



Greater Gwent (Torfaen) Pension Fund

Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2016/2017

Nigel Aurelius, CPFA
Assistant Chief Executive Resources



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Index

Contents	Page Number
Introduction	1
Overview	3
Governance and Financial Performance	5
Investment Policy and Performance	21
Administration and Benefits Report	38
Fund Policies	43
National LGPS Annual Report Data	48
Statement by the Consulting Actuary	49
Audit report of the Auditor General for Wales	51
Pension Fund Accounts	52
Appendices	85

INTRODUCTION

- 1.1 Welcome to this year's Pension Fund Annual Report and Accounts, which provides an overview of the Fund's key activities, financial position and investment performance during 2016/17.
- 1.2 The last 12 months has proved both interesting and challenging across all aspects of the Local Government Pension Scheme but despite the macro-economic challenges combined with unexpected political events at both national level (through the BREXIT decision) and internationally (with, for example, the US election results), the global markets have in general proved resilient and provided some impetus for pension funds, with markets returning to positive territory in 2016/17.
- 1.3 I am therefore pleased to report a successful year for the Greater Gwent (Torfaen) Pension Fund, during which the Fund has achieved an extremely strong annual investment return of 22.84% with an increase in its market value from £2,205 million to £2,700 million. Our investment performance return for the year was an out-performance against our benchmark (21.74%) of 1.10% and an out-performance when compared to the local authority average (21.43%) of 1.41%. This has also positively impacted on longer term performance as shown elsewhere within this report. Despite such strong returns and markets proving unexpectedly resilient to both political and macro pressures, returns are unlikely to remain at these levels and the Fund needs to plan its investment strategy accordingly for more modest returns and continued volatility in the future.
- 1.4 As indicated, these markets have coincided with a busy year for the Fund not just in respect of investments but across all its facets. In respect of governance issues, the Fund's Pension Committee has met regularly during the period. They have in particular focussed on some of the investment arrangements, making changes as required and also the national developments around investment pooling. The Local Pension Board has now been established and operating for two years and Board Members have played an active role in supporting the governance arrangements of the Fund. Their annual report is included within this report for the first time.
- 1.5 Membership of the Fund has increased by 3.2% to 57,244 as at 31st March 2017 but this masks the fact that active membership has decreased by 3.5% whilst non active (pensioners and deferred members) has increased by over 8%. The net effect is that active contributors now only account for 40% of the total fund membership with 28% of the total membership drawing pension benefits and a further 32% with deferred benefits. During the last 10 years, there has been a cumulative effect to reduce the active membership as a proportion of total membership from 50% to 40% with a corresponding increase in deferred members and the percentage number of pensioners staying broadly the same. This trend impacts on the overall funding approach the Fund takes to meet the current and future liabilities of the Fund and so monitoring of these numbers and trends remains important.
- 1.6 Workloads have therefore, not surprisingly, increased throughout the period and the increased use of "My Pension Online", the employee portal to access secure personal data to over 8,000 scheme members has proved important in supporting and managing this increase.

Pension Fund Annual Report 2016/2017

- 1.7 2016/17 was also a triennial Fund Valuation year with member data submitted to the Pension Fund Actuary on 12 July 2017. This early submission enabled draft results to be available at an earlier point and the Fund was able to increase the level of engagement with Scheme Employers at the 2016 valuation to assist employers in understanding the valuation process and their individual funding position. This engagement included pre and post valuation meetings open to all employers, individual valuation schedules for each employer setting out their funding position, as well as one to one meetings with individual employers as required. This increased level of engagement has been welcomed by the employers and facilitated a deeper level of discussion and understanding. New 'Employer Contribution Rates' were also provided in good time to help support budget setting processes across participating employers.
- 1.8 This year a significant focus nationally and locally has been on the pooling of investments across funds. This involves each Fund maintaining its own investment strategy and funding requirements based on its own membership profile and funding position but then using a collective investment vehicle to implement the investment requirements thereby achieving economies of scale through a combined Welsh Pool of some £15bn. The bringing together of the All Wales collaboration in Investment Pooling (The Wales Pension Partnership) is progressing well, with the final proposal submitted to Central Government in July 2016. The Government's response in November 2016 was positive to the Wales final proposal. Since then, further progress has been made to appoint a regulated third party operator to administer the pooling arrangements and separately a Joint Governance Committee formed from Elected Member representatives of the eight participating Welsh Funds has been established.
- 1.9 Thank you for your continued support and I hope that the information contained in the report is helpful; if you feel it could be improved we would welcome your suggestions.
- 1.10 Finally, two "thank you's". One is to the members of the Pensions Committee who are standing down at the Local Council elections in May 2017. Their commitment, diligence and professionalism to the governance and stewardship of the Fund has provided the leadership required to see the Fund navigate through challenging and volatile periods and thereby provide a firm foundation for new members of the Committee. Secondly, I would like to thank the staff of the Pension Fund for their commitment and hard work towards delivering an excellent service throughout the year. Despite the increasing workloads and the need to explain pension issues as clearly as possible in an increasingly complex area, staff continue to place the scheme members first and this is valued by our members and those charged with the governance of the Scheme.

**NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES
TORFAEN COUNTY BOROUGH COUNCIL
MAY 2017**

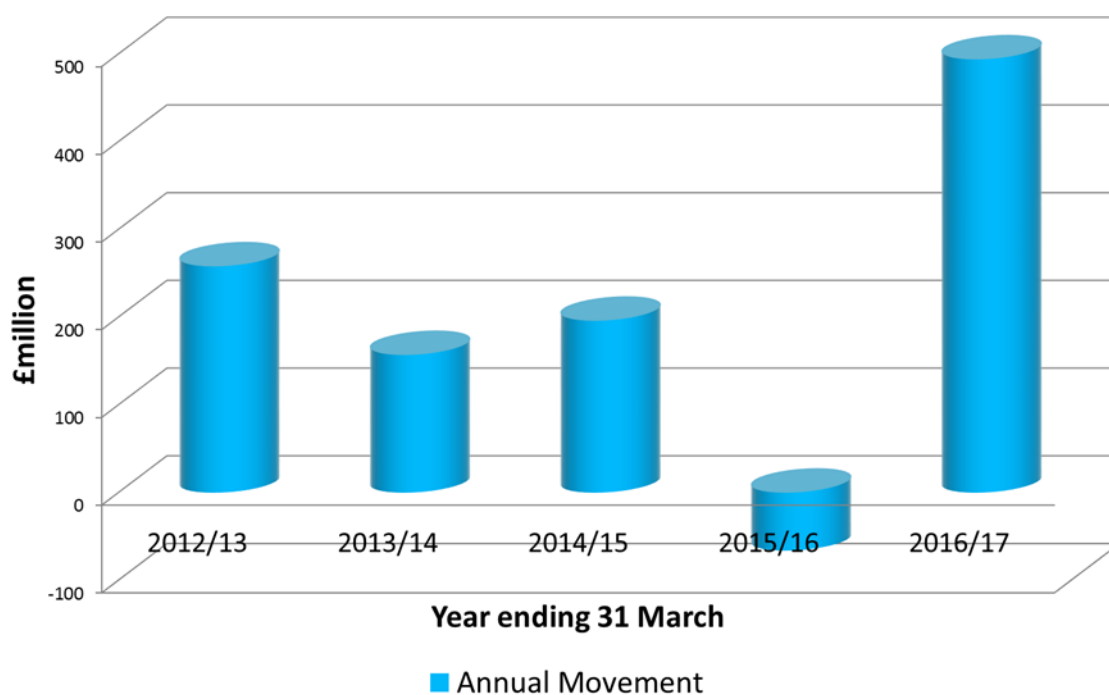
Pension Fund Annual Report 2016/2017

OVERVIEW

1. 2016/2017 in summary

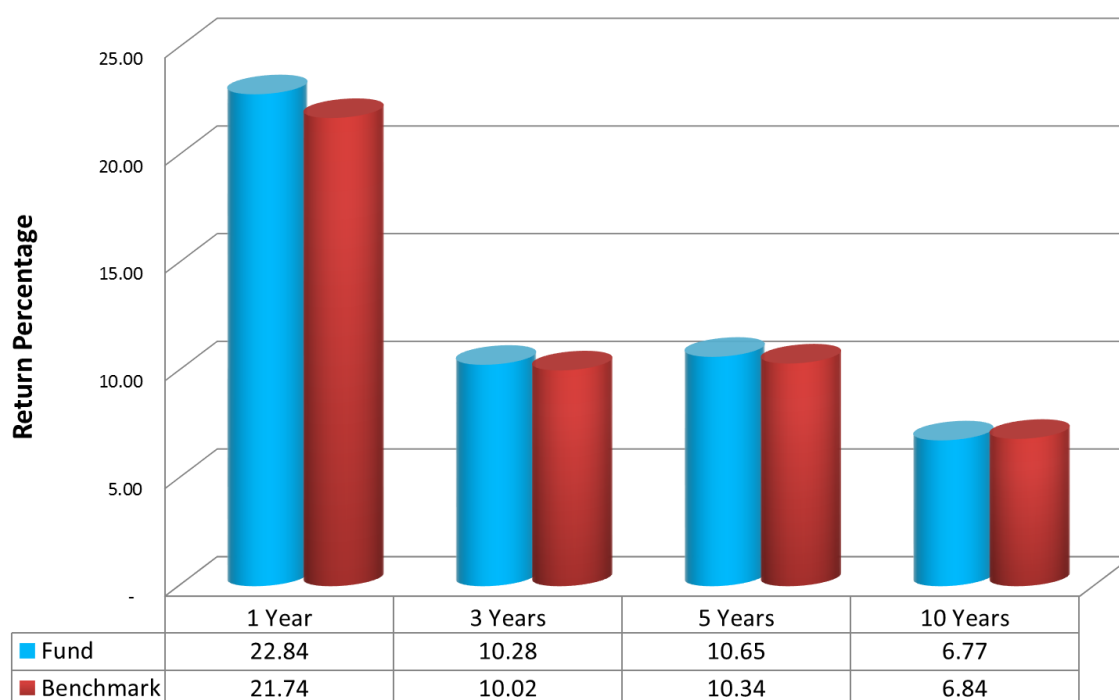
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
57,244	£2.7bn	£108.881m	£107.205m

Annual Movement in the Net Assets of the Fund



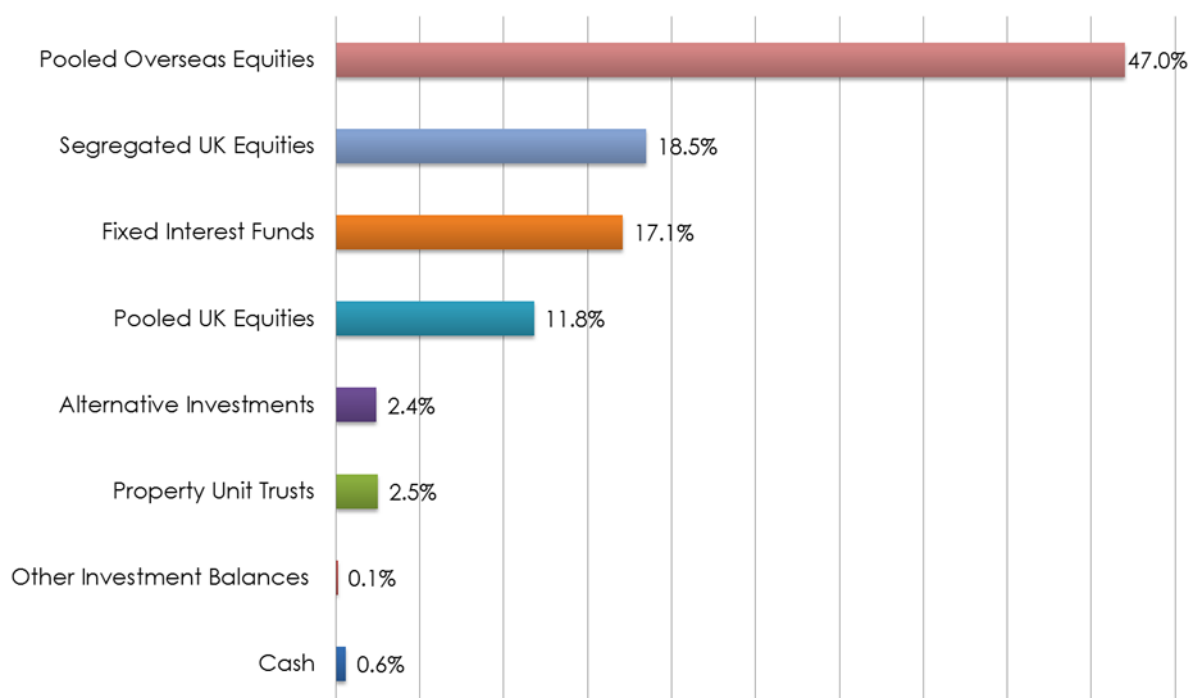
2. Investments

Periodic Performance to 31 March 2017



Pension Fund Annual Report 2016/2017

Portfolio distribution as at 31 March 2017



3. Membership

Contributing Members

22,788

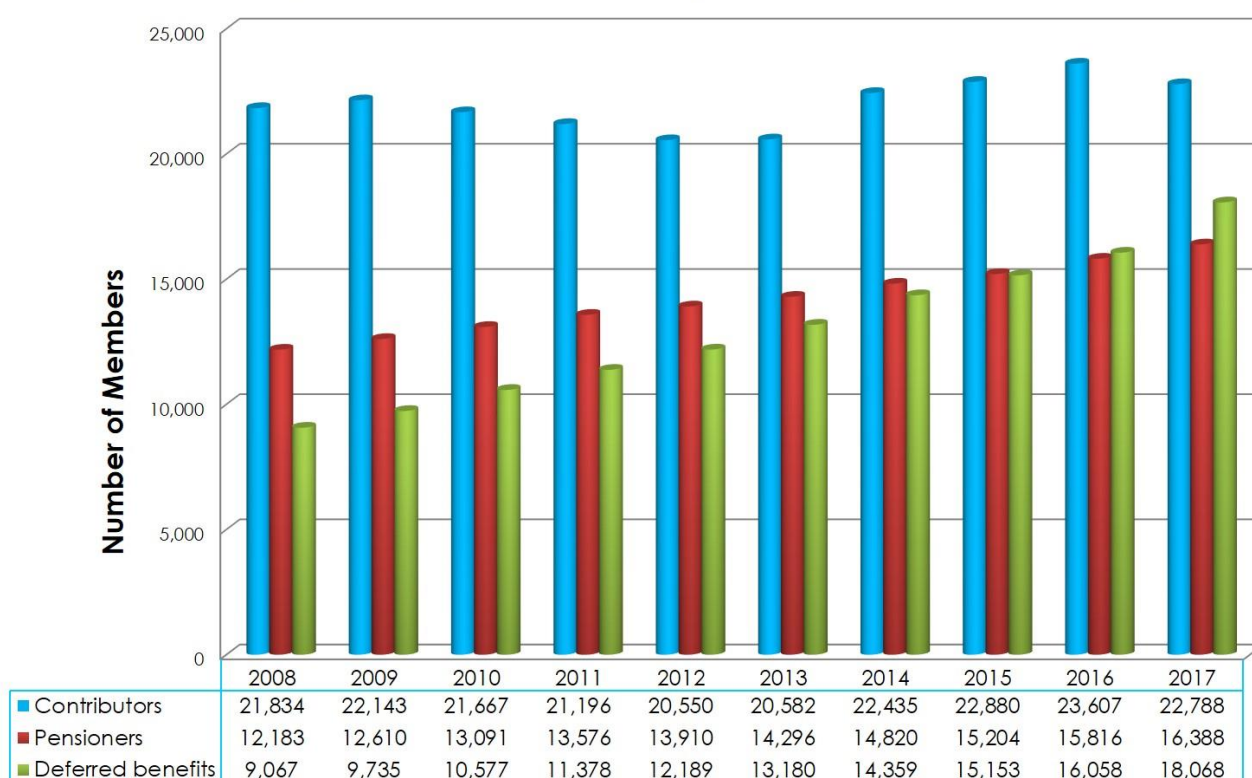
Members in Receipt of Pension

16,388

Members with Deferred Benefits

18,068

Split of Fund Membership as at 31 March



GOVERNANCE AND FINANCIAL PERFORMANCE REPORT

1. Scheme management and advisors

- 1.1 The Greater Gwent (Torfaen) Pension Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) (The 2013 Regulations), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (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 55.
- 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 2017 the membership of the Pensions Committee, together with advisors and dedicated internal officers for the Fund are 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 - Nigel Davies
County Borough Councillor - Stuart Evans



Chair

County Borough Councillor
Mary Barnett



Assistant Chief Executive Resources

Nigel Aurelius

Administrator

Nigel Aurelius, Assistant Chief Executive Resources

Head of Service

Graeme Russell, Head of Human Resources and Pensions

Pension Fund Annual Report 2016/2017

External Investment Advisor

Ms. Aoifinn Devitt

Consulting Actuary

Hymans Robertson (Douglas Green)

Investment Consultant

Mercer Investment Consulting (Joanne Holden)

Solicitor and Legal Advisor to the Fund

Delyth Harries, Interim Chief Monitoring Officer

Tim James, Interim Chief Legal Officer

Investment Fund Managers

BlackRock

Fidelity Worldwide Investments

Invesco Perpetual

Lazard Asset Management

Standard Life Investments

Custodians

Bank of New York Mellon

Bankers to the Fund as at 31 March 2017

Lloyds Bank

1 Gwent Square

New Town Centre

Cwmbran, South Wales

NP44 1XN

2. Local Pension Board Annual Report

This section constitutes the Annual Report of the Local Pension Board 2016-2017.

2.1 Background

The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting as required by 31 July 2015. It consists of five representatives of the scheme employers, and five representatives of scheme members. In addition it has a non-voting independent Chair. The members of the Pension Board are:

Independent Chair

Ian Coleman (4)

Employee Representatives

Bob Campbell (4)

Jan Davies (3)

Cheryl Morgan (3)

Anthea Wellington (4)

John Wright (3)

Employer Representatives

Steve Harford (3)

Rhian Hayden (3)

Meirion Rushworth (3)

Ruth Tucker (2)

Jane Waters (4)

Pension Fund Annual Report 2016/2017

The numbers in brackets indicate the number of Pension Board meetings attended during 2016-17.

The Pension Board met on four occasions during 2016-17: 27 April 2016, 20 July 2016, 26 October 2016 and 25 January 2017, and each meeting was quorate.

2.2 Functions and Operation of the Board

- The two primary functions of a Local Pension Board are to assist the Administering Authority to:
 - i) Ensure effective and efficient governance and administration of the LGPS
 - ii) Ensure compliance with relevant laws and regulations
- The Pension Board has a monitoring, assisting and reviewing purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Pension Board is to seek assurances, with evidence provided by the Pension Fund and from other sources, that the Fund is meeting its objectives, producing the required statements and managing risks so as to achieve the overall objectives as set out above.
- In so doing, the Pension Board is helping to manage the reputational risk of the Pension Fund, and of the Administering Authority, which is more critical now that the LGPS in England and Wales has both the Department for Communities and Local Government (DCLG) and The Pensions Regulator (TPR) as regulators.
- The Pension Board operates under Terms of Reference which were agreed by Torfaen Council on 3 March 2015.
- The establishment and initial meetings of the Pension Board during 2015-16 coincided with the period of possibly the greatest pressure on senior staff in the recent history of the LGPS, with the Administering Authority having to respond to the DCLG by 19 February 2016 on the critical consultation documents on both the proposed pooling of LGPS investments, and also on revised Investment and Management of Funds Regulations.
- The pressures have not abated in 2016-17 with the Administering Authority having to make a further submission to the DCLG on the pooling of investments by 15 July 2016. A Memorandum of Understanding relating to the procurement of services by the Administering Authorities of the LGPS in Wales was prepared on 11 October 2016 and on 23 November 2016 the DCLG approved the establishment of the all Wales investment pool. In March 2017 an inter authority agreement on the all Wales pension fund investment pooling was signed.
- In addition to the pooling of investments; other major developments in 2016-17 have included the triennial valuation as at 31 March 2016; the preparation of a new statutory document, the Investment Strategy Statement, by 31 March 2017; and increasing involvement by The Pensions Regulator. Given these pressures on the Administering Authority, the Pension Board has attempted to prioritise and limit the number of reports requested.
- There is a financial budget for the Pension Board of £50,000, within the overall budget of the Pension Fund. The travelling and training expenses relating to Scheme Member and Employer representatives are charged to this budget, as are the fees and expenses of the Independent Chair. The Pension Board has contained its expenditure within the approved budget. The Pension Board is mindful of delivering value for money, and has identified means of working in a cost-effective manner. By so doing, it is seeking ways of saving administration costs, plus the valuable time of officers, without compromising the functionality of the Pension Board.

2.3 Detailed Work of the Board

i) Scheme Documents

The Pension Board has examined the range of scheme documents expected to be in place and is satisfied with the existing arrangements.

ii) Risk Management and the Risk Register

Following a recommendation from the Pension Board, it was accepted that there were benefits in the production of a risk management policy and risk register exclusive to the Pension Fund, rather than it being an integrated part of the policy and risk register of Torfaen Council. Officers of the Fund produced a risk register which was approved by the Pensions Committee and shared with the Pension Board on 20 July 2016 for ongoing evolution and development.

iii) Recording and Reporting Breaches

The Pension Board and its members have a responsibility to report breaches of law to The Pensions Regulator. The Pension Board has examined the recording and reporting procedures and is satisfied with the system in place.

iv) Pooling

Reference has already been made to the impact on the workload of the initial requirement to respond to major DCLG consultations and then subsequently to create the all Wales investment pool. The decision on investment pooling probably represents the most significant individual decision by the Administering Authority for many years. As such it is appropriate for the Pension Board to review the decision-making process at each stage and comments have been provided as appropriate to support the prescribed process of change. However, during 2016-17 the Board has expressed some frustration at the externally imposed timescales that have, at times, restricted wider consultation and the contribution that the Board could make. Pooling will continue to be a major issue in 2017-18 and, with fewer externally imposed constraints on the timescale, the Board should be able to make a more relevant and positive contribution to support the delivery of this major development.

v) Pensions Committee Attendance

Members of the Pension Board attend each meeting of the Pensions Committee to observe and ensure appropriate connectivity between the Committee and the Board. It also provides an opportunity for the Chair of the Board to provide more information on the views of the Board as appropriate.

vi) Pensions Committee Agenda

At each meeting, the Pension Board considers the previous Pensions Committee agenda to identify items for inclusion on the Pension Board workplan and to enable comments to be conveyed back to the Pensions Committee as appropriate. This also enables the Pensions Committee to request consideration and comments from the Board on any issues.

2.4 Training

Each member of the Pension Board has to be conversant with the details of the LGPS, which translates as having a good working knowledge. During 2016-17 specific external training was provided for Pension Board members on the fundamentals of the LGPS; the role, purpose and performance of the Pension Board; and the Triennial Valuation. Opportunities have been provided for members of the Board to meet with members of other Local Pension Boards in Wales. Assessment of training needs, and how they are met, is a standing item on the agenda. Both formal and informal training is provided and a detailed training log of individual and Board training is maintained.

2.5 Workplan

A workplan is kept under review and covers the following areas:

- Accounts and budget
- Administration
- Audit and Risk Management
- Governance
- Investments
- Pooling
- Triennial Valuation
- Training

2.6 Thanks

I wish to thank my colleagues on the Pension Board who have volunteered their time and energy to serve on the Board, and for their on-going support. Thanks are also expressed to the Officers of Torfaen Council who have supported the Pension Board.

3. Risk management

3.1 The Fund's statutory documentation and the Fund's accounts contain the required sections detailing the Fund's approach to the various types of risks it faces across its operations, together with the ways the Fund looks to mitigate each of these. In particular:-

- The Governance Policy and Compliance Statement reviews the risk areas and mitigation approach within the Fund's management and governance structure.
- The Statement of Investment Principles covers risk measurement and management in an investment sense. The successor document to this, the Investment Strategy Statement, will also continue to include this.
- The Funding Strategy Statement includes a section (prepared in conjunction with the Fund's actuary) on the identification of risks and countermeasures in relation to the Fund's funding position and investment strategy.
- The Pension Fund accounts contain a detailed section on the nature and extent of risks arising from Financial Instruments, including detailed sensitivity analysis of the potential monetary impact to the Fund of the varying financial risks.

In line with best practice, the Pension Fund also added to the above during 2016 a bespoke Pension Fund Risk Register. This identifies and brings together all the risk areas faced by the fund across its operations and "rates" these according to their likelihood and impact, in a way that will allow identification of mitigation measures appropriate to the various risk levels determined. The Pensions Committee and Pension Board have considered drafts of the register as it has developed over the last year. The full Risk Register is publically available via Committee agenda papers but the table below provides a high level summary of the detailed risk information published within the above statutory documents, together with risk mitigation measures in place:-

Pension Fund Annual Report 2016/2017

Risk Area / Type	Risk Detail	Risk Mitigation Measures
<u>Governance and Operational Risks</u>		
Decision making	Accountability and documentation of decisions	The Fund's primary decision making body, the Pensions Committee, operates within the Council's constitutional processes.
	Scrutiny and review	Additional layer of scrutiny and review previously via the Pension Fund Management Group and now the newly established Pension Board.
Management	Process clarity	Clear accountability and reporting lines.
	Processes	Officers of the Council's internal audit section review the internal procedures maintained across all Pensions Fund related activities/processes including governance, administration, payroll, and investments.
	Accounting	Officers of the Fund's investment team and accountancy section independently maintaining complete accounting records relating to the investment activity of external managers and to the income flows arising from Fund assets.
Knowledge and Skills	Training and Development	Member and officer training plans are in place with appropriate attendance at training and development events to aid education and keep abreast of current thinking and developments.
	Review of training undertaken and future requirements.	Formal review of member training needs and training attended at each Pensions Committee meeting.
Third Party	External Investment Management	The appointment directly by the Council of a number of regulated external investment managers with control and risk issues addressed within individual Investment Management Agreements and their individual Statement of Internal Control documentation.
	Security of assets	The appointment directly by the Council of a regulated Global Custodian with control and liability issues addressed in a custody agreement.

Pension Fund Annual Report 2016/2017

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Compliance	Appropriate advice	The appointment of external actuary, Investment Consultant and an independent investment advisor and the engagement with internal and external legal advisors as appropriate.
	Adherence to the 1997 LGPS Governance Regulations and the 2008 additional requirement to produce a Governance Compliance Statement	Traffic light system included within Governance Policy to allow detailed monitoring against the nine principles of good governance practice.
<u>Investment Risk</u>		
Investment Strategy	Decisions	The Pensions Committee recognises that there will be investment risk but also the need to keep this to a minimum without compromising the investment returns required to meet funding objectives.
Diversification	Investment Type	Appropriate spread across different investment assets in accordance with strategic asset allocation policy.
	Investment Management arrangements	Six primary external managers in place together with a spread of funds and counterparties across internally managed Property and Cash investments.
Compliance	Operating within legal and procedural requirements	Restricting external investment manager activity in accordance with prevailing LGPS investment regulations via their investment management Agreements.
Performance and Risk control	Benchmarks	The selection of appropriate investment benchmarks; performance targets and variance parameters to monitor and control the blend of risk and return deployed.
	Monitoring	The use of third parties to independently measure and report on investment performance and investment risk.

Pension Fund Annual Report 2016/2017

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Specific areas of investment risk	Review	<p>Regular review of investment performance by Fund officers including formal minuted quarterly reviews.</p> <p>Formal quarterly review of performance by both Pensions Committee and Local Pension Board.</p>
	Market risk (asset price/interest rate/currency)	Diversification by asset type/regions/characteristics and investment managers. Extensive and risk aware appointment and monitoring procedures in place.
	Credit Risk (the use of investment counterparties)	<p>Ensuring appropriate selection, diversification and monitoring of fund counterparties.</p> <p>Review of exposure to 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.</p> <p>Managing the risk of cash investments via a formally approved annual Cash Management Strategy and using an external Treasury Management advisor to aid officers in the monitoring of the associated counterparty risk.</p>
	Liquidity Risk (ensuring that member benefits can be met as required)	<p>Fund officers monitor cash flow to ensure cash is available as required to meet benefit payments.</p> <p>Maintaining a large proportion of cash investments within money market funds allowing same day access to cash deposited without penalty.</p>

Pension Fund Annual Report 2016/2017

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Compliance		Though low available cash interest rates mean that the Fund will look to keep cash levels to a minimum and invest in higher returning assets, these assets are predominantly held in liquid, marketable pooled fund investment vehicles or readily tradable shares.
	Investment Risk Sensitivity Analysis and Reporting	Detailed sensitivity analysis, taking account of investment strategy and third party analysis, is updated and published within each Pension Fund Annual Report.
	Adherence to the requirement of the 2009 LGPS Investment Regulations and the requirement to demonstrate compliance with a revised set of sound investment practice (Myners) Principles.	Traffic light system included within Statement of Investment Principles to allow detailed monitoring against the six principles of good investment practice.

- 3.2 The Fund's detailed Risk Register and the above summary table will continue to be reviewed, updated and developed within future versions of this annual report.

4. Financial performance

- 4.1 The Fund Account (page 53) indicates a net increase in the net assets of the scheme available to fund benefits during the year of £494.21 million for 2016/17, following a £66.344 million decrease in the Fund in 2015/16. The summarised figures are shown in the table below.

Fund Account 31 March 2017	
	£000
Employees/employers contributions	107,205
Payments and refunds	(109,129)
Net transfer values	(1,565)
Net return on investments	506,631
Other income/expenses	(8,932)
Net increase/(decrease) in the Fund	494,210

- 4.2 Contributions to the Fund from members and employers have increased by £3.755 million from £103.450 million in 2015/16 to £107.205 million in 2016/17.
- 4.3 Transfer values received have decreased from £9.277 million to £5.573 million and transfer values paid out have reduced from £9.377 million to £7.138 million.
- 4.4 Payments to beneficiaries in respect of pensions have decreased by £0.348 million from £109.229 million in 2015/16 to £108.881 million in 2016/17.
- 4.5 The net assets of the Fund are represented primarily by investments (see below and page 65). Appendix 1 (page 86) illustrates the movement in the market value of investments since March 2008 and the tactical asset allocation.

Net Assets 31 March 2017		
	£000	£000
Bonds	461,802	
UK equities	816,641	
Overseas equities	1,268,892	
Property unit trusts	66,456	
Alternative investments	67,213	
Cash	15,387	
Other investment balances	3,803	2,700,194
Investment liabilities		-
Current assets		10,808
Current liabilities		(11,374)
Net Assets of the Fund		2,699,628

4.6 Timeliness of receipt of contributions

The table below sets out the percentage of contributions received from employers on or before the due date during 2016/2017. The Pensions Regulator requires that contributions deducted from pay must be paid to the Fund no later than the 22nd day (19th if paying by cheque) of the next month.

Pension Fund Annual Report 2016/2017

	2016/2017
Percentage of contributions received on or before the due date	99.5%

The option to levy interest on overdue contributions has been exercised.

4.7 Forecasts

The following tables show the forecasts and outturn for the Fund Account and Net Asset Statement for the 3 years to 31 March 2017. Contributions and payments are based on current expectations, the administration and investment management expenses are based on current budgets, and the net investment income and change in market value are based on the long term forecast returns for each asset class.

Fund Account	2015/2016		2016/2017		2017/2018
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Income					
Contributions receivable	(102,462)	(103,450)	(105,090)	(107,205)	(108,790)
Transfers in	(5,605)	(9,277)	(5,600)	(5,573)	(3,923)
Other income		(1)		(1)	
Investment income	(14,131)	(17,771)	(16,768)	(19,282)	(19,639)
Total income to the Fund	(122,198)	(130,499)	(127,458)	(132,061)	(132,352)
Spending					
Benefits payable	105,741	109,229	109,557	108,881	114,931
Transfers out and refunds	4,720	9,616	5,752	7,386	5,216
Management expenses	9,786	9,205	9,811	8,933	8,919
Total spending for the Fund	120,247	128,050	125,120	125,200	129,066
Profit and losses on disposal of investments and changes in the market value of investments	(141,908)	68,793	(134,663)	(487,349)	(131,242)
Net (increase)/decrease in the Fund	(143,859)	66,344	(137,001)	(494,210)	(134,528)

Net Asset Statement	2015/2016		2016/2017		2017/2018
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,931,597	1,695,286	1,813,956	2,085,533	2,203,504
Government bonds	177,285	177,627	182,600	229,300	232,281
Corporate bonds	182,349	175,947	182,809	232,502	237,385
Property	63,406	64,888	68,587	66,456	68,915
Cash and Other	90,344	91,848	92,307	86,403	89,351
Net Investment Assets	2,444,981	2,205,596	2,340,259	2,700,194	2,831,436

Pension Fund Annual Report 2016/2017

The 2017/2018 forecasts for total investment assets are based on the actual figures for 31st March 2017, multiplied by the forecast long term returns for each asset class as provided by the Fund's Actuary. These long term forecasts are revised every 3 years in line with the actuarial valuation exercise.

Expected return on assets	Assumptions as at 31 March 2013	Assumptions as at 31 March 2016
Equities	7.0% pa	5.9% pa
Overseas Equities	n/a	5.5% pa
Government bonds	2.8% pa	1.3% pa
Corporate bonds	3.9% pa	2.1% pa
Property investments	5.7% pa	3.7% pa
Discount rate	5.6% pa	4.0% pa

4.8 Operational expenses

	2015/2016		2016/2017		2017/2018
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Administrative costs	1,125	1,131	1,170	1,108	1,231
Investment management expenses	7,916	7,466	7,919	7,055	6,744
Oversight and governance costs	745	608	722	770	944
Total	9,786	9,205	9,811	8,933	8,919

4.9 Analysis of pension overpayments

The pension fund routinely participates in the National Fraud Initiative (NFI).

5. Administrative management performance

5.1 Key administration performance indicators

The table below shows the key administration related performance Indicators for 2016/2017.

Performance Indicator	Target for Completion (days)*	% Processed within Target	Average Number of Days
Transfer	10	90.21	4.29
Death	5	97.55	4.91
Retirement Estimate	10	84.97	3.32
Deferred	10	91.18	5.20
Retirement	5	90.72	2.21

*From receipt of clean and complete data

5.2 Financial indicators of administrative efficiency

Cost per scheme member has been calculated as the total management expenses divided by the total number of scheme members.

	Number of Members 31 March	2016/2017 Costs £000	Cost per Member £
Membership as at 31 March 2017			
Contributors	22,788		
Pensioners	16,388		
Deferred benefits	18,068		
Total scheme members	57,244		
Administrative costs		1,108	19.36
Investment management expenses		7,055	123.24
Oversight and governance costs		770	13.45
Total management expenses		8,933	
Total Cost Per Scheme Member			156.05

5.3 Key staffing indicators

There are 26 members of staff in the Pension Administration Section, including the Pension Manager and two additional posts with effect from January 2017. Due to a combination of maternity leave, delays in filling vacancies and including the additional two new posts the actual full time equivalent staffing compliment during the 2016/17 year was 22.66 staff. There are an additional 2 members of staff in the Pension Investments Team.

▪ The Payroll Team

The Payroll team comprises of 3.33 staff who are responsible for calculating and checking pensions into payment, processing the monthly payment of pension, and ensuring the correct pensions are paid to the correct pensioners.

Pension Fund Annual Report 2016/2017

▪ The Benefits Team

The Benefits team comprises of 8.53 staff who are responsible for processing and checking a full range of benefit calculations including retirements, early leaver deferred benefits, transfers in and out of the pension fund, refunds, estimated calculations for unpaid leave, annual allowance and AVCs. They are also responsible for providing advice and guidance to Scheme employers and members in relation to LGPS Regulations and related legislation.

Based on the total fund membership of 57,244 as at 31 March 2017, the Payroll and Benefits staff to fund member ratio is 1 full time staff member to 4,826 members.

Average cases per member of staff

The table below shows the average number of cases per member of staff.

Team	Number of Staff	*Number of Cases	Average Number of Cases
Payroll Team	3.33	1,575	473
Benefits Team	8.53	10,430	1,223
Total	11.86	12,005	1,012

*Work undertaken in relation to the main core service plus additional workflow tasks

▪ The Systems Team

The Systems team comprises of 5.8 members of staff. The Systems team are responsible for data quality and data cleansing, as well as processing the Year End, and electronic data exchange between the employers and the pension fund.

▪ The Communications Team

The Communications team comprises of 3 members of staff and has been responsible for dealing with incoming post and emails received into the central inbox, communicating changes to regulations and guidance to employers and employees, updating pension fund letter templates and forms as well as updating GG(T)PF specific information on the Pension Fund website.

5.4 Analysis of employers in the Fund

This table provides a summary of the number of employers in the Fund with active members and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled Body	30	15	45
Deemed Body	1	1	2
Admitted Body	26	19	45
Total	57	35	92

Pension Fund Annual Report 2016/2017

5.5 Contributions received in 2016/2017 split by employers and employees

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Administering Authority				
Torfaen CBC	3,517	12,570	16,087	15,082
Scheduled Bodies				
Blaenau Gwent CBC	2,627	9,274	11,901	13,978
Caerphilly CBC	6,576	21,678	28,254	25,039
Monmouthshire CC	2,830	9,545	12,375	10,962
Newport City Council	4,091	13,358	17,449	17,754
Valuation Panel	10	31	41	31
Coleg Gwent	628	2,053	2,681	1,502
Chepstow Town Council	6	24	30	10
Brynmaur Town Council	0	3	3	8
Gwent Police Authority	0	0	0	1,819
Chief Constable (Gwent)	1,150	5,768	6,918	2,578
Police & Crime Comm (Gwent)	49	98	147	93
Gwent Magistrates	0	0	0	403
Silent Valley Waste Disposal	7	188	195	26
Caldicot Town Council	4	13	17	0
Nantyglo & Blaina Town Council	2	5	7	8
Monmouth Town Council	3	8	11	1
Gwent Cremation Committee	13	37	50	38
Cwmbran Community Council	8	37	45	57
Pontypool Community Council	10	33	43	17
Tredegar Town Council	2	8	10	27
Rhymney Valley	0	0	0	1
Welsh Water	0	0	0	4
Rogerstone Community Council	5	13	18	2
Bargoed Town Council	1	2	3	9
Portskewett Community Council	0	1	1	0
Shirenewton Community Council	0	2	2	0
Henllys Community Council	0	2	2	0
Magor with Undy Com Council	3	9	12	0
Caerwent Community Council	1	2	3	0
Langstone Community Council	1	2	3	0
Llanfoist Fawr Community Council	1	3	4	0
Croesyceiliog & LLanyrafon CC	0	1	1	0
BTM Community Council	0	1	1	0
Abertillery & LLanhilleth CC	1	1	2	0
Former Scheduled Bodies				
Gwent County Council	0	0	0	11,217
Commission for New Towns	0	0	0	788
DHSS	0	0	0	5
Deemed Bodies				
Islwyn Transport	0	0	0	162
Newport Transport	11	200	211	1,042

Pension Fund Annual Report 2016/2017

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Admitted Bodies				
Big Pit	0	0	0	35
Melin Homes (formerly EVHA)	134	273	407	48
Careers Wales Gwent	143	390	533	614
Citizen Advice Bureau Caerphilly	14	41	55	21
Mitie (formerly Ballast)	2	7	9	12
CWVYS	0	3	3	20
Capita Gwent Consultancy	0	0	0	1,043
Hafod Care	21	103	124	283
Archives	21	52	73	43
Monitor	0	0	0	22
OCS Ex Monmouth CC	0	0	0	13
OCS Ex UWN	0	0	0	2
United Response	0	0	0	56
Monmouthshire HA	283	573	856	467
Bron Afon	869	1,707	2,576	958
Newport City Homes	379	753	1,132	673
Tai Calon	419	1,133	1,552	1,128
Manpower UK Ltd	0	0	0	3
DRIVE	6	14	20	4
Regent Ex Mon CC	1	3	4	3
Regent Ex Monmouth Cluster	1	4	5	3
Regent Ex Chepstow Cluster	0	0	0	1
Vinci	2	6	8	1
Compass Catering Newport	27	95	122	77
Compass Catering St Albans	0	0	0	2
National Trust	7	20	27	58
Barnardo's	2	6	8	19
Education Achievement Service	259	590	849	239
Caterlink NCC Caerleon	0	0	0	3
Caterlink NCC Newport High	1	5	6	4
Churchill	3	10	13	5
Monwell Ltd	-1	50	49	51
Torfaen Leisure Trust	115	195	310	7
Borough Theatre	7	25	32	5
NCS - Norse	37	109	146	14
NPS - Newport	108	327	435	88
Life Leisure	225	586	811	175
Newport Live	182	326	508	18
Alliance in Partnership	1	4	5	0
Totals	24,825	82,380	107,205	108,881

INVESTMENT POLICY AND PERFORMANCE REPORT

1. Investment objectives

- 1.1 From an investment perspective this report reflects on a year that has, like last year, seen some periods of market uncertainty and volatility. However, in distinct contrast to last year, markets seem to have not only been able to withstand the uncertainty, but have generally forged ahead with many global indices reaching historic high levels at points in the year. Consequently the Fund has seen positive returns in all the asset classes and regions in which it invests, resulting in an investment return for the year of approaching +23%. Though the year has therefore been a very good one, the contrast to last year again 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 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 surplus of income over expenditure is decreasing year on year as the profile of its membership and liabilities changes 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, bonds, equity, property and alternative investments. More details are contained in the Funding Strategy Statement (see page 45). Investment management policy, principles and arrangements are detailed within the Statement of Investment Principles (SIP) (see page 43). Previous Annual Reports have noted that the principal powers to invest, and the regulations governing fund investments, have been in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. However, updated 2016 LGPS investment regulations will allow funds more investment flexibility but within a framework of increased prudential responsibility. In particular, from 1st April 2017, LGPS funds are required to publish a new document, an Investment Strategy Statement to replace the SIP. Next year's annual report will include more detail on this new document and its impact, but the 2016/17 year has seen the Fund operate in accordance with its SIP formulated within the requirements of the prior 2009 investment regulations.

- 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.

Pension Fund Annual Report 2016/2017

- 1.5 There have been two changes to these investment management arrangements during the year (both in September 2016) with Standard Life Investments and Nomura Asset Management no longer managing UK and Japanese equities respectively for the Fund. The change only affects one of the investment mandates managed by Standard Life Investments with the multi asset (GARS) investment continuing un-affected. The reallocation of assets has been in accordance with the Fund's long term strategic investment direction with the Japanese equities being reallocated across the Fund's existing BlackRock bond mandates and the UK equities being reallocated to passive global equity assets. These are currently warehoused with Blackrock pending a longer term decision around management arrangements for the asset class linked to the implementation (and timescales) of the Welsh Investment Pool being developed in accordance with government's LGPS asset pooling requirements.
- 1.6 At the reporting date therefore, the Fund's assets are primarily held with five external fund managers namely BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management and Standard Life Investments.

2. Asset allocation

- 2.1 The following table shows the Fund's investment management arrangements reflecting the Fund's strategy and summarising the Fund's strategic asset allocation compared to the actual tactical asset allocation at 31 March 2017 (i.e. how the Fund's actual investments at the end of the reporting period related to its investment strategy and policy):-

Asset Class / Mandate	Approach	Manager	Strategic Allocation (%)	Tactical Allocation 31 March 2017 (%)
UK Equities				
UK Equities	Passive	BlackRock	13.8	11.8
UK Equities	Active	Lazard	19.6	18.5
Overseas Equities				
US Equities	Passive	BlackRock	7.0	11.4
Global Equities	Passive	BlackRock	4.6	4.4
Global Equities	Active	BlackRock	9.0	7.5
European Equities	Active	BlackRock	14.0	14.5
Far East Equities	Active	Invesco	4.0	6.5
Emerging Markets	Active	Fidelity	2.0	2.7
Bonds				
Government Bonds	Active	BlackRock	8.5	8.5
Corporate Bonds	Active	BlackRock	8.5	8.6
Alternative Investments				
Diversified Alternatives	Active	Standard Life	3.0	2.3
Other	Active	M&G	1.0	0.1
Other				
Cash/Other	Active	TCBC/Lazard	3.0	0.7
Property Unit Trusts	Active	TCBC	2.0	2.5
Total			100	100

2.2 The table shows that variances to strategy and actual allocations are not extensive. However, variances are regularly monitored by officers and the Pensions Committee and undoubtedly the very strong performance of many equity investments in particular has seen their allocations increase during the year relative to some other allocations. At its last meeting prior to year-end held in March 2017, the Committee therefore approved some tactical re-allocation which will see some marginal adjustments to the asset allocations in accordance with the Fund's strategic direction. These adjustments are expected to take place during the first quarter of the new financial year. The following however provides some detail on the actual year-end tactical allocations that vary by more than 1% versus strategic allocations:-

- Cash - the Fund's Cash Management Strategy currently requires cash to be held at considerably lower levels than the 3% strategic allocation. This is due to the continuing exceptionally low interest rate environment. Despite a gradual year on year reduction in its level of income above expenditure, the Fund continues to be cash generative, so cash flow is managed to meet operational requirements only. There is no current desire to hold excess cash achieving sub 1% interest rates when more attractive returns can potentially be achieved by tactically allocating the excess cash across a number of other Fund investments. The 2.3% underweight to cash at year end does therefore partly explain the marginal over-weight positions across a number of other areas of the asset allocation as this cash is tactically invested elsewhere.
- Equities - the reasons for year-end variances across equities, are fairly consistent to those reported last year. In terms of the 4.4% overweight to US Equities then, as noted elsewhere in this report, these investments have continued to perform very strongly during the year. This has naturally led to the allocation moving marginally further upward relative to other weaker performing asset classes. The Fund currently remains comfortable with the overweight position which generally fits with a momentum started in 2009 to gradually lower domestic equity exposure versus overseas equities. This is also demonstrated within the 2.5% overweight to Far Eastern Equities and especially the 3.1% underweight across UK Equities evident at the year-end. The 1.5% under-weight to actively managed Global Equities results primarily from the transition of assets from Aberdeen to BlackRock within "warehousing" arrangements made during the prior year. The underweight has been compensated in some way during this year by some additional tactical re-allocation to passively managed Global Equities following the termination of the Standard Life UK equity mandate. As noted within last year's report, longer term consideration of the extent of allocation and management arrangements for global equities, will be considered within the context of the wider requirements of asset pooling across the LGPS funds in Wales.
- Alternative Investments – the year end 1.6% underweight is predominantly due to the gradual maturing of the allocation to the M&G Companies Financing Funds where there have been increasing levels of repayment distributions back to the Fund during 2016/17. The under-performance of Standard Life GARS Fund relative to other asset classes has compounded the underweight. The recent Committee consideration of tactical re-allocation is aimed to add further to the Fund's alternative investments which will address the underweight and indeed move the Fund further in its longer term strategic direction of an increased allocation to these asset classes.

Pension Fund Annual Report 2016/2017

- 2.3 At 31 March 2017 the net investment assets of the Fund (measured at bid-price market value) were administered as follows:-

	Investments at Market Value	%	Cash & Other Balances	%	Net Investment Assets	%
	£000		£000		£000	
BlackRock	1,800,320	66.7	-	-	1,800,320	66.7
Lazard	497,996	18.5	11,612	0.4	509,608	18.9
Standard Life	63,354	2.3	-	-	63,354	2.3
Invesco	176,307	6.5	-	-	176,307	6.5
Fidelity	72,712	2.7	-	-	72,712	2.7
TCBC	70,315	2.6	7,578	0.3	77,893	2.9
Total	2,681,004	99.3	19,190	0.7	2,700,194	100

3. Investment performance

- 3.1 The table below shows, at a total fund level, the Fund's investment performance over historical periods, measured to 31 March 2017, versus both the Fund's bespoke investment benchmark and LGPS average performance which is now provided by PIRC Ltd via their "Local Authority Pension Performance Analytics Service":-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
Greater Gwent (Torfaen)	+22.84	+10.28	+10.65	+6.77
Strategic Benchmark	+21.74	+10.02	+10.34	+6.84
Out/(Under) Performance	+1.10	+0.26	+0.31	-0.07
Greater Gwent (Torfaen)	+22.84	+10.28	+10.65	+6.77
PIRC Local Authority Average	+21.43	+11.23	+10.75	+6.97
Out/(Under) Performance	+1.41	-0.95	-0.10	-0.20

Pension Fund Annual Report 2016/2017

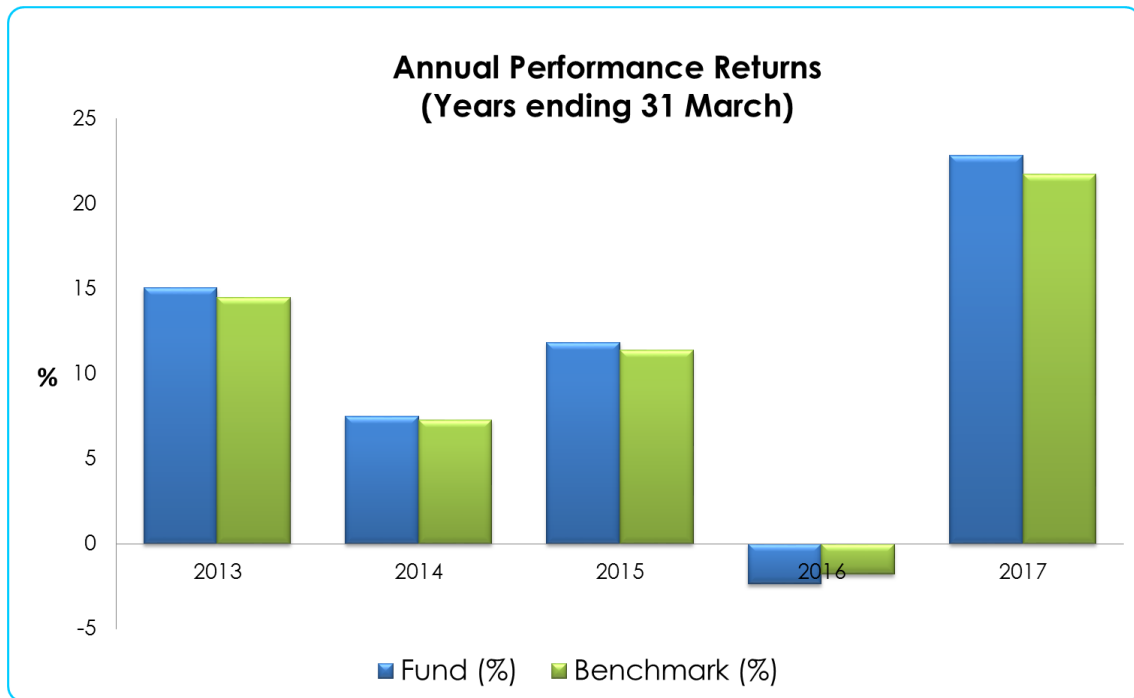
- 3.2 The table below shows, at an asset class level, the Fund's Investment performance over the same historical periods, measured to 31 March 2017:-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
UK Equities	22.4	7.2	10.0	5.5
US Equities	35.1	21.2	19.0	12.7
European Equities	26.3	10.8	14.3	6.9
Asia (ex-Japan) Equities	50.1	19.6	12.3	10.6
Emerging Market Equities	27.3	12.6	5.2	7.6
Global Equities	32.5	11.6	10.8	N/A
Government Bonds	5.4	7.3	5.6	6.9
Corporate Bonds	7.9	7.1	7.5	6.9
Property	5.3	10.4	8.8	0.8
Alternatives	1.6	2.7	3.7	N/A
Cash and Other	0.6	0.5	0.7	1.6
Total	22.8	10.3	10.7	6.8

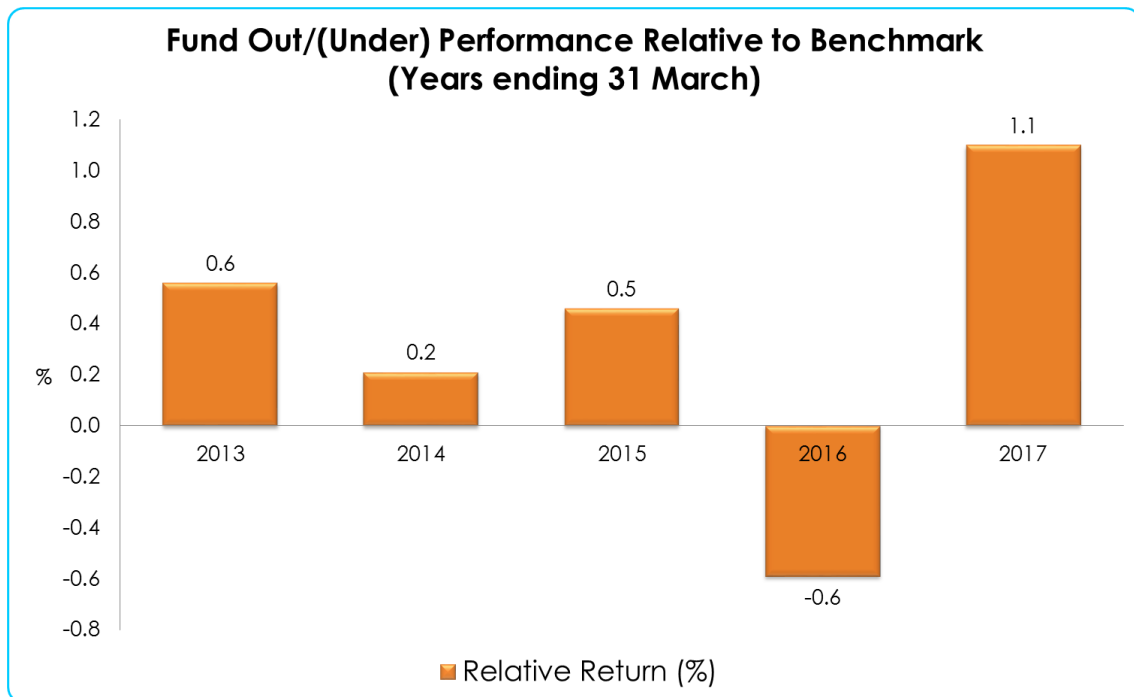
Performance data supplied by BNY Mellon Asset Servicing / PIRC Ltd

- 3.3 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2017 the Fund made an overall investment return of +22.84% compared with +21.74% for the benchmark return.
- 3.4 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's strategic asset allocation weightings of 33.4% UK equities, 27% overseas equities, 13.6% global equities, 17% bonds, 2% UK property unit trusts, 4% alternative investments and 3% cash.
- 3.5 The +1.10% out-performance for 2016/17 means that the Greater Gwent (Torfaen) Pension Fund has achieved above benchmark performance in 4 out of the last 5 years.
- 3.6 The Fund also subscribes to the Local Authority Pension Performance Analytics Service as administered by PIRC Ltd (who took over this service from WM/State Street during the year). This shows that the return for the average Local Authority fund for the year ending 31 March 2017 was +21.43%. The Fund therefore out-performed the 1 year average by +1.41% in the year under review. The positive year for the Fund, above the LGPS average, has improved the 3 Year and 5 Year comparisons, though the Fund has performed marginally below the average over the longest reported 10 Year timeframe.
- 3.7 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

In an economic and investment sense, last year's Annual Report reflected on a year that had seen a number of factors and influences combine to create what was an especially volatile, and predominantly negative, year across global markets. The year had seen a continued pattern of varying degrees of economic growth recovery and divergent central bank policy across the globe, but specific issues such as further debt concerns in Europe; worries over the level of growth in China; a falling oil price and the prospects of a vote on the UK's EU membership provided significant headwinds. This impacted the performance of many of the world's investment markets, most notably across equity markets where most regions saw negative returns over that review period.

One year on from this we can review a reporting period that has seen many of these prior year influences recede, but others, most notably the EU Referendum and the subsequent "Brexit" vote, advance to cause periods of market uncertainty and volatility. The year has also seen a surprise presidential result in the US and a year with such considerable global/political events and influences would maybe suggest a predominantly uncertain year for investment markets. However most asset classes and regions have seemed ultimately to take these events in their stride, withstanding the uncertainty, and indeed moving well ahead. As a result, many global indices reached historic high levels at times and equities have especially rebounded from the lowly returns seen last year.

The 2016/17 reporting period has seen:-

- considerable initial market volatility on renewed concerns about the global economy, the direction of US Federal Reserve monetary policy and the EU referendum in the UK dominated;
- then a more consistently positive period for most investment markets, helped especially as the fallout from the UK's vote to leave the EU appeared less severe than many had expected;
- the run in to the end of 2016 was however undoubtedly dominated by Donald Trump's surprise US presidential election win and, despite some initial caution, global markets again rallied strongly as investors focused on Mr Trump's growth and business-friendly agenda;
- this positive momentum largely continued into 2017 with a generally growing optimism for the health of the global economy and global markets continuing to be propelled by hopes that US President Trump's proposed policies would boost economic growth and lift corporate profits.

The following provides a more detailed review of the year's economic and political events and the impact on markets as the year developed.

Leading into the reporting period, then the start of 2016 had seen considerable market volatility amidst renewed fears for the health of the global economy and the potential for a UK "Brexit" vote. This was however followed by a sharp reversal of sentiment, with concerns easing helped by further stimulus measures from central banks in Japan and Europe and the US Fed lowering its projections for the speed of interest rate rises. A volatile backdrop for the year ahead.....

Sentiment seemed to reverse once more as the 2016/17 reporting period started. **(2016 Q2)** was another volatile quarter as renewed concerns about the global economy, the direction of US Federal Reserve monetary policy and the UK's EU referendum debate dominated. Economic data from the US and China remained mixed, although the Eurozone continued on the road to recovery thanks in part to ongoing accommodative monetary policy from the European Central Bank (ECB).

Perhaps the biggest global event was however the UK's vote on 23 June to leave the European Union. Markets across the world sold-off sharply and sterling plunged to a 31-year low against the dollar. The US Fed continued to take a "dovish" and "lower for longer" stance on interest rate rises and this, together with the shock vote in the UK, caused bond yields to hit historic lows. It was however a strong quarter for most commodities with the oil price climbing on supply disruption and a halt in the rise of the dollar. In terms of Q2 market performance then, despite the extreme turbulence seen in markets following the shock UK vote result, markets quickly recovered their poise to allow a very good quarter's performance across most markets. US equities performed strongest but there were a number of other strong equity regions and the UK surprised many by also doing well. Bond markets benefitted from the fall in yields fell but UK Commercial property was especially impacted by the UK EU vote and subsequently returns were the weakest of all the Fund's (non-cash) assets in the quarter.

Following the volatile first half of the year, **(2016 Q3)** was a more consistently positive one for most investment markets, helped especially as the fallout from the UK's vote to leave the EU appeared less severe than many had expected. Initial data showed the UK economy to be holding up well following the decision and supporting this more positive sentiment was an improvement in US economic data, together with a US Federal Reserve seeming to err on the side of caution with regards to interest rate increases. Monetary policy in the UK, Europe, Japan and China also remained supportive, however, concerns about Europe's banking sector returned amidst troubles at Germany's Deutsche Bank and also in Italy as the country approached a key constitutional referendum during December. The economic backdrop was however a generally positive one and most markets continued to recover their "post Brexit" poise with a strong quarter's performance. Asian equities performed strongest though Emerging Market equities were close behind and other equity regions also did well. Bond markets were again positive but, despite some evidence of stabilisation towards the end of the quarter, UK Commercial Property saw a marginally negative overall market return still scarred somewhat by Brexit uncertainty.

(2016 Q4) was undoubtedly dominated by Donald Trump's surprise US presidential election win and, despite some initial caution, global markets again rallied strongly as investors focused on Mr Trump's growth and business-friendly agenda which encouraged positive US economic data projections. In this environment the US Federal Reserve hiked rates in December, with many expecting further increases on inflation and growth forecasts under a Trump presidency. The fallout from the UK's referendum vote to leave the EU continued to seem less severe as economic indicators continued to show very little negative impact. Sentiment in Europe also seemed more upbeat than maybe expected following both the UK vote and also the Italian referendum which went against the government, underlining the precarious nature of politics in the EU. Sentiment was not so positive in Asia generally however as the (post-election) firming of the US dollar impacted the region. Economic data from China was also more mixed and the quarter also saw the oil price surge after OPEC agreed to cut production for the first time in eight years. In terms of investment market impact then US equities were strongest returning in the positive post-election environment and equities in Europe and the UK were next best, also buoyed by positive economic data and the improved prospects for economically sensitive stocks, commodities and financials. After being strongest in the previous quarter, Asian and Emerging Market equities were however less impressed with the new improved prospects for the US and resultant dollar strength and returns were barely positive. After a negative overall previous quarter, UK Commercial Property stabilised further post BREXIT however the intense political events of the quarter impacted the bond market environment with negative returns as rising interest rate and inflation expectations saw bond yields rise.

Approaching the end of the reporting period, then **(2017 Q1)** saw a generally growing optimism for the health of the global economy. Markets were largely propelled by hopes that US President Trump's proposed policies would boost economic growth and lift corporate profits and support what was growing optimism about the health of the global economy. The US Fed reacted with increased interest rates in March whilst in the UK, business activity growth hit a three-month high.

Meanwhile, Prime Minister Theresa May triggered Article 50, thereby officially starting negotiations for the UK to leave the EU. The reaction to all this was extremely positive across all the investment markets in which the Fund invests. The UK FTSE 100 index moved further ahead hitting an all-time high in March. US Wall Street also hit a series of record highs over the first two months of 2017. European equity markets also made an impressive start to 2017 with investor sentiment lifted by signs that the region's economy was improving, Asia Pacific stocks also rallied in the quarter, thanks to a perceived mellowing of Donald Trump's protectionist rhetoric and the ongoing improvement in China's economy. UK Bonds held their own despite some buffeting by various influences in the opening months of 2017 and corporate bonds rallied for much of the quarter on the optimistic economic backdrop. UK commercial property also continued its post Brexit recovery into the start to 2017.

The above indicates a sharp contrast to the economic background commentary in last year's report where the volatile environment led to negative overall investment returns for the vast majority of equity markets in particular. The below summarises how this year's very different and improved economic backdrop has also led to sharply contrasting positive investment market performance this year, which has extended across all the asset classes in which the Fund invests. The post Brexit fall in the value of the UK pound has also generally supported the Fund's investments during the year as overseas holdings converted back into sterling as the Fund preferred holding currency.

4.2 **Market performance summary**

Against the above, occasionally volatile, but predominantly positive global backdrop, **Equity Markets** performed very strongly. As last year, there was some divergence in performance over the reporting period across the world's regions, but all within a lofty range of between +20% and +35%. Looking at the regions in which the Fund invests, then Asian and Emerging equity markets moved from the worst performing regions last year to the best performing this year with both markets returning over +35%. After leading the way last year, US equities were not far behind this year with returns also of around +35%. European equities returned over +28% but it was UK equities that, despite a very impressive +22% return in the year, were actually the weakest of the Fund's equity regions in 2016/17. In stark contrast to last year, a very strong year overall therefore across global equity markets which, with the Fund's relatively high (though well diversified) weighting to equities, has benefitted the Fund's overall investment return considerably over the year.

Last year's performance summary noted a good year for **bond investments** as, in the predominantly "risk off" environment, fixed interest assets, especially government bonds, served as "safe haven" assets. Although the overall environment this year was certainly more "risk on", the Fund's bond investments have performed maybe surprisingly very well again, and indeed above the levels seen in 2015/16. The market return for the Fund's UK Gilt benchmark has been a strong +6.5%, whilst the Fund's UK Corporate Bond index performed above that at over +9%, benefitting from the general optimism across the UK corporate sector.

Within other asset classes in which the Fund invests, then **UK Commercial Property** recovered from its post Brexit stresses as the year progressed to achieve a positive return approaching +4% for the year. Cash based markets, against which the Fund benchmarks its **Alternatives** and **Cash** investment returns remain suppressed in the low interest rate environment with 6 Month and 1 Week market returns of +0.6% and +0.25% respectively.

The consolidated performance of all the above asset classes and regions in which the Fund invests, has enabled the Fund to bounce back from what was a disappointing year last year to benefit from a very strong overall market (benchmark) return for the Fund during the reporting period of +21.74%.

5. How did our managers perform?

In addition to this investment performance from the markets themselves, the Fund looks to generate additional returns across the majority (almost 75%) of its asset allocation via active management, where the Fund's investment managers look to out-perform the respective market returns noted above. We reported last year that the difficult 2015/16 market environment meant that the Fund's active managers had struggled collectively to add excess return. However it is pleasing to report this year that active management has worked well for the Fund collectively with a strong excess return achieved over and above the year's market returns. **In aggregate, the Fund has out-performed the strongly positive market return of +21.74 by +1.10% over the period and thus generated the year's overall +22.84% investment return for the Fund.**

Though the year's investment performance has been very good in overall terms, there are significant levels of diversification employed across the Fund, and we would not therefore expect all our investments to perform identically. The year has therefore seen some strong out-performance from some of our managers and the mandates they manage but negative under-performance also from other managers and mandates where the investment approach has achieved strongly positive yet below benchmark returns. Strong out-performance has been especially evident in Asian Equities (Invesco) and UK Equities (Lazard). The Fund's Property; Alternatives and Cash investments have also, though more modestly, out-performed the market over the year. Investments in Emerging Market Equities (Fidelity); European Equities (BlackRock) and Bond investments (BlackRock) have however struggled to keep pace with their respective benchmarks over the year. Global equities have also been negative at times within their transitional and warehousing period following the previous management arrangements. All of the Fund's investment managers provide their own views on the factors that have contributed to the year's performance, both positive and negative, within the manager commentaries later in this report. It is worthy of note however that, even if some may have performed less well during the year, all of the Fund's current investment managers and mandates have demonstrated positive out-performance over the longer term since the inception of our investments with them. Results for any single year should be viewed with caution therefore and within this long term context.

Pension Fund Annual Report 2016/2017

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	11.8	22.05	21.95	+0.10
UK (Active)	Lazard	18.5	22.99	21.95	+1.04
US (Passive)	BlackRock	11.4	35.14	35.15	-0.01
European (Active)	BlackRock	14.5	26.31	28.31	-2.00
Asia (ex-Japan)	Invesco	6.5	50.10	35.86	+14.24
Emerging Markets	Fidelity	2.7	27.25	35.23	-7.98
Global (Active)	BlackRock	7.5	32.50	32.97	-0.47
Global (Passive)	BlackRock	4.4	N/A	N/A	N/A
Bonds					
Gilts	BlackRock	8.5	5.39	6.64	-1.25
Corporate Bonds	BlackRock	8.6	7.92	9.23	-1.31
Other					
Alternatives	Standard Life GARS / In house	2.4	1.57	0.60	+0.97
Property	Various	2.5	5.32	3.75	+1.57
Cash and other investment balances	Various	0.7	0.31	0.22	+0.09
CONSOLIDATED		100	22.84	21.74	+1.10

Performance data supplied by BNY Mellon Asset Servicing

6. A word or two direct from our managers.....

BLACKROCK

United Kingdom; United States and Global Equities (Passively managed funds)

"The BlackRock passive funds achieved their aim in the year by performing broadly in line with the market index returns". The respective markets themselves saw strongly positive but contrasting returns for the period however, with the UK index returns approaching +22% whilst returns of the US index were in excess of +35% over the year.

European Equities

The European Equity market performed strongly during 2016/17 amidst improved economic growth prospects for the region and generally supportive central bank policy. The year was not however free from its periods of volatility as some debt concerns lingered at times and political uncertainty prevailed across a range of referenda and elections. The actively managed Ascent Life Fund benefitted from these strong market returns but underperformed relative to the fund's benchmark over the year in review.

"2016 provided a tricky environment for active management, thanks to those periods of volatility and frequent rotations in market leadership. Following an approach with a multi-month time horizon was difficult when the type of stock that out or underperformed the market often changed from one month to the next. The Brexit referendum results caused a jump in risk aversion across Europe, with, for example Italian banks suffering falls similar to those experienced by domestically-focussed UK firms. But this effect then reversed as the immediate economic impact was not as great as had been feared. Macro signals provided some defensiveness in the aftermath of the vote, taking a positive view on larger firms and consumer staples, for example. Quality signals fulfilled a similar role. But sentiment signals struggled with the lack of persistent trends. At the same time, faster-moving reversal signals faced the opposite problem: while there was a lack of multi-month trends, there were some powerful shorter-term trends, reducing the opportunity set for contrarian insights.

This pattern of volatility in long-term trends giving way to powerful short term trends was repeated in Q4 as the outlook for inflation and interest rates, especially in the US, turned far more positive, with the presidential election result exacerbating these moves. Investors rapidly shifted out of stable dividend stocks and into cheaper, more cyclical firms. Once again, sentiment and reversal signals struggled. However, more traditional value and quality insights proved effective as they were more aligned with a renewed focus on valuation and other fundamentals. The first quarter of 2017 brought yet another rotation as the 'Trump trade' suffered a partial reversal, with investors having doubts about the administration's ability to deliver on tax reform and infrastructure spending. However, in 2016 insights were added to the model in an effort to provide protection during periods of macro reversal. These focus on volatility in asset prices and the fact that it tends to reverse (i.e. a jump is often quickly followed by a fall) and this can affect the relative performance of cyclical and defensive stocks or those exposed to different currencies. It was encouraging to see these signals perform well, offsetting weakness elsewhere as the previous outperformance of value stocks unwound."

Global Equities

BlackRock are also managing the Fund's active global equity assets on a "warehousing" basis pending longer term management arrangements that will be considered in the context of the emerging Welsh Investment Pool. These assets are actively managed within their Systematic Global Equity Fund. Though punctuated by periods of performance volatility, "the fund performed broadly in line with its benchmark over the year".

Gilt and Corporate Bond Funds

A large part of the year saw bond markets benefit from low government bond yields, and thus higher bond prices. In particular the shock Brexit vote in the UK caused bond yields to hit historic lows. In the US also, a Federal Bank policy of "lower for longer" interest rates for much of the year kept yields low. We did however then see two US rate hikes later in the reporting period and the intense political events around the US presidential election and result impacted the bond market environment with negative returns for a period as rising interest rate and inflation expectations saw bond yields rise.

The above bond environment was predominantly a supportive one therefore for market returns, but "the actively managed Core-Plus Gilt and Corporate Bond strategy Funds underperformed relative to their benchmarks over the year in review".

"In Q2 before Brexit fears started to grip markets, risk sentiment had been continuing to rebound from earlier lows. However, after the unexpected UK vote to leave the EU, credit spreads widened aggressively, before retracing much of those moves into quarter-end. The sector allocation and credit security selection decisions added value, while a short duration bias struggled as global rates rallied. The Asset Allocation strategy was also challenged as long credit and short rates positions struggled over the quarter.

In Q3 credit security selection and macro rates strategies posted strong performance, which more than compensated for the underperformance of asset allocation and currency strategies. Credit security selection was the largest contributor to returns, with favourable security selection, as well as a supportive macro backdrop proving beneficial to the strategy. Overweights to eligible UK based issuers (BAT & GSK) therefore added to relative returns (alpha) over the period.

In Q4 the US election result sparked a huge divergence across asset classes, and also between developed and emerging markets. Credit security selection added alpha whilst the currency strategy dragged on performance. Macro interest rates strategies also detracted from performance. Security selection decisions within corporate credit added alpha over the quarter, particularly in December as sentiment improved and the bond market sell-off abated. An overweight to consumer services and automotive names (Thomas Cook & Peugeot) were particularly beneficial.

In Q1 2017 the outperformance of the credit strategy was outweighed by the underperformance of rates and asset allocation strategies. The European Sovereign Spread strategy detracted from performance, mainly from a long France spread position. Holding consumer cyclical names such as Jaguar Land Rover and Intercontinental Hotels Group PLC added alpha over the quarter. It was a similar story in the banking sector, with overweights to US banks (Goldman Sachs & Morgan Stanley) performing well."



UK Equities

Performance Review

The fallout from the United Kingdom's surprise decision to exit the European Union dominated the period under review. Immediately following the referendum result, sterling fell to a 31-year low against the US dollar and this benefited a number of major UK-based companies that generate earnings in foreign currency. In the aftermath of the referendum, the swift appointment of a new Prime Minister and the Bank of England's decision to cut base rates to 0.25% helped restore market confidence.

The firmness in the UK economy since has been a surprise to many observers. This was reinforced by a stream of data in the second half of the year covering manufacturing growth, construction new orders and the lowest unemployment for a decade reaffirming growth in the domestic economy. Synchronised global growth for the first time in ten years allowed UK equities to close the period close to their all-time highs. Earnings growth, coupled with a number of companies reintroducing dividends, provided another layer of support, which was further buoyed by a robust merger and acquisition environment.

Over the 12-month period under review, the portfolio outperformed a strong UK market as measured by the benchmark FTSE All-Share Index,

In terms of what contributed to this outperformance:

- Stock selection in the consumer goods and industrials sectors added value. A combination of an overweight position and good stock selection in the technology sector was also supportive.
- In technology, ARM Holdings received an unsolicited bid from Japan's SoftBank, with the offer price representing a 40% premium to ARM's pre-bid closing price.
- In the financial sector, Barclays was viewed as a beneficiary of the potential repeal of the Dodd-Frank reform in the United States. Rising bond yields also represented a tailwind for the business.

During the period the following however detracted from relative performance (or Variance from Benchmark):

- Stock selection in the health care sector, as did the portfolio's positioning in telecommunications sector.
- In telecommunications, BT Group detracted after a significant profit warning before the release of annual results.
- With significant exposure to the UK consumer, catalogue and online retailer N Brown came under pressure in the wake of the Brexit referendum outcome.

Current Strategy & Outlook

As the United Kingdom starts on the path to potentially the most profound change to its economy for over half a century, for the year ahead, our view is there are many positive macro drivers for the stock market. Economic growth is improving in Europe for the first time in a decade, accompanied by continued growth in the US driven by low-cost borrowing and supportive domestic policies from President Trump.

Whilst we anticipate macro and political factors continuing to influence the market in the short term, we remain convinced that the fundamentals of stocks will regain prominence over the medium term and bottom-up stock picking will remain very rewarding.



Global Absolute Return Strategies (GARS)

Market Background

It was a positive, if eventful, 12 months for investors. The tentatively improving global economy, diverging interest rate policy and fluctuating commodity prices dictated sentiment. Politics also played a huge role, notably the UK's EU referendum and Donald Trump's surprise US presidential win.

Portfolio Activity

The last 12 months proved to be turbulent, mainly due to political events such as the UK referendum and US presidential election. Nevertheless, on the back of improving economic indicators and the prospect of fiscal stimulus especially in the US, growth momentum was positive overall.

Within the underlying strategy groupings, the equity market strategies were the strongest contributors over the reporting period. Within these strategies, European equities contributed the highest returns, however both UK and US equities were also positive. The US Equity Banks vs US Consumer Staples strategy contributed strongly over the period, especially as a result of the Trump victory. However, the two short US Small Cap positions (vs US Large Cap and US Technology) both detracted and were closed following the US election result with the prospect of stimulus better supporting Small Cap valuations and growth.

There was a positive contribution overall from fixed income strategies, with credit related ideas (investment grade and high yield) delivering strong returns as they continued to benefit from attractive yields and narrowing spreads. Although the returns from the Interest Rate strategies were more mixed, the overall contribution remained positive. Australian Interest Rates followed by UK vs French Interest Rates and US Real vs Nominal delivered the strongest performance, whereas Short US Duration, prior to being combined with the Australian Interest Rates strategy, contributed negatively.

Currency positions provided a small positive contribution over the year, with strong returns from the Long Indian Rupee vs Swiss Franc strategy and various Long US Dollar positions (vs Euro, Singapore Dollar and Sterling) being partly offset by weaker returns from Long Japanese Yen vs Korean Won and Long Swedish Krona vs Euro strategy. In terms of other notable contributions over the year, there was a small negative return from our Global REIT portfolio, while Stock Selection also proved to be a drag on performance.

Outlook

The global economy has shown signs of strengthening recently. Nevertheless, we expect growth to remain sub-trend and patchy by historical standards, with regional variations. Recent political developments in the US, the UK and Europe have increased the level of uncertainty. However, the general pattern is much the same. A growing divergence in the monetary policies of central banks will continue to be an important driver of asset class returns. President Trump's pro-growth agenda and potentially more protectionist trade policies are likely to make this divergence more pronounced as the US economy gathers pace. For a portfolio that is built to be durably diversified, we expect this environment of heightened change to present additional opportunities, given the flexibility of our mandate and our long investment timeframe.



Asia (ex Japan) Equities

The fund returned over +50% in the year under review. It was the best performing fund in its Asia Pacific ex Japan Sector, out-performing the regions benchmark by over 14%. And the average fund in the sector by around 15%.

Over the period, Asian markets achieved strong performance despite the challenging global backdrop of political and macroeconomic uncertainty. Factors that have improved investor sentiment include: corporate earnings revisions turning up, strong economic data from China, a more optimistic outlook for global growth and a recent easing in fears about US trade sanctions. The fund's outperformance was driven by stock selection across a number of sectors, particularly in the technology and materials sectors.

The Chinese internet company, NetEase, was the largest contributor, as its share price rose thanks to its successful track record of bringing new games to market and the first signs of their international expansion bearing fruit. Elsewhere, within the IT sector: JD.com rose on the improved outlook for growth in its core e-commerce segment, while Samsung Electronics benefitted from the positive outlook for its memory semiconductor and display businesses.

Australian commodity-related stocks also added value. Mineral Resources rebounded from its lows when double digit free cash flow yields suggested an under-appreciation of the iron ore crusher's business. Meanwhile, Origin Energy gained on higher crude oil prices, while Alumina benefited from a higher alumina price. Elsewhere in the materials sector, Indian agrochemical company UPL added value, thanks its robust earnings growth. Also Minth Group, a Chinese auto-parts manufacturer, contributed as it continued to profitably increase market share.

Korea Electric Power was the largest performance detractor given uncertainty surrounding tariff cuts, as well as concerns over higher fuel costs and some political uncertainty ahead of Korea's 2017 presidential election. However there was some stability of costs and share price towards the end of the review period. Other detractors included Baidu (primarily search engine advertisement issue) and CK Hutchison (uncertainty surrounding its attempt to acquire O2 UK and Brexit concerns due to its European assets).

On a forward looking basis then the valuation of the Asian equity market is currently in line with its historic average, having spent much of 2016 trading below these levels. Company earnings revisions have turned positive, but if markets are to sustain their progress earnings growth estimates in the low teens for 2017 may need to be sustained. This is not unreasonable given the current cyclical upturn, but it may prove a stretch if this year's political agenda leads to significant disruption. However, in our view, one of Asia's attractions remains its valuation discount to other equity markets, while it does not seem that the political or economic risks are substantially higher. Asian economic growth is however likely to remain anaemic by its own historical standards. While China's economy is showing signs of stabilisation, this improvement has been accompanied by continued high levels of credit growth and China's corporate debt overhang will eventually need to be addressed.

We seek to invest in companies whose share prices are substantially below our estimate of fair value. The fund continues to have a high weighting in Chinese internet companies and, whilst we have taken some profits from NetEase, we have added to other existing holdings in this area and introduced new holdings also. Elsewhere, a large exposure to South Korea reflects our belief that the market is generally ignoring recent improvements in corporate governance and dividend pay-outs, with valuations suggesting that there is little priced in for future growth.



Emerging Market Equities

Market review

Emerging market equities rose over the year. Signs of stabilising economic growth in China and strong prices of commodities such as oil and iron ore boosted appetite for riskier assets. While initially reacting negatively to Donald Trump's unexpected victory in the US elections, stocks rebounded on expectations of economic stimulus and resultant increased US economic strength as a key market for developing countries' exports. However, some concerns over Chinese growth and the Brexit vote led to volatility. Thai stocks gained in light of the improving political situation and Brazilian markets rose on the appointment of a new President and prospects of economic reforms. Elsewhere, Russian stocks advanced on the back of OPEC output cut agreement and rising oil prices.

Performance commentary

The fund delivered strong absolute returns but underperformed the index due to stock selection in the information technology (IT) and financials sectors. However, selected health care holdings and the lack of exposure to the telecommunication services sector supported relative performance. From a country perspective, the underweight stance in Brazil weighed on relative returns. The UK's decision to exit the European Union negatively impacted financial markets and created uncertainty for financial services and IT companies. As a result, positions in Indian IT service providers Cognizant Technology Solutions and Infosys, whose key clients are European and US financials companies, declined. Not holding Samsung Electronics hampered relative performance as its share price rose. On a positive note, shares in China-based NetEase advanced. Political uncertainty in South Africa negatively impacted equity market sentiment and shares in furniture retailer Steinhoff International declined. In the materials sector the position in Russia's Novolipetsk Steel added value on expectations of increased demand from China and the US, the leading consumers of iron-ore and steel.

Outlook

Emerging markets have started 2017 on a positive note amidst improving economic conditions in China and optimism around global growth. While US infrastructure plans may bolster sentiment for commodities prices, China is the leading consumer for many commodities and will remain a much more significant driver of commodity pricing. If there is a rise in US protectionism through trade policies, it could hurt exporting countries such as Mexico, South Korea and Taiwan though India, Indonesia and Russia are likely to do relatively well then given their more domestic focus. Certain emerging markets have high relative levels of government debt which is a source of concern, especially if abnormally low interest rates begin to increase. In Brazil, government debt has been rising in recent years however reforms are proposed to reduce this. Elsewhere, Mexico has perhaps suffered the most over concerns around President Trump's policies, given that around 80% of exports go to the US. In India, economic conditions and reform prospects appear encouraging and China continues to transition from a capital spending driven economy to one built on more sustainable domestic consumption and high-value manufacturing. Recent economic data suggests growth is stabilising, but over capacity in areas such as heavy industry is still a concern. Elsewhere, strong oil prices should benefit Russia but South Africa is likely to undergo a period of volatility driven by political instability.

Overall, the emerging world will continue to exhibit economic divergence. Countries that are prepared to reform their economies to build a more sustainable path to economic growth will be better positioned for growth. Therefore, a bottom-up stock picking approach and active management of emerging market equities will continue to play an important role in ensuring that investors receive attractive returns.

ADMINISTRATION AND BENEFITS REPORT

1. The year in focus

- 1.1 The Pension Fund has a collective approach to continual improvement to meet the challenges we face. With direction from the Pensions Committee and support from Senior Management we have put in place the resources and systems necessary to effectively manage the Pension Fund in a period of increased pressure on resources combined with increasing workloads and complexity.
- 1.2 The main focus of the Pension Fund during 2016/17 was the completion of the actuarial valuation of the pension fund which was carried out as at 31st March 2016. The purpose of the Actuarial Valuation is to assess the funding position of the Pension Fund overall as well as the funding position for each individual employer and to set the employer contribution rates for the three years commencing 1st April 2017.
- 1.3 The work which the systems team carried out during 2015/16 to improve the IT systems with the introduction of an employer self-service facility, and the year-end preparation meetings held with the large employers to ensure that these employers were live on Employer Self Service in time for the submission of their year-end data, played a big part in ensuring that the actuarial valuation process went smoothly. Enabling the 6 large employers to submit their 2016 year end data through the employer self-service facility meant that the data submissions were cleansed prior to submission to the pension fund. This substantially reduced the number of data queries raised with these employers as well as enabling the employers to submit their data in a more timely fashion. The improvements in the year end data submissions from the previous year are set out on the following table:-

Deadline	Deadline Met	1 – 30 days late	31 – 60 days late	Over 60 days late
30 April 2015	36%	29%	25%	10%
30 April 2016	62%	38%		

Of the 38% employers who missed the deadline of 30th April 2016, 64% submitted their data within 10 days of the deadline and all employers had submitted their data by the end of May 2017. This enabled the Pension Fund to reconcile and update all the member records and submit the valuation data to the Pension Fund Actuary on 12 July 2016.

- 1.4 The level of engagement with Scheme Employers was increased at the 2016 valuation to assist the employers in understanding the valuation process and their individual funding position. This engagement included pre and post valuation meetings open to all employers, individual valuation schedules for each employer setting out their funding position, as well as one to one meetings with individual employers who had particular concerns, required further detail or where they wished to discuss future plans which could impact on their funding position. This increased level of engagement was welcomed by the employers and facilitated a deeper level of discussion and understanding.
- 1.5 Work has continued throughout the year to roll out the Employer Self Service facility to all our employers. We now have 31 employers set up on Employer Self Service which represents 54.38% of employers, covering 99.68% of the scheme membership.
- 1.6 In July 2016 we rolled out Member Self Service to the Active and Deferred scheme membership which enabled Annual Benefit Statements to be made available through the secure Member portal. Over 8,000 members have signed up for Member Self Service representing 19.82% of active and deferred members. Member Self Service is in the process of being rolled out to Pensioner members.

Pension Fund Annual Report 2016/2017

- 1.7 To enable the Government Actuary Department (GAD) to carry out its assessment of the costs of the 2014 scheme the Pension Fund has had to review and revise the transactional data held on our systems to ensure we can provide the required information to GAD. This has necessitated a considerable amount of additional work for both the Pension Fund and the Council's Finance staff to ensure that the Pension Fund can provide a split in relation to the benefits relating to pre 2014 membership and those relating to post 2014 membership.
- 1.8 The fund recognises the importance of embracing technology to enable "more for less" but also the importance of comprehensive advice from partners in actuarial, benefit consultancy, legal, and investment as well as improved IT systems, communications, and governance.
- 1.9 The Government's Policy on Freedom and Choice, which was introduced with effect from 1st April 2015, proved particularly challenging for the Pension Fund. Whilst the changes did not impact directly on the Pension Fund i.e. members could not exercise freedom and choice in respect of their LGPS benefits directly from the Fund, members could elect to transfer out of the LGPS to enable them to take advantage of Freedom and Choice. Whilst the number of actual freedom and choice transfers is low, the number of enquiries and the time spent on these cases, continues to impact on the work of the pension team.
- 1.10 The deadline for issuing Annual Benefit Statements to all active and deferred members in respect of the 31st March 2016 year end was 31st August 2016. The improvement in the timeliness of year-end data submission from employers and the improvements in the quality of this data resulted in the Pension Fund being in a position to issue Annual Benefit Statements to all active and deferred members in July 2016.
- 1.11 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 Team 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 Team in relation to the main 'core service' statistics is illustrated on the following table. The table illustrates the work outstanding as at 1st April 2016, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2017.

	Work outstanding 1 April 2016	New	Total	Completed	Work in progress 31 March 2017
Retirements processed	335	1,402	1,737	1,355	382
Deferred processed	683	2,878	3,561	2,507	1,054
Retirement estimates	418	2,396	2,814	2,319	495
Deaths processed	184	585	769	584	185
Transfers in/out	1,615	1,255	2,870	1,099	1,771
New Starters	1,049	3,733	4,782	4,003	779
Total	4,284	12,249	16,533	11,867	4,666

Pension Fund Annual Report 2016/2017

The work in progress as at 31st March 2017 is higher than the work in progress at 1st April 2016. This is reflective of:

- A number of maternity absences during the year and the need to train up temporary maternity cover.
- The additional administration requirements relating to the increased complexity of the scheme.
- An increase in the number of members being affected by Annual and Lifetime Allowance limits.
- The increase in the amount of core work coming into the Pension Fund as illustrated by comparing the average monthly new work and completed work in the year to 31st March 2016 with the average monthly new work and completed work in the year to 31st March 2017 as set out in the table below.

	Average Monthly New Work received in year to 31/03/2016	Average Monthly New Work received in year to 31/03/2017	Average Monthly work completed in year to 31/03/2016	Average Monthly work completed in year to 31/03/2017
Retirements processed	106.83	116.83	105.16	112.92
Deferred processed	207.16	239.83	180.83	208.92
Retirement estimates	233.25	199.66	236.25	193.25
Deaths processed	47.92	48.75	43.16	48.67
Transfers in/out	99.25	104.58	78.83	91.58
New Starters	317.17	311.08	285.55	333.58
Total	1,011.58	1,020.73	929.78	988.92

The only area which has seen a reduction in the amount of new work received is with regard to retirement estimates. This includes estimate requests from employers and employees. The reduction in the number of requests for estimates may be as a result of the member self-service online calculator which enables members to view the pension they could receive at their selected retirement date. It is however too soon to be confident that the reduction we have seen in 2016/17 will continue.

The Pension Team has continued to review working practices and procedures in light of changes to the Regulations and the increasing requirements of the job. Staff members have demonstrated their flexible attitude and approach, which has enabled the Pension Fund to manage the increasing workload and the implementation of changes to Regulations and related legislation.

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

- Facilitating training for employers, including the production of Newsletters and Bulletins, development of a new Pension Fund website 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. The reduction in the Annual Allowance to £40,000 per annum from 1st April 2014 is continuing to increase the number of members who are exceeding the allowance and increasingly the Pension Fund is receiving enquiries from members who have the opportunity for promotion.
- Providing guidance to members in relation to the reduction in the Lifetime Allowance to £1 million with effect from 6th April 2016 and the protections available.
- Continuing work on the GMP reconciliation project which is required following the announcement by DWP that they will not routinely provide funds with GMP details for scheme members after 2016.
- 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 LGA Communications sub group to assist in developing LGPS Scheme wide communications.

2.3 Internal dispute resolution procedure

The Pension Fund operates a two stage Internal Dispute Resolution Procedure which can be found on our website:-

<https://gwentpensionfund.co.uk/media/2465/dispute-procedure-guide.pdf>

2.4 Current challenges

- The main challenge facing the Pension Team is the continually increasing workloads coupled with increased complexity. The increased complexity means that the members and employers have difficulty in understanding how the regulations will impact in a particular case and the Pension Fund staff are spending increasing amounts of time providing help and guidance in this area.
- The timescale within which the Pension Fund must provide each member with an Annual Benefit Statement is 31st August each year. The Pension Fund was able to issue the 2016 Annual Benefit Statements ahead of this deadline however the timescale is still a challenge with little room for any unforeseen circumstances. The Fund is committed to using the technologies available to assist employers with complying with their responsibilities to ensure that the Pension Fund can also meet its obligations under the Regulations and related legislation.
- The Annual Allowance of £40,000 is resulting in more and more members potentially having a tax liability. The Pension Fund carries out an exercise each year to assess the position of individual scheme members and writes to each individual who has either exceeded the Annual Allowance or has come close to exceeding it. We are receiving an increasing number of enquiries from members who are considering accepting a promotion and are concerned about how the increase in salary will affect their annual allowance position. The annual allowance regime may therefore be acting as a disincentive to career advancement as well as adding to the complexities which pension fund staff need to be able to administer and the increase in the level of guidance which the pension fund staff need to be able to provide with regard to the impact on retirement income.
- The Life Time Allowance which is the total amount that an individual can hold in total in pension savings reduced from £1.25 million to £1 million with effect from 6th April 2016. We have therefore seen an increase in the number of members with a potential or actual lifetime allowance tax liability. This has also added to the complexity in relation to providing guidance to members on lifetime allowance protections and the impact of exceeding the Allowance on their retirement income.

- With effect from 1st April 2015 the Pensions Regulator has a statutory role in respect of the LGPS. The Pension Fund is required to comply with the record keeping Regulations and the Pension Regulator's Code of Practice.
- The Government's Freedom and Choice initiative does not impact directly on the LGPS. However, whilst the Government has banned transfers from the unfunded Public Sector Pension Schemes (e.g. Civil Service, NHS, Teachers) to defined contribution schemes, this ban does not extend to the LGPS. Members of the LGPS can therefore elect, once they are no longer an active member, to transfer the value of their LGPS pension to an alternative pension arrangement to enable them to utilise Freedom and Choice. Whilst the Pension Fund cannot by law refuse to pay a transfer value the Pension Fund must carry out extensive checks to ensure that the member has taken appropriate independent financial advice, is aware of the disadvantages of transferring their secure, guaranteed pension benefits to an unsecure pension arrangement, and that the new scheme is a properly authorised pension arrangement. The Government has introduced some changes in respect of overseas transfers which may reduce the number of enquiries in this area. Failure to pay the transfer value within the required timescale and failure to carry out the proper checks before paying the transfer value could lead to fines being imposed on the Pension Fund by the Pensions Regulator. The Pension Fund therefore devised robust procedures which are applied to these cases in line with the guidance from LGA, the Pensions Regulator, DWP and the pensions industry. The implementation of this work impacts on the time resources of the Pension Fund Staff.

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.
- 3.2 The continually increasing workload coupled with the ever increasing complexity continues to impact on the Pension Team Resources.
- 3.3 A valuation on the model fund which will be carried out in the 2017/18 year may lead to changes to the Pension Scheme Benefit structure which can only add to the level of complexity which already exists.
- 3.4 The increased Governance arrangements impose more prescriptive reporting requirements on the Pension Fund and again impacts on the Pension Fund resources.
- 3.5 The Pension Fund will continue to develop its policies and procedures to meet these challenges and will continue to work with Scheme Employers and our colleagues in other LGPS Funds and on a national basis to ensure compliance with the new requirements.

FUND POLICIES

1. Statement of Investment Principles

1.1 Background

Until 31 March 2017, 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 (SIP); they also stipulate certain key issues that must be covered within the Statement. The updated 2016 LGPS investment regulations however require funds to publish a new document from 01 April 2017, an Investment Strategy Statement, to replace the SIP. Next year's annual report will include more detail on this new document and its impact, but the 2016/17 year has seen the Fund operate its investments within the confines of its SIP, as detailed below. In addition to the SIP, this annual report will however also contain (Page 47) a website link to access the initial 2017/18 ISS for information and to allow stakeholders an appreciation of the changes the new document may bring to the Fund's investment consideration and reporting.

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

During the year investments have been made in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (though refer 1.1 above re; the future change to this). The Pensions Committee attempts to meet its objectives by securing, in the light of the economic climate, the most advantageous mixture of cash, bonds, 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 to be considered in making any investment decision. The vast majority of the Pension Fund's assets are readily marketable. Some investments however, such as 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 currently five external managers who manage the Fund's assets and who make day to day investment decisions. These are BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management and Standard Life Investments.

Management agreements are maintained with each of the investment managers which set out the benchmark asset allocation ranges, performance target and any restrictions placed on the manager. The investment managers' actions and performance are monitored 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, around 2.9% of the Fund is currently managed internally.

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

1.6 Risk

The Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising returns and to limit risk to acceptable levels. This is achieved through a variety of actions and is detailed more fully in the complete version of the SIP available on the Pension Fund's website via the link on Page 47 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 and the successor Investment Strategy Statement.

1.8 Feedback and review

The Pensions Committee has reviewed the Statement, and will annually review the successor Investment Strategy Statement going forward, with appropriate stakeholder consultation, including the advice of the investment advisor, actuary and the Assistant Chief Executive Resources.

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 developed 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 the Fund's current governance arrangements, the Pensions Committee has also reviewed the approach to Socially Responsible Investment within its work plan. As a result of this the Committee decided that a separate working group, the Environmental Social and Corporate Governance (ESG) 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.

The Group met regularly over a period of around 12 months and reported back to the Pensions Committee with its initial conclusions and recommendations. 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 Pensions Committee confirmed that they were content that the Group be "reconvened" and take forward the future potential work areas it had identified. The ESG Working Group had however been set up as a sub-group of the Pension Fund Management Group as the body that provided wider stakeholder representation at that time. However, the statutory change in the Fund's governance arrangements has led to this Group being superseded by the Local Pension Board. The possibility of re-convening an ESG Working Group for the Fund is currently under consideration as the Pension Board becomes further embedded in the Fund's amended governance arrangements.

Any subsequent ESG policy decisions made by the Pensions Committee will be incorporated within future versions of the Fund's Investment Strategy Statement.

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 require the Fund to state the extent of compliance with a 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, the Fund gives 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 47 of this document.

3. Funding Strategy Statement

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

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

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

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

Further details are contained in the Fund's full Funding Strategy Statement, which reflects the results of the Fund's most recent triennial actuarial valuation, and is available via the link on page 47 of this document.

4. Communications Policy Statement

- 4.1 The Fund's Communications Policy Statement (CPS) does not require annual review. It was however reviewed and updated during early 2017 to reflect changes which the Pension Fund had introduced in relation to communicating with Employers and Members.
- 4.2 The current CPS continues to address the points below that were noted within this report last year:-
- the increased complexity of the LGPS
 - the increased demand from scheme employers for guidance in relation to the application of LGPS Regulations
 - the increased demand from scheme employers for guidance in relation to budget restrictions and the impact on pension costs
 - the increased demand from scheme members in relation to the application of the LGPS Regulations and wider pension and tax planning issues
 - the increase in the level of reporting to DCLG, the Scheme Advisory Board, the Local Pension Board and the Pension Regulator
 - the desire to make better use of the opportunities available in relation to electronic communication, including conference calls and webinars
- 4.3 The updated policy reflects the significant improvements in the area of electronic communication which have been introduced by the Fund. These include an upgrade to the Pension Fund website as well as the roll out of Employer Self Service and Member Self Service. Employer Self Service enables employers to submit year end and monthly data through a secure portal but also provides a secure means of communication between the pension fund and the employers. Member Self Service enables members to view their pension records and plan more effectively for their retirement and enables the pension fund to communicate with the scheme members in a secure, cost effective manner.
- 4.4 The Policy aims remain focused on ensuring that the Fund delivers clear and timely, proactive communications to our stakeholders which are targeted, clear and accessible, accurate and timely and easily understood. The Fund recognises that there is a diverse range of Scheme Employers within the Fund with different levels of resource and understanding of pension's issues. The Employer self-service facility has improved the flow of information to and from, in particular, the larger employers. However, the fund recognises the need to maintain other forms of communication which are tailored to meet the differing needs of scheme employers including individual face to face meetings, employer forums, training workshops and guides as well as telephone and email engagement.
- 4.5 The Member Self Service facility has proved popular with members particularly those who are approaching retirement as the benefit calculator enables them to plan more effectively for their retirement. The Pension Fund website is the main source of information for scheme members and can now be used effectively on different devices including mobile phones and iPads. The Fund encourages members to utilise the electronic communication facilities whilst recognising the need to utilise other forms of communication including face to face meetings, presentations and workshops, letters, newsletters and telephone.

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 required key documents which are available in full using this hyperlink to the Pension Fund website:-

<http://gwentpensionfund.co.uk/greater-gwent-torfaen-pension-fund/about-us/forms-and-publications/>

NATIONAL LGPS ANNUAL REPORT DATA

1.1 The Local Government Pension Scheme Advisory Board is a statutory body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. The purpose of the Board is to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues. The Board has recently published the fourth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales with the aim of providing a single source of information about the status of the LGPS for its members, employers, and other stakeholders. This report aggregates information supplied in the 91 fund annual reports, as at 31st March 2016.

- The total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015 and number of LGPS employers increased by 2,635 (22%) to 14,435.
- The total assets of the LGPS held at £217bn (no change). These assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.5%), property (7.8%), as well as other asset classes (1.0%). The scheme continued to remain cash-flow positive. Scheme income exceeded scheme outgoings by £3.0bn.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.

1.2 To enable easier aggregation in the future funds are now required to include comparative data sets in their annual report. There is a difference in presentation between what the accounts require and the specific requirements of the national report although the totals will agree. For LGPS comparative purposes:

- 'Alternatives' are taken to mean limited liability partnerships and pooled property funds.
- 'Other' denotes the GARS Fund where the underlying investments comprise of assets of more than one type.
- 'Global' holdings are those that include an element of both overseas and UK listed assets.

1.3 Analysis of net investment assets as at 31 March 2017

	UK £m	Non-UK £m	Global £m	Total £m
31 March 2017				
Equities	816.6	948.3	320.6	2,085.5
Bonds	335.9	125.9	-	461.8
Alternatives	70.3	-	-	70.3
Cash and cash equivalents	19.2	-	-	19.2
Other	-	-	63.4	63.4
Total	1,242.0	1,074.2	384.0	2,700.2

1.4 Analysis of net investment income due in 2016/2017

	UK £000	Non-UK £000	Global £000	Total £000
31 March 2016				
Equities	16,962	-	-	16,962
Bonds	-	-	-	-
Alternatives	2,275	-	-	2,275
Cash and cash equivalents	45	-	-	45
Other	-	-	-	-
Total	19,282	0	0	19,282

This table includes all investment income due in the year, whether received or accrued at the year-end.

Greater Gwent (Torfaen) Pension Fund (“the Fund”) Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 23 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 23 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund’s assets, which at 31 March 2016 were valued at £2,210 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £850 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Pension Fund Annual Report 2016/2017

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	23.9 years
Future Pensioners*	23.6 years	26.1 years

*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA
For and on behalf of Hymans Robertson LLP
19 July 2017

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

Audit report of the Auditor General for Wales to the Members of the Administering Authority of the Greater Gwent (Torfaen) Pension Fund

Auditor General for Wales' statement to the Members of the Greater Gwent (Torfaen) Pension Fund

I have examined the pension fund accounts and related notes contained in the 2016/17 Annual Report of the 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 2017 which were authorised for issue on 18 July 2017. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Auditor General for Wales

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 Introduction, Overview, Governance and Financial Performance, Investment Policy and Performance, Administration and Benefits Report, Fund Policies, National LGPS Annual Report Data and Statement by the Consulting Actuary.

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of the 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 2017 which were authorised for issue on 18 July 2017 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, 18 July 2017 and the date of this statement.



For and on behalf of
Huw Vaughan Thomas
Auditor General for Wales

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

Date: 19/7/17

Electronic publication of financial statements

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

Pension Fund Accounts

Contents	Page Number
Fund Account	53
Net Assets Statement	53
Notes to the Accounts	54
Investments	65
Fair Value – Basis of Valuation	68
Financial Instruments	70
Nature and Extent of Risks Arising from Financial Instruments	71

Pension Fund Accounts 2016/2017

Fund Account for the Year Ended 31 March 2017

	Notes	2015/2016 £000	2016/2017 £000
Dealings with members, employers and others directly involved in the fund			
Contributions	7	(103,450)	(107,205)
Transfers in from other pension funds	8	(9,277)	(5,573)
Other income	12a	(1)	(1)
		(112,728)	(112,779)
Benefits	9	109,229	108,881
Payments to and on account of leavers	10	9,616	7,386
		118,845	116,267
Net (additions)/withdrawals from dealings with members		6,117	3,488
Management expenses	11	9,205	8,933
Net (additions)/withdrawals including fund management expenses		15,322	12,421
Returns on investments			
Investment income	12	(19,431)	(19,371)
Taxes on income	13	1,660	89
Profit and losses on disposal of investments and changes in the market value of investments	14a	68,793	(487,349)
Net return on investments		51,022	(506,631)
Net (increase)/decrease in the net assets available for benefits during the year		66,344	(494,210)
Opening net assets of the scheme		(2,271,762)	(2,205,418)
Closing net assets of the scheme		(2,205,418)	(2,699,628)

Net Assets Statement for the Year Ended 31 March 2017

	Notes	Restated As at 1 April 2015 £000	Restated As at 31 March 2016 £000	2016/17 £000
Investment assets	14	2,303,073	2,205,596	2,700,194
Investment liabilities	14	-	-	-
Total net investments		2,303,073	2,205,596	2,700,194
Current assets	20	18,911	11,255	10,808
Current liabilities	21	(50,222)	(11,433)	(11,374)
Net assets of the Scheme available to fund benefits at 31st March		2,271,762	2,205,418	2,699,628

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed at Note 19.

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 47.

1.1 General

The Fund is governed by the Public Service Pension Act 2013 and administered in accordance with the following secondary legislation:-

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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 Fund's primary stakeholder representative body is its Local Pension Board. The Public Service Pensions Act 2013, and subsequently the LGPS (Amendment) (Governance) Regulations 2015, required all LGPS Funds to form such a Board. As with the Pensions Committee, the Local Pension Board is formally established within the Council's constitution. The Board has a statutory role to assist the Council in its role as the Scheme Manager of the Pension Fund.

1.2 Membership

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.

There are 57 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table below provides some further details in terms of membership.

Pension Fund Accounts 2016/2017

Fund Membership

	Active Members 31/03/16	Active Members 31/03/17
Administering Authority		
Torfaen CBC	3,323	3,112
Current Scheduled Bodies		
Blaenau Gwent CBC	2,973	2,498
Caerphilly CBC	6,802	6,653
Monmouthshire CC	2,702	2,792
Newport City Council	3,844	3,907
Valuation Panel	4	4
Coleg Gwent	622	653
Chepstow Town Council	6	9
Brynawr Town Council	1	1
Chief Constable (Gwent)	776	666
Police & Crime Commissioner (Gwent)	23	14
Silent Valley Waste Disposal	3	3
Caldicot Town Council	2	2
Nantyglo & Blaina Town Council	1	1
Monmouth Town Council	2	3
Gwent Cremation Committee	8	10
Cwmbran Community Council	7	7
Pontypool Community Council	10	10
Tredeggar Town Council	1	2
Rogerstone Community Council	4	4
Bargoed Town Council	1	1
Portskewett Community Council	1	1
Shirenewton Community Council	1	1
Henllys Community Council	1	1
Magor with Undy Community Council	1	1
Langstone Community Council	1	1
Caerwent Community Council	1	1
Llanfoist Fawr Community Council	1	0
BTM CC	0	1
Abertillery & Llanhillith CC	0	1
Abergavenny TC	0	1
Deemed Bodies		
Newport Transport	8	8
Admitted Bodies		
Melin Homes	60	54
Careers Wales Gwent	88	85
Citizen Advice Bureau Caerphilly	8	8
Mitie (formerly Ballast)	2	1
Hafod Care	22	15
Archives	11	15
Monmouthshire Housing	155	167
Bron Afon	516	476
Newport City Homes	216	200
Tai Calon	249	235
DRIVE	4	4
Regent Ex Monmouth CC	2	1
Regent Ex Monmouth Cluster	2	2

Pension Fund Accounts 2016/2017

Fund Membership

	Active Members 31/03/16	Active Members 31/03/17
Admitted Bodies continued		
Vinci	1	1
Compass Catering	67	57
National Trust	7	5
Barnardo's	3	2
EAS	92	74
Caterlink NCC Newport High	4	0
Churchill	4	4
Torfaen Leisure Trust	222	268
Borough Theatre	7	6
NPS Newport	18	23
NCS Norse	112	101
Life Leisure	426	403
Newport Live	179	209
Alliance in Partnership	0	3
Total Active Membership	23,607	22,788
Total Deferred Members	16,058	18,068
Total Pensioners and Dependants	15,816	16,388
Total Membership	55,481	57,244

1.3 Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

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

1.4 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. Contributions are currently based on the valuation as at 31 March 2013. A new valuation was carried out as at 31st March 2016 and the results of this will affect the rates from 1st April 2017. Currently, employer contribution rates range from 10.3% to 27.6% of pensionable pay.

In terms of funding via investment earnings 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, though from 1st April 2017, new LGPS investment regulations require that this document be replaced with a new document, an Investment Strategy Statement.

2. BASIS OF PREPARATION

- 2.1 The Fund Account summarises the Fund's transactions for the 2016/17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 80.

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 in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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.

Pension Fund Accounts 2016/2017

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

Annual allowances tax charges that are paid to HMRC by the fund on behalf of employees are accounted for as transfers out as their benefits are reduced accordingly.

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) **Management Expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Costs'.

• **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration section are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

- **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. This figure also includes the cost of our involvement in the pension fund collaboration across Wales via investment pooling which is shared between the 8 Welsh LGPS Funds.

- **Investment Management Expenses**

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition the fund has negotiated with Fidelity Worldwide Investment that an element of their fee be performance related.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17 £0.915m of fees is based on such estimates (£0.475m in 2015/16).

- iii) **Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Tax is therefore only applicable to dividend income from equity investments. Income from overseas investments is subject to deduction of withholding tax in the country of origin, unless exemption is permitted.

In 2015, George Osborne noted in the autumn budget that the notional 10% tax credit on UK dividends had been abolished and replaced by a new tax-free Dividend Allowance, effective from 6 April 2016, and this is why the reportable amount of taxes on equity income has reduced from £1.66m in 2015/16 to £0.089m in 2016/17. There is no longer tax applied to UK equity dividends.

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 assets**

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Asset Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

ii) **Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

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) **Financial Liabilities**

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

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 80).

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. The fund has appointed Standard Life and Clerical Medical as its AVC providers. Some AVC contributions from prior years are also held with Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the 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 83).

4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

4.1 **Pension fund liability**

The triennial 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 79. 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 80. 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. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Net Assets Statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £488m. A 0.5% increase in assumed salary inflation would increase the value of liabilities by approximately £134m and a one-year increase in life expectancy would increase the liability by approximately 3-5%. A 0.5% increase in the pension increase rate would increase the liability by £344m.
Limited Liability Partnerships	The investments in the Prudential/M&G UK Companies Financing Funds are valued at fair value by the administrator of the fund. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total investment in limited liability partnerships in the financial statements is £3.9m. There is a risk that this investment may be under or over stated in the accounts.

6. EVENTS AFTER THE REPORTING 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 2017 and the date that the accounting statements are authorised for issue. This is known as a non-adjusting event after the reporting period.

7. CONTRIBUTIONS RECEIVABLE

The assessed rate for the Fund as a whole for 2016/17 was 13.1% of pensionable pay with individual adjustments applicable to individual Authorities. During the year some employers have paid additional contributions over and above the rate set for them by the Actuary. The deficit recovery contribution contains lump sum payments and contributions paid over the 13.1%.

Pension Fund Accounts 2016/2017

By category

2015/16 £000		2016/17 £000
(78,838)	Employers	(82,380)
(24,612)	Members	(24,825)
(103,450)	Total	(107,205)

By authority

2015/16 £000		2016/17 £000
(15,197)	Administering Authority	(16,087)
(77,568)	Scheduled bodies	(80,230)
(212)	Deemed bodies	(211)
(10,473)	Admitted bodies	(10,677)
(103,450)	Total	(107,205)

By type

2015/16 £000		2016/17 £000
(24,528)	Employees normal contributions	(24,740)
(71)	Employees 50:50 contributions	(81)
(13)	Employees additional contributions	(4)
(49,859)	Employers normal contributions	(50,261)
(25,578)	Employers deficit recovery contributions	(28,143)
(3,401)	Employers augmentation contributions	(3,976)
(103,450)	Total	(107,205)

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2015/16 £000		2016/17 £000
(9,277)	Individual transfers in from other schemes	(5,573)
(9,277)		(5,573)

9. BENEFITS PAYABLE

By category

2015/16 £000		2016/17 £000
58,536	Pensions - statutory	61,434
21,990	Pension increases	21,452
24,681	Commutation of pensions and lump sum retirement benefits	21,650
3,075	Lump sum death benefits	3,237
947	Additional allowances	1,108
109,229		108,881

Pension Fund Accounts 2016/2017

By authority

2015/16 £000		2016/17 £000
13,681	Administering Authority	15,082
87,169	Scheduled Bodies	86,377
1,305	Deemed Bodies	1,205
7,074	Admitted Bodies	6,217
109,229		108,881

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2015/16 £000		2016/17 £000
171	Contributions returned to employees	167
68	Payments in lieu of graduated pension contributions	81
3,066	Group transfers out to other schemes	1,835
6,311	Individual transfers out to other schemes	5,303
9,616		7,386

11. MANAGEMENT EXPENSES

2015/16 £000		2016/17 £000
1,131	Administrative costs	1,108
7,466	Investment management expenses	7,055
608	Oversight and governance costs	770
9,205		8,933

a) Investment management expenses

2015/16 £000		2016/17 £000
5,617	Management fees	5,677
480	Performance related fees	147
132	Custody fees	137
1,237	Transaction costs	1,094
7,466		7,055

Management fees paid to investment managers are broadly based on the market value of the investments under their management. Although the net investment assets increased by almost £495 million during 2016/17 the fees paid have not risen in proportion due to revised fee agreements with two fund managers and two changes in investment arrangements during the year.

One of the fund's external fund managers, Fidelity Worldwide Investment, has an element of their fee related to a performance benchmark set up by the Pensions Committee. Under the terms of their mandate out-performance during the year triggers a performance payment. This improved performance is reflected in asset growth during the reporting period. Estimated performance fees are accrued to the year in which out-performance was earned.

In addition to these costs, indirect costs are incurred through the bid/offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 14a).

12. INVESTMENT INCOME

2015/16 £000		2016/17 £000
(16,997)	Income from equities	(17,051)
(426)	Pooled investments	(360)
(1,939)	Pooled property investments	(1,915)
(69)	Interest on cash deposits	(45)
(19,431)		(19,371)

a) Other income

2015/16 £000		2016/17 £000
(1)	Miscellaneous income	(1)
(1)		(1)

13. OTHER FUND ACCOUNT DISCLOSURES

a) Taxes on income

2015/16 £000		2016/17 £000
1,660	Withholding tax - equities	89
1,660		89

b) All Wales LGPS Investment Pool

2015/16 £000		2016/17 £000
-	All Wales Pool	94
-		94

Included in the 2016/17 oversight and governance expenses in note 11 is the cost of our involvement in the pension fund collaboration across Wales via investment pooling. The professional fees incurred in the setting up and subsequent operation of the new pooled arrangements are shared between the 8 Welsh LGPS Funds. The main aim of the pooling arrangement is to make savings in terms of external fund management fees. Oversight and governance costs will increase due to the extra layers of governance but the investment management savings are expected to outweigh them.

14. INVESTMENTS

Value at 31.03.16 bid price £000		Value at 31.03.17 bid price £000
	Investment assets	
404,115	Equities	497,996
1,715,629	Pooled investments	2,116,552
64,888	Pooled property investments	66,456
17,870	Cash deposits	15,387
3,094	Investment income due	3,803
2,205,596	Total investment assets	2,700,194
	- Total investment liabilities	-
2,205,596	Net investment assets	2,700,194

a) Reconciliation of movements in investments

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

Major asset class	Market Value 1 April 2016 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31 March 2017 £000
Equities	404,115	169,666	(154,911)	79,126	497,996
Pooled investments	1,715,629	193,610	(196,566)	403,879	2,116,552
Pooled property investments	64,888			1,568	66,456
	2,184,632	363,276	(351,477)	484,573	2,681,004
Other investment balances:					
• Cash deposits	17,870			2,776	15,387
• Investment income due	3,094				3,803
Net investment assets	2,205,596			487,349	2,700,194

Major asset class	Market Value 1 April 2015 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31 March 2016 £000
Equities	432,488	192,451	(182,059)	(38,765)	404,115
Pooled investments	1,795,820	290,412	(333,106)	(37,497)	1,715,629
Pooled property investments	59,987			4,901	64,888
	2,288,295	482,863	(515,165)	(71,361)	2,184,632
Other investment balances:					
• Cash deposits	11,475			2,568	17,870
• Investment income due	3,303				3,094
Net investment assets	2,303,073			(68,793)	2,205,596

Pension Fund Accounts 2016/2017

b) Analysis of investments

Major Asset Class	31 March 2016 £000 Bid Price		%	31 March 2017 £000 Bid Price		%
Segregated Equities						
UK						
Quoted	404,115	404,115	18.3	497,996	497,996	18.5
Unquoted Pooled funds – additional analysis						
UK						
Unit Trusts						
Gilt Fund	160,930			208,090		
Corporate Bond Fund	91,598	252,528	11.4	127,830	335,920	12.4
Unitised Insurance Policies						
UK Equities Fund	356,837	356,837	16.2	318,645	318,645	11.8
Other Managed Funds						
M&G Limited Partnership	8,311	8,311	0.4	3,859	3,859	0.1
Overseas						
Unit Trusts						
Gilt Fund	16,697			21,210		
Corporate Bond Fund	84,349			104,672		
Global Equities Fund	-	101,046	4.6	119,332	245,214	9.1
Unitised Insurance Policies						
European Equities Fund	309,424			390,836		
US Equities Fund	228,233			308,431		
GARS Fund	62,573	600,230	27.2	63,354	762,621	28.2
Other Managed Funds						
Global Equities Fund	151,903			201,274		
Far East Equities Fund	116,664			176,307		
Emerging Markets Equities Fund	56,851			72,712		
Japanese Equities Fund	71,259	396,677	18.0	-	450,293	16.7
Unquoted Pooled Property Investments						
UK Property Unit Trusts	64,888	64,888	2.9	66,456	66,456	2.5
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	7,858			8,305		
Cash on deposit with financial institutions	10,012	17,870	0.9	7,082	15,387	0.6
Other Investment Balances and Liabilities						
Other investment balances	3,094	3,094	0.1	3,803	3,803	0.1
Net Investment Assets	2,205,596	2,205,596	100	2,700,194	2,700,194	100

Pension Fund Accounts 2016/2017

c) Investments analysed by fund manager

Fund Manager	Proportion of Fund %	Value of Funds Held £000	Portfolios Held (actively managed unless otherwise stated)
BlackRock	11.8	318,645	UK Equities Fund (Passive)
	11.4	308,431	US Equities Fund (Passive)
	4.4	119,332	Global Equities Fund (Passive)
	7.5	201,274	Global Equities Fund
	14.5	390,836	European Equities Fund
	8.5	229,300	Gilt Fund
	8.6	232,502	Corporate Bond Fund
Net Assets held by BlackRock	66.7	1,800,320	
Lazard Asset Management	18.5	497,996	UK Equities (Segregated)
	0.3	8,305	Cash
	0.1	3,307	Other Investment Balances
Net Assets held by LAM	18.9	509,608	
Standard Life Investments	2.3	63,354	GARS Fund
Net Assets held by SLI	2.3	63,354	
Invesco Perpetual	6.5	176,307	Far East Equities Fund
Net Assets held by Invesco	6.5	176,307	
Fidelity Worldwide Investment	2.7	72,712	Emerging Markets Equities Fund
Net Assets held by Fidelity	2.7	72,712	

Net Assets held by Fund Managers	97.1	2,622,301
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Torfaen County Borough Council	2.5	66,456	UK Property Unit Trusts
	0.3	7,082	Cash on deposit with financial institutions
	0.1	3,859	M&G Limited Partnership
	-	496	Other Investment Balances
Net Assets held via Administering Authority	2.9	77,893	

Net Investment Assets	100	2,700,194
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All of the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the net assets available to pay benefits.

Security	Market value 31 March 2016 £000	% of total fund	Market value 31 March 2017 £000	% of total fund
Blackrock Ascent Life European Equity Fund	309,424	14.0	390,836	14.5
Blackrock Aquila Life UK Equity Fund	261,068	11.8	318,645	11.8
Blackrock Aquila Life US Equity Fund	228,233	10.3	308,431	11.4
Blackrock Core Plus UK Corporate Bond Fund	175,947	8.0	232,502	8.6
Blackrock Core Plus UK Gilt Fund	177,627	8.0	229,300	8.5
Blackrock BSF Systematic Global Equity Fund	151,903	6.9	201,274	7.5
Invesco Perpetual Asian Equity Fund	116,664	5.3	176,307	6.5

Pension Fund Accounts 2016/2017

15. FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment class is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not applicable	Not applicable
Pooled investments – unit trusts, unitised insurance policies, other managed funds and property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not applicable
Limited Liability Partnerships	Level 3	The company financing fund NAV is valued by the Partnership at amortised cost in accordance with IAS 39	Total value of portfolio of loans and cash balances Fund performance Future cash flow	The Partnership assesses whether there is objective evidence that financial assets measured at amortised costs are impaired. If a loss event occurs after the initial recognition of the assets it can have an impact on the estimated future cash flow.

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Limited Liability Partnerships	5.6%	3,859	4,075	3,759
Total		3,859	4,075	3,759

a) Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities 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. Segregated equities are classed as level 1 as they have readily observable prices and therefore a reliable fair market value with a regular 'mark to market' mechanism for pricing.

Level 2

Level 2 assets are assets that do not have regular market pricing, but whose fair value can be readily determined based on other data values or market. 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. The pooled funds held by the Fund at the reporting date fall into this category as they are not exchange traded.

Level 3

Assets and liabilities 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. 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 two UK company financing funds are now closed to new investors. 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. 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 tables provide an 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. This excludes cash deposits and other investment balances and liabilities.

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	497,996	2,179,149	3,859	2,681,004
Net investment assets	497,996	2,179,149	3,859	2,681,004

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	404,115	1,772,206	8,311	2,184,632
Net investment assets	404,115	1,772,206	8,311	2,184,632

Pension Fund Accounts 2016/2017

b) Transfers between levels 1 and 2

There have been no transfers this year.

c) Reconciliation of fair value measurements within level 3

	Market value 1 April 2016	Transfers into level 3	Transfers out of level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2017
	£000	£000	£000	£000	£000	£000	£000	£000
Limited Liability Partnerships	8,311	-	-	-	(4,374)	(78)	-	3,859
	8,311				(4,374)	(78)		3,859

16. FINANCIAL INSTRUMENTS

a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

Designated as fair value through profit and loss	Loans and receivables	Restated Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2016				31 March 2017		
£000	£000	£000		£000	£000	£000
Financial Assets						
404,115			Equities	497,996		
1,715,629			Pooled investments	2,116,552		
64,888			Pooled property investments	66,456		
	17,870		Cash		15,387	
3,094			Other investment balances	3,803		
	11,255		Debtors		10,808	
2,187,726	29,125			2,684,807	26,195	
Financial liabilities						
		(11,433)	Creditors			(11,374)
		(11,433)				
2,187,726	29,125	(11,433)	Total	2,684,807	26,195	(11,374)

b) Net gains and losses on financial instruments

31 March 2016 £000		31 March 2017 £000
	Financial assets	
(71,361)	Fair value through profit and loss	484,573
2,568	Loans and receivables	2,776
	Financial liabilities	
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
(68,793)	Total	487,349

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

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 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), and in future years its Investment Strategy Statement (ISS), 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/ISS also includes a specific section on how the Fund measures and manages its investment risk. The following extract from the current 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 that is assisted in its role by a Local Pension Board. Both bodies meet regularly to monitor asset allocation and investment performance against Fund benchmarks.

The full version of the Statement of Investment Principles is available on the Pension Fund's website www.gwentpensionfund.co.uk.

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 £494.6 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 bond 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 new statutory Investment Strategy Statement that replaces the SIP from 01 April 2017 will see some relaxation of these limits however, requiring each Fund to implement its own prudential framework, so still requiring a diversified prudent approach to managing market risk.
- The Fund has a diversified strategic asset allocation which is monitored to ensure the diversification levels are within acceptable tolerances of the strategy and the reasons for any deviation understood.
- 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.

Pension Fund Accounts 2016/2017

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

Asset price risk

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

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

The selection of investments is controlled and monitored by the council relative to 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 analysis of historical market data, in consultation with advisors, for the indices against which the Fund benchmarks its investments the Fund has determined that the following movements in market price are reasonably possible within the year following the 2016/17 reporting period end:

Asset type	Potential 1 Year market movement (+/-)
UK equities	15.77%
Overseas equities	18.35%
Government bonds	9.51%
Corporate bonds	10.10%
Pooled property investments	14.16%
Alternative investments (absolute return)	12.50%
Alternative investments (direct lending)	5.60%

The potential price changes disclosed above are consistent with the assumptions contained in advisors' most recent review. The total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. It however disregards any long term investment value appreciation from the assets noted. To provide some context to this, the Fund actuary'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 assumptions (20 years) p.a. (+)
UK Equities	5.9%
Overseas Equities	5.5%
Government bonds (medium term)	1.3%
Corporate bonds (medium term)	2.1%
Property investments	3.7%

Pension Fund Accounts 2016/2017

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 shown in the table below. The prior year comparators using the applicable 2015/16 volatility assumptions are also shown below. The Fund has used the services of its actuary for the first time this year to calculate the potential sensitivity levels within this section of the accounts. A direct comparison to last year is maybe less relevant therefore but the 2016/17 analysis shows a more prudent resultant analysis than that published last year.

Asset type	Value as at 31 March 2017 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	15,387	0.00	15,387	15,387
Investment portfolio assets:				
UK equities	816,641	15.77	945,425	687,857
Overseas equities	1,268,892	18.35	1,501,734	1,036,050
Government bonds	229,300	9.51	251,106	207,494
Corporate bonds	232,502	10.10	255,985	209,019
Pooled property investments	66,456	14.16	75,866	57,046
Alternative investments (absolute return)	63,354	12.50	71,273	55,435
Alternative investments (direct lending)	3,859	5.60	4,075	3,643
Investment income due	3,803	0.00	3,803	3,803
Total assets available to pay benefits	2,700,194	12.56*	3,039,338	2,361,050

*Total Fund volatility figure

Asset type	Value as at 31 March 2016 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	17,870	0.00	17,870	17,870
Investment portfolio assets:				
UK equities	760,952	10.70	842,374	679,530
Overseas equities	934,334	11.79	1,044,492	824,176
Government bonds	177,627	6.56	189,279	165,975
Corporate bonds	175,947	6.46	187,313	164,581
Pooled property investments	64,888	1.37	65,777	63,999
Alternative investments	70,884	3.29	73,216	68,552
Investment income due	3,094	0.00	3,094	3,094
Total assets available to pay benefits	2,205,596		2,423,415	1,987,777

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 Bond 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.

Pension Fund Accounts 2016/2017

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 2016 £000s	As at 31 March 2017 £000s
Cash on deposit with financial institutions	10,012	7,082
Cash held by Managers	7,858	8,305
Bonds	353,574	461,802
Total	371,444	477,189

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 advisors anticipate that interest rates are expected to move no more than 1% within the year following the 2016/17 reporting period end. 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 2016/17 table shows the duration estimates for the different components within the bond portfolios held by the Fund. The analysis however assumes that all the other variables, in particular exchange rates, remain constant.

This demonstrates that a 1% increase in interest rates will not affect the interest received on bonds but it will result in a decrease in the value of the bond portfolio, and vice versa. Changes in interest rates do not impact on the value of cash balances but they will affect the interest received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Asset type	Value as at 31 March 2017 £000	Duration estimate (years)	Value on increase +1% £000	Value on decrease -1% £000
Cash on deposit with financial institutions	7,082		7,082	7,082
Cash held by Managers	8,305		8,305	8,305
Government Bonds	229,300	10.7	204,765	253,835
Corporate Bonds	232,502	7.9	214,135	250,870
Total change in assets available	477,189		434,287	520,092

Note: Durations are as at 31 December 2016

Asset type	Value as at 31 March 2016 £000	Value on increase +1% £000	Value on decrease -1% £000
Cash on deposit with financial institutions	10,012	10,012	10,012
Cash held by Managers	7,858	7,858	7,858
Bonds	353,574	350,038	357,110
Total change in assets available	371,444	367,908	374,980

Pension Fund Accounts 2016/2017

Income source	Amount receivable in year ending 31 March 2017 £000	Income received on increase +1% £000	Income received on decrease -1% £000
Cash on deposit with financial institutions	45	45	45
Cash held by Managers	-	-	-
Bonds	-	-	-
Total change in assets available	45	45	45

Income source	Amount receivable in year ending 31 March 2016 £000	Income received on increase +1% £000	Income received on decrease -1% £000
Cash on deposit with financial institutions	69	70	68
Cash held by Managers	-	-	-
Bonds	-	-	-
Total change in assets available	69	70	68

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 2016 £000	Value as at 31 March 2017 £000
Overseas equities	934,334	1,268,892
Overseas government bonds	16,697	21,210
Overseas corporate bonds	84,349	104,672
Global Absolute Return Strategies Fund (GARS)	62,573	63,354
Total overseas assets	1,097,953	1,458,128

Pension Fund Accounts 2016/2017

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 2017 to be 10.0%. This percentage is the 1 year expected standard deviation for an individual currency at 31 March 2017. The 2016/17 year end analysis indicates that there is an increased level of likely currency sensitivity forecast this year compared to last year, and indeed the year in review has seen some evidence of this up-turn in currency volatility. Consolidation of the data and analysis carried out indicates that, assuming that all other variables such as price movement and interest rates remain constant, a strengthening/weakening of sterling against the various currencies in which the Fund indirectly holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2017 £000	Potential change in exchange rates %	Value on increase £000	Value on decrease £000
Overseas equities	1,268,892	10.0	1,395,780	1,142,002
Overseas government bonds	21,210	10.0	23,331	19,089
Overseas corporate bonds	104,672	10.0	115,140	94,205
GARS Fund	63,354	10.0	69,690	57,019
Total change in assets available	1,458,128	10.0	1,603,941	1,312,315

Currency exposure - asset type	Asset value as at 31 March 2016 £000	Potential change in exchange rates %	Value on increase £000	Value on decrease £000
Overseas equities	934,334	5.89	989,366	879,302
Overseas government bonds	16,697	6.47	17,777	15,617
Overseas corporate bonds	84,349	6.47	89,806	78,892
GARS Fund	62,573	5.99	66,321	58,825
Total change in assets available	1,097,953	5.95	1,163,270	1,032,636

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. These documents are themselves subject to independent review by the investment managers' own appointed auditors to help provide assurance 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.

Pension Fund Accounts 2016/2017

The Pension Fund's Cash Management Strategy for 2016/17 (and its forward looking strategy for 2017/18 which is now in place) sets out the type and minimum acceptable criteria for investments; the institutions with which they can be placed; the maximum value that can be placed with each institution and the maximum period for which money can be invested. The strategy references and details the Fund's processes and procedures in terms of its cash management and how specialist external advice is used within the process. In terms of this external advice then the Pension Fund utilises the services of Arlingclose for formulating and monitoring the Fund's list of approved counterparties. Arlingclose use 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 where available to advise of a maximum suggested investment period with that counterparty.

The Fund believes that it has, through a continuing difficult period for financial markets and institutions, adequately managed its exposure to credit risk. There have been no instances of default or uncollectible deposits over the past six financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2017 was £7.1 million (31 March 2016 was £10.0 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	Rating (Fitch Long Term) (at 31 March 2017)	Balances as at 31 March 2016 £000	Balances as at 31 March 2017 £000
Money Market Funds			
Standard Life	AAA	8,658	6,550
Invesco Perpetual	AAA	2,097	
Bank Current Accounts			
TCBC Pension Fund		(743)	532
Total		10,012	7,082

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 its cash investments within money market funds allowing same day access to cash deposited without penalty. Indeed, at 31 March 2017, 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 six month period if required.

In practice, however, the vast majority of cash deposits will be available to a much shorter timescale, as demonstrated at the year-end when all cash deposits were immediately available should this have been required. The Fund monitors and manages the timing of its cash flows on both an operational and a longer term strategic basis. The strategic profile of the Fund continues to show that the Fund's cash flow is positive with contributions being received exceeding the value of benefits paid out. This excess is diminishing year on year, but continues to be appropriately monitored in a strategic sense. With the Fund remaining fundamentally cash generative however, though the Fund's strategic asset allocation contains a 3% allocation to cash, the Fund has again been comfortable (documented via its cash management strategy) to allow cash levels to float around or below the 1% level during the 2016/17 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 2013. That valuation showed that the employers would need to pay different contributions to the Fund from 1 April 2014. The common rate of employers' contributions payable is 13.1% 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 12.5% depending on their salary.

- 18.3 The contribution rates for the unitary councils with effect from 1 April 2016 are as follows:-

Blaenau Gwent	Greater of a) 12.4% plus £3,668,100 or b) 21.5%
Caerphilly	Greater of a) 12.8% plus £5,982,900 or b) 19.5%
Monmouth	Greater of a) 13.6% plus £3,080,600 or b) 21.1%
Newport	Greater of a) 12.4% plus £4,325,100 or b) 19.2%
Torfaen	Greater of a) 12.4% plus £4,158,100 or b) 21.2%

Pension Fund Accounts 2016/2017

A full list of contribution rates for all employers can be found in the Actuarial Valuation which is available on the Pension Fund website. 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 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.
- 18.5 A new Actuarial Valuation was carried out as at 31 March 2016 and the resulting changes in contributions rates will apply from 1 April 2017. The market value of the Fund's assets at the 2016 valuation was £2,210 million. At the valuation date, the Fund's liabilities exceeded the assets by £850 million giving a revised funding level of 72% (the funding level at the 2013 valuation was 71%), however the funding deficit has increased in monetary terms. Despite an improved funding position, the main reason for the increase in the cash deficit is the result of changes in financial assumptions such as discount rates which have increased the future liabilities for the Fund, together with interest accrued on the existing deficit. This has been offset by mortality and longevity improvements and investment returns greater than expected.
- 18.6 The previous Actuary used the Projected Unit method at the last valuation, but the new Actuary (Hymans) has used a Risk Based Method for this valuation. For the majority of employers the contribution rates which apply are based upon recovery of the deficit over a maximum period of 25 years. Another revaluation of the Fund will take place as at 31 March 2019.
- 18.7 The financial assumptions adopted by the Actuaries were as follows:-

	Funding Target		Normal Cost	
	2013	2016	2013	2016
Discount Rate	4.8%	4.0%	5.6%	4.0%
Pensionable pay increases	4.1%	2.6%	4.1%	2.6%
Pension increases	2.6%	2.1%	2.6%	2.1%

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

<https://gwentpensionfund.co.uk/media/2673/valuation-report-march-2013.pdf>

<https://gwentpensionfund.co.uk/media/2674/valuation-report.pdf>

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

- 19.1 The Code 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 IAS19 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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.5% per annum	2.6% per annum
Rate of pay increases	3.7% per annum	2.8% per annum
Rate of increase in pensions (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.4% per annum

Pension Fund Accounts 2016/2017

- 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 2017.
<https://gwentpensionfund.co.uk/media/2674/valuation-report.pdf>
- 19.3 During the year bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.5% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation also increased during the year, resulting in a higher assumption for pension increases at the year-end than at the beginning of the year (2.2% p.a. versus 2.4% p.a.).
- 19.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2016 was estimated as £3,658 million. The impact of the changes in financial assumptions between 31 March 2016 and 31 March 2017 as described above is to increase the liabilities by £667 million. The estimated effect of the changes in demographic and longevity assumptions is to decrease the value by £144 million. Other experiences changes such as membership changes between the 2013 and 2016 formal triennial valuations (which we can only allow for triennially), adding interest over the year and allowing for net benefits accrued/paid over the period increases the liabilities by another £288 million.
- 19.5 The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £4,469 million.

20. CURRENT ASSETS

Restated 31 March 2016 £000		31 March 2017 £000
	Contributions due from employing bodies:-	
2,004	- Employees contributions	2,041
5,574	- Employers contributions	5,950
1,490	Early retirement costs	1,014
192	Fund manager fee rebates	198
-	Administrative costs	9
5	Pension payroll	7
6	Interest	2
1,984	Group transfer receivable	1,587
11,255		10,808

Analysis of debtors

Restated 31 March 2016 £000		31 March 2017 £000
1,986	Central Government bodies	1,623
7,799	Other Local Authorities	7,622
1,470	Other entities and individuals	1,563
11,255		10,808

a) Funding of early retirement costs

During 2016/17, the cost to the pension fund of early retirements arising in that year was £3,856,447, which is paid by the employers in 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.

Pension Fund Accounts 2016/2017

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 2016/17 and in future financial years for early retirements known as at 31 March 2017. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2016/17 in respect of:		
Prior Years	500	
Current Year	3,809	4,309
Balances b/f 1 April 2016	1,490	
Payments Received in 2016/17	(4,449)	
Reversal of previous instalments due	(1,252)	(4,211)
Instalments due for 2017/18	361	
Instalments due for 2018/19 & later years	555	916
2016/17 Debtor		1,014

The instalments due for 2016/17 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2016/17.

21. CURRENT LIABILITIES

31 March 2016		31 March 2017
£000		£000
(3,596)	Unpaid benefits	(2,458)
(810)	Pension payroll	(813)
(5)	Refunds due to employers	(1)
(54)	Inland Revenue	(51)
(1,866)	Investment management expenses	(1,594)
(38)	Oversight and governance costs	(34)
(16)	Administrative costs	-
(48)	AVC	(58)
(5,000)	Group transfers payable	(6,365)
(11,433)		(11,374)

Analysis of creditors

31 March 2016		31 March 2017
£000		£000
(864)	Central Government bodies	(864)
(1,833)	Other Local Authorities	(2,233)
(8,736)	Other entities and individuals	(8,277)
(11,433)		(11,374)

Group transfer payable

In 2013 the University of Wales Newport was merged with the University of Glamorgan to create the University of South Wales, and the members of UWN who were part of the Fund were transferred to the Rhondda Cynon Taff Pension Fund. The Actuaries of the funds have been working together to finalise the transfer of assets between the funds. In March 2013 the assets in the Fund were estimated to be £38 million and so a liability was set up on the fund for £45 million. During 2015/16 a payment on account of £40 million was made to Rhondda Cynon Taff Pension Fund and the remaining £5 million was carried forward. In September our Actuary Hymans suggested a valuation of the outstanding liabilities to be based on the original estimate uplifted for market returns and reduced for the payment made. This process has been used to increase the remaining £5 million to £6.365 million.

22. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

Provider	Standard Life	Clerical and Medical	Equitable Life	TOTAL
	£000	£000	£000	£000
Contributions received 2016/17	355	141	12	508
Market value of AVC Investments 31st March 2017	4,084	1,793	940	6,817

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. AGENCY SERVICES

- 23.1 The Pension team make the following payments in respect of unfunded pensions benefits and unfunded teachers benefits. These payments relate to additional benefits granted to employees on retirement by their employer, and are recovered from the employer.

31 March 2016		31 March 2017
£000		£000
	Payments on behalf of:-	
14	Central Government	34
9,056	Other Local Authorities	8,911
22	Other entities and individuals	22
9,092		8,967

24. RELATED PARTY TRANSACTIONS

- 24.1 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 Management Expenses (note 11, page 63). 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.

24.2 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.

24.3 Key management personnel

There are two employees of Torfaen CBC who hold key positions in the financial management of the Fund providing management services to the fund, as a separate management entity. They are the Assistant Chief Executive (Resources) and the Head of Human Resources and Pensions. The management of the Fund only forms part of their roles and their time allocated to the Pension Fund is 5% and 50% respectively. Further details of remuneration payable can be found within the Council's financial accounts. The amounts of these payments are immaterial with regard to the costs of the management of the Fund, details of which are found in note 11.

25. PRIOR PERIOD ADJUSTMENT

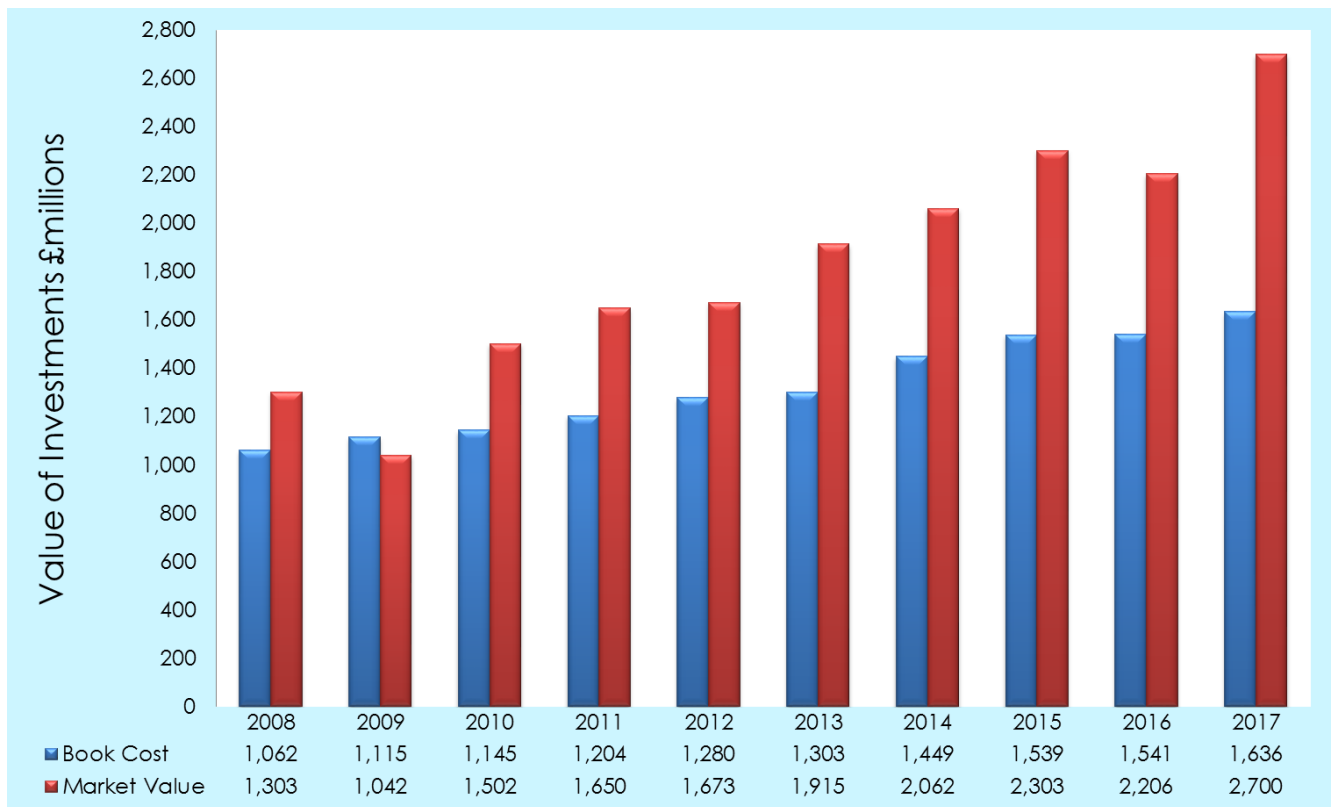
- 25.1 Capita Gwent Consultancy was a joint venture limited company between Capita and 4 Local Authorities within the fund. The contract that enabled Capita Gwent Consultancy to be part of the fund ended in 2012/13, and as a result they left the fund, leaving a liability which the Actuary estimated at £7.9 million. In 2015/16 a payment was received from Capita of £3.3 million towards the liability and £0.5million of liabilities were transferred out, leaving £4.14 million as a debtor which would be funded by the Local Authorities who were part of the joint venture. This was taken into account by the March 2016 valuation. The liability became due in March 2015 when the authorities involved agreed to fund the deficit. Therefore a prior period adjustment has been made to recognise this and the Net Asset Statement has been adjusted to remove the £4.14 million debtor. The Net Assets Statement and relevant notes have been restated to reflect this adjustment.

Appendices

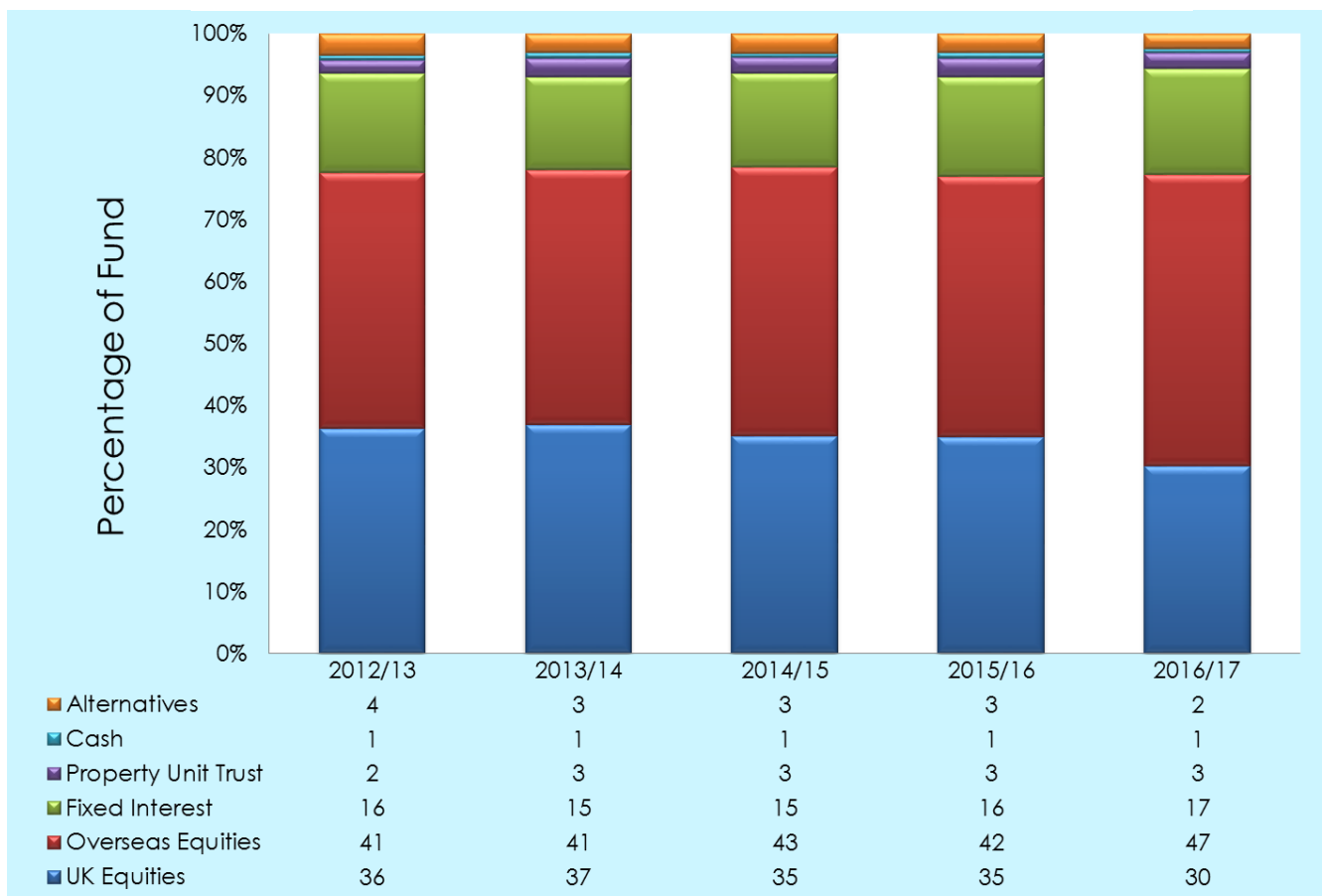
Appendix		Page Number
1	Ten Year Valuation of Investments	86
1	Tactical Asset Allocation	86
2	Top Ten UK Equity Holdings	87
3	Ten Year Summary of Statistics	88
4	Points of Contact	89

Appendix 1

Ten Year Valuation of Investments













Tactical Asset Allocation



Appendix 2

Top Ten UK Equity Segregated Holdings as at 31 March 2017

Company		Bid Market Value £
Royal Dutch Shell		34,659,343
British American Tobacco		34,432,139
BP		27,956,479
Rio Tinto		19,387,773
HSBC		18,532,470
Diageo		17,085,535
Prudential		16,484,658
GlaxoSmithKline		15,784,152
Barclays		15,003,235
Shire		14,507,642

Ten Year Summary of Statistics

Revenue Account	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Contributions	99,087	105,720	113,894	110,304	101,652	101,028	109,666	104,655	103,450	107,205
Transfer Values Received	11,378	6,672	12,603	7,265	7,824	4,942	7,946	5,318	9,277	5,573
Investment Income and Other	18,682	18,096	16,043	17,099	21,448	20,659	26,095	20,800	17,772	19,283
Total Income	129,147	130,488	142,540	134,668	130,924	126,629	143,707	130,773	130,499	132,061
Pensions and Other Benefits	62,146	69,411	76,190	81,491	84,538	88,856	95,175	102,179	109,229	108,881
Transfer Values Paid	5,901	3,499	8,875	8,512	22,965	6,303	3,177	49,692	9,377	7,138
Refunds of Contributions	37	13	15	5	2	5	8	149	239	248
Fees and Other	5,179	4,199	4,667	5,810	6,032	6,642	8,709	9,403	9,205	8,933
Total Expenditure	73,263	77,122	89,747	95,818	113,537	101,806	107,069	161,423	128,050	125,200
Net Surplus for Year	55,884	53,366	52,793	38,850	17,387	24,823	36,638	(30,650)	2,449	6,861
Net Profit/(Loss) on Sale of Investments	12,152	(936)	(20,183)	20,631	40,620	14,317	119,325	75,822	30,736	99,726
Unrealised Change in Market Value	(64,259)	(310,662)	430,997	89,520	(52,621)	218,496	1,124	150,940	(99,529)	387,623
Increase/(Decrease) in the Fund	3,777	(258,232)	463,607	149,001	5,386	257,636	157,087	196,112	(66,344)	494,210
Investment Assets	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Book Cost at 31 March	1,061,990	1,114,650	1,144,901	1,203,604	1,279,958	1,302,617	1,449,212	1,538,838	1,540,889	1,635,895
Market Value at 31 March	1,302,616	1,042,438	1,501,677	1,649,900	1,673,634	1,914,788	2,062,483	2,303,073	2,205,596	2,700,194
Membership										
Contributors	21,834	22,143	21,667	21,196	20,550	20,582	22,435	22,880	23,607	22,788
Pensioners	12,183	12,610	13,091	13,576	13,910	14,296	14,820	15,204	15,816	16,388
Number of Preserved Benefits	9,067	9,735	10,577	11,378	12,189	13,180	14,359	15,153	16,058	18,068
Total	43,084	44,488	45,335	46,150	46,649	48,058	51,614	53,237	55,481	57,244

Appendix 4

Points of Contact

**Governance, Management and Investments**

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Civic Centre
Pontypool
Torfaen NP4 6YB

Or visit the website:-

www.gwentpensionfund.co.uk