Comments on the ratings given above :

The Fund's primary decision making body has historically been an Investment Panel, comprising members and officers of the administering authority, operating with a secondary Pension Fund Management Group (PFMG) providing scrutiny, policy advice and varied stakeholder representation. The Fund were content with the role and operation of the PFMG but wished to develop the Investment Panel into a Pensions Committee formed within the Council's constitutional arrangements. The Pensions Committee was subsequently established in January 2009. Its first meeting was in March 2009 and it has met at least quarterly since. Both meetings of the Pensions Committee and PFMG are public meetings with published agenda and minutes and full public and stakeholder access to reports and other relevant documents and background information.

Additionally employers, admitted bodies, scheme members (via trade unions) and pensioners are represented on the Fund's Pension Fund Management Group (PFMG). The inclusion of pensioner representation in its governance arrangements was a welcome development for the Fund following a representation review by the Pensions Committee and a search for representation via the Fund's Pensioner Newsletter. From April 2011 the PFMG has had three Fund pensioners within its membership.



Appendix 8

Principle B - Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-

- i) employing authorities (including non-scheme employers, e.g. admitted bodies);
- ii) scheme members (including deferred and pensioner scheme members),
- iii) where appropriate independent professional observers, and
- iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant				Fully Compliant
a)					
b)					

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).

a) The Fund does not utilise an independent professional observer within its governance arrangements as it is content that adequate scrutiny is applied via its Pension Fund Management Group (PFMG) and the council's constitutional arrangements. Employers, admitted bodies, scheme members and pensioners are all represented on the PFMG.

b) Meetings of the Pensions Committee and the Fund's secondary committee, the Pensions Fund Management Group (PFMG), are public meetings and as such all members of the public, including Fund stakeholders, have access to both meetings and relevant papers. Stakeholder representatives on the PFMG have not previously been subject to a Fund sponsored training programme. However the Pensions Committee has agreed that a programme of appropriate training should be extended to interested members of the PFMG and the PFMG has welcomed this initiative. The consideration of training has been especially important for the Fund over recent years in a period when there has been considerably turnover of membership within the Pensions Committee. All members require an appropriate on-going programme of training to develop their knowledge and skills. The PFMG has also seen some cyclical changes of membership which may also lead to increased training requirements. The Pensions Committee receives a log of training and education activity at each meeting and, in conjunction with Fund officers, are developing a training and education programme, which takes appropriate account of new member training needs and the CLG approved CIPFA Knowledge and Skills Framework. This could be extended to incorporate the requirements of interested PFMG members.


Comments on the ratings given above :

Appendix 8

Principle C – Selection and role of new members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant				Fully Compliant
a)					
b)					

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).


Comments on the ratings given above :

The Fund's Pensions Committee was established and operates within the Council's constitution with clear terms of reference and provision for the declaration of interests at the start of each meeting.

Appendix 8

Principle D – Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Not Compliant				Fully Compliant
a)					

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).

The Fund's Pensions Committee has a clear voting policy in accordance with the Council's constitution. At its March 2010 meeting the Committee considered whether it wished to extend representation, with or without voting rights, to members of the Fund's secondary committee (the Pension Fund Management Group). It was decided that, in view of the relative infancy of the current governance arrangements, it was too soon to consider enlargement of the Committee but it was agreed that this should be given further consideration within a reasonable timeframe. The Committee also agreed that, should such enlargement be agreed in the future, then consideration should be given at that time to extending voting rights to any additional members. It was felt however that there was merit in requiring a qualifying period before such additional members received voting rights, possibly linked to the completion of a programme of training commensurate with the knowledge and skills required to consider Pension Fund matters and make informed decisions in respect of those matters. Future consideration and potential change within this aspect of Fund governance will be extensively influenced by revised governance regulations which are expected in the near future in terms of how LGPS governance should best fit with the requirements of the 2013 Public Service Pensions Act.

Comments on the ratings given above :




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Principle E - Training / Facility time / Expenses Structure

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

	Not Compliant				Fully Compliant
a)					
b)					
c)					

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).

b) The Pensions Committee has, since its formation, undertaken a programme of training for its members and has agreed that training should also be extended to interested members of the Pension Fund Management Group (PFMG). The PFMG has welcomed this initiative. The consideration of training has been especially important for the Fund over recent years in a period when there has been considerably turnover of membership within the Pensions Committee. All members require an appropriate on-going programme of training to develop their knowledge and skills. The PFMG has also seen some cyclical changes of membership which may also lead to increased training requirements. The Pensions Committee receives a log of training and education activity at each meeting and, in conjunction with Fund officers, are developing a training and education programme, which takes appropriate account of new member training needs and the CLG approved CIPFA Knowledge and Skills Framework. This could be extended to incorporate the requirements of interested PFMG members.

Comments on the ratings given above :


a) The Fund's Pensions Committee was established and operates within the council's constitution with an established policy in terms of elected member expenses and access to corporate training. Members of the Pensions Committee are also undertaking a programme of training commensurate with the knowledge and skills required to consider Pension Fund matters and make informed decisions in respect of these matters. Training undertaken and future requirements are reported back as a standing item to each Committee meeting with an opportunity for members to share training experiences and requirements with fellow Committee members.

c) Committee member training undertaken and future requirements are reported back as a standing item to each Committee meeting with an opportunity for members to share training experiences and discuss future training requirements with fellow Committee members.

Appendix 8

Principle F - Meetings (frequency/quorum)

- a) That an administering authority's main committee or committees meet at least quarterly.
- b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
- c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

	Not Compliant				Fully Compliant
a)					
b)					
c)					

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).


Comments on the ratings given above :

c) Employers, scheme members (via trade unions) and pensioners are all represented on the Fund's secondary committee, the Pension Fund Management Group (PFMG) giving governance representation across all major stakeholder groups.

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Principle G - Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Not Compliant				Fully Compliant
a)					


Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).

Comments on the ratings given above :

Meetings of both the Pensions Committee and Pension Fund Management Group are public meetings and as such all members of the public, including Fund stakeholders, have access to relevant papers, documentation and council officers for relevant background information.

Principle H - Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

	Not Compliant				Fully Compliant
a)					

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).

Comments on the ratings given above :

Both the Pensions Committee and Pension Fund Management Group consider matters that cover the full range of Pension Fund issues including governance, investments, benefits and administration.

Appendix 8

Principle I - Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

	Not Compliant				Fully Compliant
a)				😊	

Reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) /Regulation 31(3)(c)/2008 Regulations).

The Fund's governance arrangements and key member / officer contacts are published within the Fund's "Governance Policy & Compliance Statement", "Annual Report" and other documentation widely available on the Fund's and Council's website. These documents do not however currently incorporate an explicit mechanism for stakeholders to express an interest in becoming party to the Fund's governance arrangements. However the Fund has undertaken a review of stakeholder representation and pensioners are now included within its governance arrangements via three pensioner representatives on the Pension Fund Management Group. This was facilitated by a search for interested representation via a notice in the Fund's Pensioner Newsletter. Additionally meetings of the Fund's Pensions Committee are public meetings so anyone interested in the Pension Fund governance arrangements may observe these meetings and have opportunity to view Committee meeting papers in advance of the meeting via the Council's website. In addition, following Pensions Committee consideration of how it could further improve publicity and communication with stakeholders, the Fund now operates a dedicated website rather than using a section of the Council's website. As development of the website continues, it could provide opportunities for greater interactivity between the Fund and its stakeholders. The Committee agreed that the Fund's current Communications Strategy document should be brought back to the Pensions Committee for consideration and to take a more holistic view of communications policy, issues and opportunities. This would precede consultation with the Pensions Fund Management Group to obtain their views on any proposals for future development in terms of stakeholder publicity and communications.

Comments on the ratings given above :

Funding Strategy Statement

This Funding Strategy Statement (FSS) has been prepared by Torfaen County Borough Council (the Administering Authority) to set out the funding strategy for the Greater Gwent (Torfaen) Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

After consultation with all relevant interested parties involved with the Fund the administering authority will prepare and publish their funding strategy;

In preparing the FSS, the administering authority must have regard to:-

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)). Changes to the benefits under the Scheme took place from April 2008. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the Funding Strategy Statement in Policy Terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- **to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;**
- **to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and Purpose of the Pension Fund

The aims of the Fund are 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, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

4. Responsibilities of the Key Parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due

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- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as and when appropriate
- manage the appointment and relationships with third parties (e.g. investment managers, actuary, advisors) in a manner consistent to support the above.

The Individual Employer should:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. Solvency Issues and Target Funding Levels

The funding objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing basis including allowance for projected final pay.

Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the **funding target** are set out in the Appendix.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

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As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2010 actuarial valuation:

- A maximum deficit recovery period of 20 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- Where increases in employer contribution rates are required, the contributions for 2011/12, as determined at the 2007 valuation, will be maintained, with the revised contributions from the 2010 valuation being implemented in 2012/13. In any other circumstances the revised contributions arising from the 2010 valuation will be implemented from 1 April 2011.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

Deficit recovery plan

If the assets of the scheme relating to an employer are less than the **funding target** at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as a level percentage of pensionable payroll, unless arrangements are made otherwise in relation to any particular employer(s).

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- the need to balance a desire to attain the target as soon as possible against the short term cash requirements which a shorter period would impose;
- the Administering Authority's views on the strength of the participating employers' covenants, and security of future income streams, in achieving the objective.

The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the **funding target** contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in the Appendix.

6. Links to Investment Policy Set Out in the Statement of Investment Principles

The results of the 2010 valuation show the liabilities to be 74% covered by the current assets, with the funding deficit of 26% being covered by future deficit contributions due from employers.

In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5 and the Appendix, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher, by approximately 39% and the declared funding level would be correspondingly reduced to approximately 53%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy and asset allocation of the Greater Gwent (Torfaen) Pension Fund as at September 2012 as set out in the SIP, is shown overleaf:

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STRATEGIC ASSET ALLOCATION OF GREATER GWENT (TORFAEN) PENSION FUND - SEPTEMBER 2012

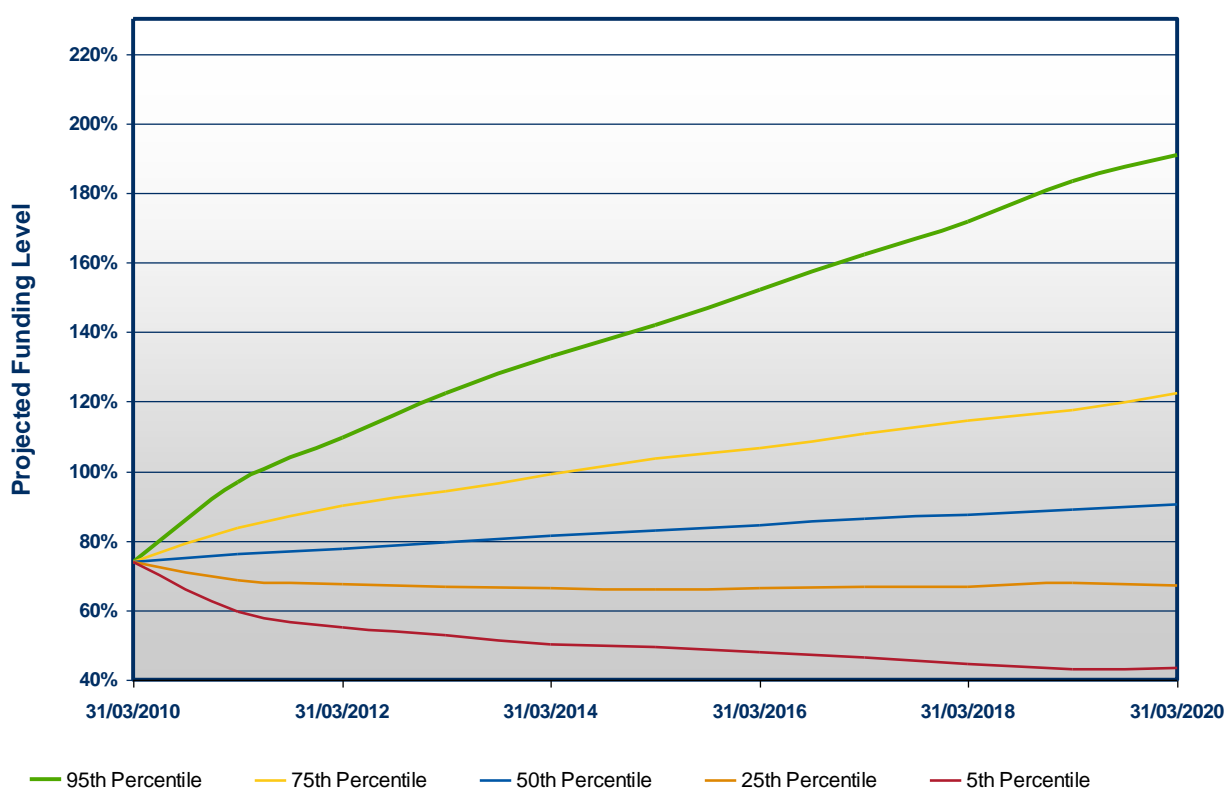
Asset Class by Fund Manager	Investment Type	% of Total GGTPF	Bandwidths of Total GGTPF	Performance Reference for Managers' portion of the Total GGTPF	Performance Target for Managers' portion of the Total GGTPF (measured over rolling 3 year periods)
BLACKROCK EQUITIES		34.8%			
- UK Equities	Segregated	13.8%	(+/-1.0%)	FTSE All-Share Index	Match
- US Equities	Unitised Insurance Policy	7.0%	(+/-1.0%)	FTSE All-World USA Index	Match
- European Equities	Unitised Insurance Policy	14.0%	(+/- 1.0%)	FTSE All-World Developed Europe ex-UK Index	Outperform index by 1.5% p.a.
BLACKROCK FIXED INTEREST		14.0%			
- UK gilts	Unit Trust	7.0%	(+/- 1.0%)	FTSE A All Stocks UK Gilt Index	Outperform index by 1.5% p.a. on the aggregate holding of both asset classes
- UK Non-Gilt bonds	Unit Trust	7.0%	(+/- 1.0%)	iBoxx Sterling non-gilts Index	
BLACKROCK Total		48.8%			
BARING AM EQUITIES		6.0%			
- Pacific Basin (ex Japan)	Managed Fund	4.0%	(+/- 1.0%)	FTSE W AsiaPacific ex Japan	Outperform relevant index by 2% p.a.
- Emerging Markets	Managed Fund	2.0%	(+/- 1.0%)	MSCI Emerging Mkts Free GDR	
BARING AM Total		6.0%			
NOMURA ASSET MANAGEMENT		3.0%			
- Japan Equities	Managed Fund	3.0%	(+/- 1.0%)	TOPIX	Outperform Index by 3% p.a.
NOMURA AM Total		3.0%			
ABERDEEN ASSET MANAGERS		9.0%			
- Global Equities	Managed Fund	9.0%	(+/- 1.0%)	MSCI World	Outperform index by 3% p.a.
ABERDEEN Total		9.0%			
LAZARD ASSET MANAGEMENT		19.6%			
- UK Equities	Segregated	19.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 2% p.a.
LAZARD Total		19.6%			
STANDARD LIFE INVESTMENTS		7.6%			
- UK Equities	Unitised Insurance Policy	4.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 3% p.a.
- Diversified Alternatives	Unitised Insurance Policy	3.0%	(+/- 1.0%)	6 month LIBOR	Outperform index by 5% p.a.
STANDARD LIFE Total		7.6%			
OTHER (TCBC)		6.0%			
- Cash	Cash	3.0%	(+/- 1.0%)	LIBID 7 Day	Match
- Property Unit Trusts	Unit Trust	2.0%	(+/- 1.0%)	CAPS Property	Outperform index by 1% p.a.
- Alternative Investments	Limited Partnership	1.0%	(+/- 1.0%)	6 month LIBOR	Outperform index by 4-6% pa
OTHER Total		6.0%			
GGTPF TOTAL		100.0%			

7. The Identification of Risks and Countermeasures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that required on the basis of the 2010 valuation assumptions.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower.)



The Administering Authority's overall policy on risk is to identify all risks to the Fund, and take appropriate action to limit the impact of these both before, and after, they emerge wherever possible.

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The main risks to the Fund are:

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Life expectancy improves at a faster rate than assumed
- Deteriorating pattern of early retirements

Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of those items identified above.
- In addition to the above, the Administering Authority recognises the following as important facets of minimising risk:
- The effective operation of the Fund's formal Pensions Committee established within the Administering Authority's constitutional arrangements.
- The establishment by the Pensions Committee of a wider representative Pension Fund Management Group that has an appropriate overview and scrutiny role
- Quarterly Investment Panel meetings with Investment Manager(s)
- Additional supplementary Pensions Committee and/or Investment Panel meetings, excluding the Investment Managers to consider operational, administrative and strategic issues in support of the investment regime

- Member and officer attendance at training seminars and conferences to aid education and keep abreast of current thinking and developments
- Pensions Committee decisions subject to appropriate overview and scrutiny within the context of the Administering Authority's constitutional arrangements.

8. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with participating employers.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Fund membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund.

ACTUARIAL VALUATION AS AT 31 MARCH 2010

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2.5% p.a. for the period pre-retirement and 1% p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

Price Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities but subject to the following two adjustments:

- An allowance of 0.3% for supply/demand distortions in the bond market is incorporated and

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- An allowance of 0.5% for pensions being increased annually in future by the change in the Consumer Price Index rather than the Retail Price Index, as announced in June 2010. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary.

The overall reduction to RPI inflation implied by the investment market at the valuation date is therefore 0.8% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality, Ill-Health and Proportions Married

The 2010 valuation takes into account modified longevity, ill-health and proportions married assumptions compared to that adopted at the previous valuation following an analysis of Fund experience carried out by the Fund Actuary.

The mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality assumptions used have been determined as a result of a Fund specific analysis and are therefore based on the Fund's membership profile. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a long term rate of improvement of 1% per annum.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Early Retirement

Some members are entitled to receive their benefits (or a part of their benefits), accrued prior to 1 April 2008, unreduced from an age prior to the Fund's normal pension age under the "Rule of 85" provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member's pensionable service. The calculations in respect of past service prior to 1 April 2008 allow for a proportion of the active membership to retire in normal health prior to age 65.

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For service post 31 March 2008, and for future service the situation is different since the "Rule of 85" was removed for service from 1 April 2008 (October 2006 for new entrants to the Scheme). For these service tranches, we have assumed the earliest age at which unreduced benefits become an entitlement is 65 except for those members who have protected status under the transitional provisions.

No allowance has been made for non ill-health early retirements prior to age 60. Additional capital contributions will be paid by employers in respect of the cost of these retirements normally over a period of 3 years.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- Contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- The future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

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Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the **funding target**.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2010 actuarial valuation:

Long-term gilt yields		
Fixed interest	4.5% p.a.	
Index linked	0.7% p.a.	
Market Implied RPI price inflation	3.8% p.a.	
Inflation Adjustment	(0.8%) p.a.	
Implied CPI price inflation	3.0% p.a.	
Past service Funding Target financial assumptions		
Investment return pre-retirement	7.0% p.a.	
Investment return post-retirement	5.5% p.a.	
Salary increases	4.5% p.a.	
Pension increases	3.0% p.a.	
Future service accrual financial assumptions		
Investment return	6.75% p.a.	
CPI price inflation	3.0% p.a.	
Salary increases	4.5% p.a.	
Pension increases	3.0% p.a.	
Demographic assumptions – post retirement mortality	Table	Adjustment
Male actives	S1PMA CMI_2009_M [1%]	112%
Female actives	S1PFA CMI_2009_F [1%]	98%
Male deferreds	S1PMA CMI_2009_M [1%]	
Female deferreds	S1PFA CMI_2009_F [1%]	
Males normal health pensioners	S1PMA CMI_2009_M [1%]	108%

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Female normal health pensioners	S1PFA CMI_2009_F [1%]	107%
Males ill health pensioners	As for male normal health pensioners +3 years	
Female ill health pensioners	As for female normal health pensioners +3 years	
Male dependants	S1PMA CMI_2009_M [1%]	116%
Female dependants	S1DFA CMI_2009_F [1%]	116%
Male future dependants	S1PMA CMI_2009_M[1%]	125%
Female future dependants	S1DFA CMI_2009_F [1%]	113%
Demographic assumptions - Other		
Proportions Married	Based on analysis of LGPS experience	
Ill-health Retirement	Based on analysis of LGPS experience	
Commutation	One half of members take maximum lump sum, others take 3/80ths	