Greater Gwent (Torfaen) Pension Fund

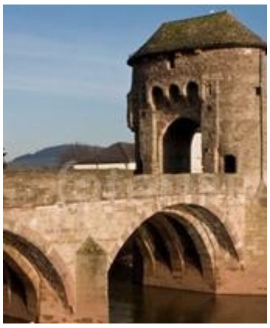
Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2014/2015

Nigel Aurelius, CPFA
Assistant Chief Executive Resources


lgps look forward with confidence

TORFAEN COUNTY BOROUGH
BWRDEISTREF SIROL TORFAEN

Left blank for printing purposes

Index

Contents	Page Number

INTRODUCTION

1.1 There has been much debate over the past 12 months about the costs, affordability and sustainability of the Local Government Pension Scheme. The passage of the Public Sector Pensions Act 2013 provided the map for the introduction of National Boards for the major public sector pension schemes such as the LGPS and the end of this financial year coincides with the publication of the second Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales published by the Schemes Shadow National Advisory Board. This report sets out some important messages in respect of the LGPS which is one of the largest defined benefit (DB) schemes in the world and is the largest DB scheme in England and Wales, with over 10,000 employers, 5m members and assets of £190bn. The aim of the Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. Continually improving key information and consistency of data presentation about the Scheme as a whole is seen as one of the top priorities in enabling continuing improvements in governance standards across the scheme.

1.2 The report highlighted that:

- The total membership of the LGPS grew by 243,000 (4.9%) to 5m members in 2014 from 4.8m in 2013 and number of LGPS employers increased by 1,331 (14%) to 10,671.
- The total assets of the LGPS increased by £11.2bn (6.0%) from £180.9bn to £192.1bn. These assets were invested in pooled investment vehicles (41.1%), public equities (38.5%), fixed interest/index linked (7.9%), property (6.6%), as well as other asset classes (5.7%).
- The net investment return on the scheme assets (after fees) was +5.9%. This was +2.6% greater than a corporate pension fund peer group, which is based on 109 Funds (covering 60% of UK corporate funds) with a total market value of £327bn.
- The scheme continued to remain cash-flow positive. Scheme income exceeded scheme outgoings by £3bn.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
- Over 1.5m pensioners were paid over the year. Less than 200 formal complaints about scheme benefit administration were determined and less than 15% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.

1.3 During 2014 the Board has also developed a suite of LGPS pension fund ‘health’ indicators. These are being piloted in 2015 with the aim of using them as part of the LGPS 2016 triennial valuation. This will enable assessment and benchmarking of the overall health of the scheme relative to other large public or private pension schemes, as well as between individual LGPS funds.

1.4 These national developments for the Scheme are however only part of the story. The new Government continue to have a focus on the costs of the public sector and wider pensions policy and the continuing impact of tax relief changes, the contracting out status, state pension changes and the recent “freedoms and choice” changes will all influence the profile of the Pension Funds membership and the Scheme’s prospects for the future. Changes in reporting to enable specific Scheme wide LGPS comparison have also resulted in additional detail being required within this years’ Annual Report with the result that the publication has increased in size.

1.5 At local level, a Pensions Board has also been established as part of the strengthened Governance of individual funds, where it is hoped that a “governance premium” can be created through sound and transparent governance of Fund matters that help to build quality processes in support of sound decision making.

1.6 Amongst this sea of change, the Fund has achieved a positive annual investment return of 11.84% with a positive increase in its market value from £2,081million to £2,277 million. Our investment performance return for the year was an out-performance against our benchmark (11.38%) that we set ourselves of 0.46%. This now places the Fund ahead of its benchmarks over both short and longer term performance measurement periods. This has not been easily achieved in an economic environment where equity markets provided investment returns ranging from 6.57% to 26.04% dependent on where you were invested, and with Fixed Interest returns reaching levels of 13+% and comfortably outperforming markets such as the UK and Europe, despite the global economic constraints and uncertainties.

1.7 The Pensions Committee have kept a close eye on investments and particularly in respect of any underperformance. It has also focussed on both the actual and proposed changes for the LGPS brought about by national Government legislation and consultations. The recent establishment of the local Pensions Board will provide a constructive challenge to the work of the Pensions Committee and support the desire for continual improvement in the governance and management of the Fund.

1.8 In conclusion, I feel it appropriate to repeat a key message from last year that the Fund recognises that the Local Government Pension Scheme remains a high quality and highly valued defined benefit pension scheme for public sector workers that we should work hard to retain by ensuring it is both affordable and sustainable in the face of substantial change. This continues to be the challenge for the Pensions Committee in shaping change for the future that not only protect the well being of the Fund but ensure a transparency and accountability to all stakeholders.

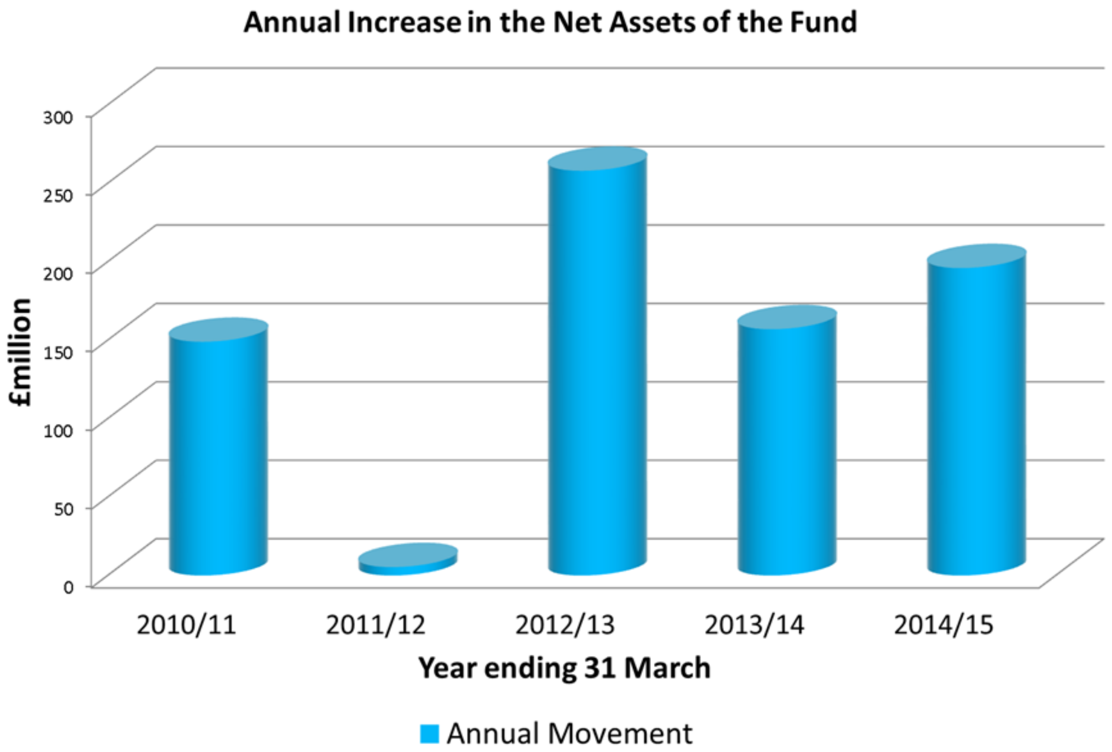
1.9 The combined effect of Public Sector Pensions reform and wider Central Government policy provide for challenging and difficult times. In this context I would like to thank the staff of the Pension Fund for their hard work, commitment and contribution towards delivering an excellent service throughout the year. They continue to place the scheme members first and I know how much 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
JUNE 2015

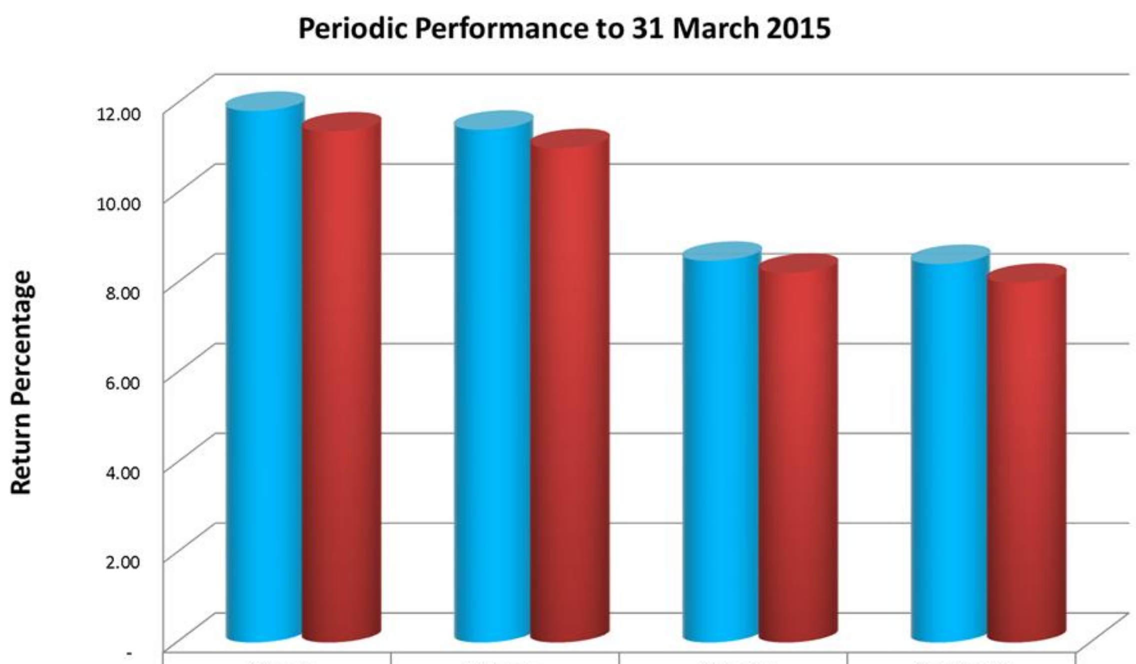
OVERVIEW

1. 2014/2015 in summary

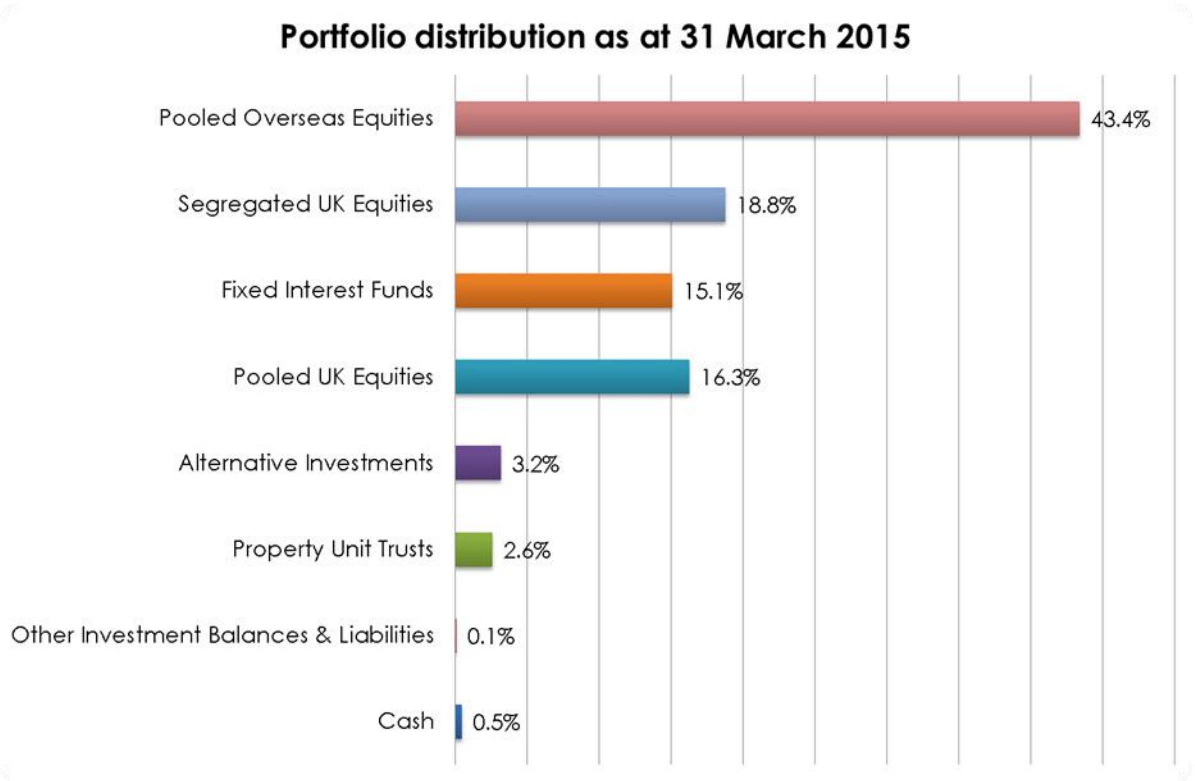
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
53,237	£2.277bn	£102.179m	£104.655m



2. Investments

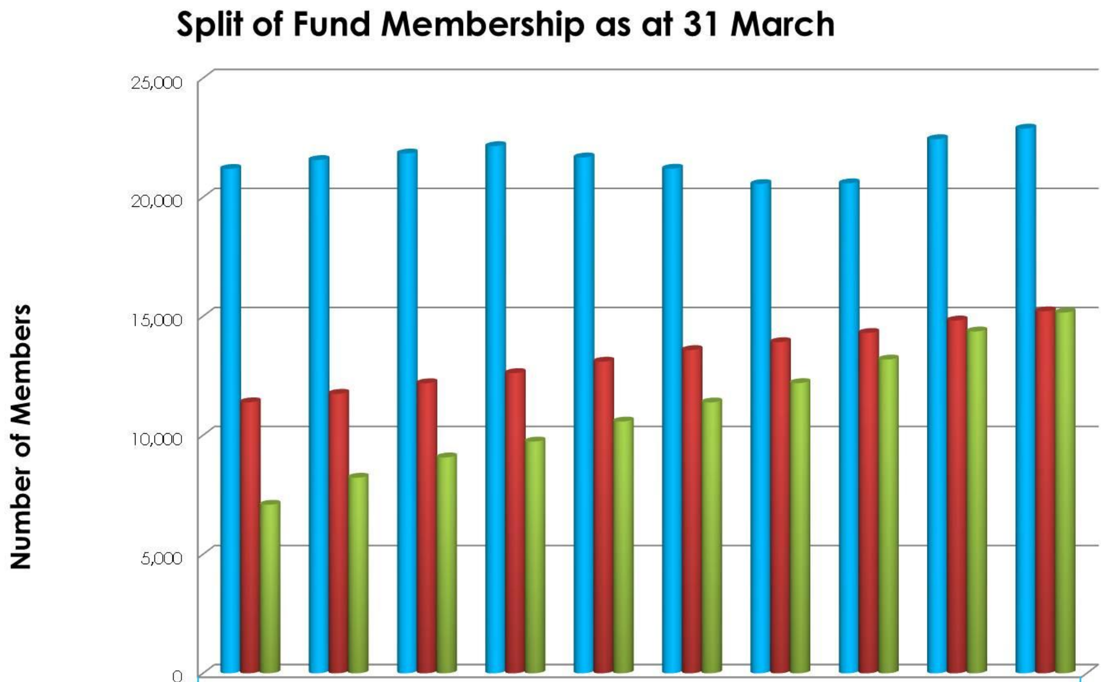


	1 Year	3 Years	5 Years	10 Years
Fund	11.84	11.42	8.50	8.43
Benchmark	11.38	11.01	8.23	8.01



3. Membership

Contributing Members	Members in Receipt of Pension	Members with Preserved Benefits
22,880	15,204	15,153



	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Contributors	21,187	21,559	21,834	22,143	21,667	21,196	20,550	20,582	22,435	22,880
Pensioners	11,383	11,740	12,183	12,610	13,091	13,576	13,910	14,296	14,820	15,204
Number of Preserved Benefits	7,080	8,216	9,067	9,735	10,577	11,378	12,189	13,180	14,359	15,153

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme management and advisors

1.1 The Greater Gwent (Torfaen) Pension Scheme is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (The Benefit Regulations), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (The Administration Regulations) and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended) (The Transitional Regulations). It is the appropriate occupational pension scheme for employees of local authorities in the Greater Gwent area with the exception of teachers and lecturers, who have a separate scheme which applies to them. In addition, the employees of certain bodies providing public services are admitted to the Fund. Details of the authorities covered by the scheme are given on page 82.

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 2015 the structure of the Pensions Committee was as follows:-

Chair
County Borough Councillor - Mary Barnett

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

Chair
County Borough Councillor
Mary Barnett

Assistant Chief Executive Resources
Nigel Aurelius

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

Assistant Chief Executive Resources
Nigel Aurelius, CPFA

Head of Human Resources and Pensions
Graeme Russell, B Com (Hons.), CPFA

Consulting Actuary
Mercer Limited

Independent Investment Consultant
Mercer Limited

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

Global Custodian
BNY Mellon Asset Servicing

Bankers to the Fund as at 31 March 2015
Lloyds Bank
1 Gwent Square
New Town Centre
Cwmbran, South Wales
NP44 1XN

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

1.5 The Fund's secondary committee, the Pension Fund Management Group (PFMG), provides wider stakeholder representation and communication in matters relating to the Fund. This group is made up of representatives of the Greater Gwent Unitary Authorities, a number of other significant employers and trade unions. It has also, since April 2011, included pensioner representation. However the role of this Group is currently under consideration given that the Council has now established a new "Pension Board", constituted in accordance with the requirements of the 2013 Public Service Pensions Act, to assist the Administering Authority in its role as the Scheme Manager of the Pension Fund.

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

1.7 When the Pensions Committee was formed by the Council in early 2009, Committee members commenced a programme of training aimed to provide them with the necessary knowledge and skills to undertake the fundamental requirements of their role and to help equip them to take effective decisions. Since this time member training has been developed, monitored and reviewed on an individual member basis via regular inclusion on Committee meeting agendas, allowing members to discuss training received and identify further training required. The year under review has not seen any changes in Committee membership. The programme of individual training assessment, monitoring and reporting to each meeting of the Pensions Committee has continued and the stability of Committee membership has allowed the members to build on the considerable practical knowledge and skill acquisition achieved during the Far Eastern and Emerging Market managerial appointment process that took place last year, with varied items considered on the agenda at each meeting and also taking opportunities to receive relevant presentations from Fund investment managers. The training programme will continue to develop to reflect suitable and necessary areas of advancement in knowledge and skills identified in conjunction with individual members and the Committee as a whole.

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

2. Risk management

2.1 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 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; and
- 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.

The table below provides a high level summary of the detailed risk information published within the above documents, together with risk mitigation measures in place:-

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Governance and Operational Risks		
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 via the Pension Fund Management Group and now the newly established Pension Board.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
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.
	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.
Compliance	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.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
<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	Seven 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.
	Review	Regular review of investment performance by Fund officers including formal minuted quarterly reviews.
		Formal quarterly review of performance by Pensions Committee. Six monthly review by Pension Fund Management Group.
Specific areas of investment risk	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.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Specific areas of investment risk	Credit Risk (the use of investment counterparties)	Ensuring appropriate selection, diversification and monitoring of fund counterparties. 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. 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.
	Liquidity Risk (ensuring that member benefits can be met as required)	Fund officers monitor cash flow to ensure cash is available as required to meet benefit payments. Maintaining a large proportion of cash investments within money market funds or call accounts allowing same day access to cash deposited without penalty. 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 Pensions Fund Annual Report.
Compliance	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.

2.2 The above table will be reviewed, updated and developed within future versions of this annual report to provide a rolling risk register right across the Fund's operations.

3. Financial performance

3.1 The Fund Account (page 49) indicates a considerable net increase in the net assets of the scheme available to fund benefits during the year of £196.112 million for 2014/15, building on the £157.087 million increase in the Fund in 2013/14. The summarised figures are shown in the table below.

Fund Account 31 March 2015	
	£000
Employees/employers contributions	104,655
Payments and refunds	(102,328)
Net transfer values	(44,374)
Net return on investments	247,555
Other income/expenses	(9,396)
Net increase/(decrease) in the Fund	**196,112**

3.2 Contributions to the Fund from members and employers have decreased by £5.011 million from £109.666 million in 2013/14 to £104.655 million in 2014/15.

3.3 Transfer values received have decreased from £7.946 million to £5.318 million whilst those paid out have increased from £3.177 million to £49.692 million. The 2014/15 transfers out figure include an accrual for an agreed group transfer (note 11, page 58).

3.4 Payments to beneficiaries in respect of pensions have increased by £7.004 million from £95.175 million in 2013/14 to £102.179 million in 2014/15.

3.5 The net assets of the Fund are represented primarily by investments (see below and page 60). Appendix 1 (page 81) illustrates the movement in the market value of investments since March 2006 and the tactical asset allocation.

Net Assets 31 March 2015		
	£000	**£000**
Fixed interest	347,960	
UK equities	807,827	
Overseas equities	997,404	
Property unit trusts	59,987	
Alternative investments	75,117	
Cash	11,475	
Other investment balances	3,303	2,303,073
Investment liabilities		-
Current assets		23,051
Current liabilities		(49,125)
Net Assets of the Fund		**2,276,999**

3.6 **Timeliness of receipt of contributions**

The table below sets out the percentage of contributions received from employers on or before the due date during 2014/2015. 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.

	2014/2015
Percentage of contributions received on or before the due date	99.93%

The option to levy interest on overdue contributions has not been exercised.

3.7 **Forecasts**

The following tables show the forecasts and outturn for the Fund Account and Net Asset Statement for the 3 years to 31 March 2016. 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	**2013/2014**		**2014/2015**		**2015/2016**
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Income					
Contributions receivable	(100,000)	(109,666)	(100,000)	(104,655)	(102,462)
Transfers in	(7,900)	(7,946)	(4,900)	(5,318)	(5,605)
Other income		(7)		(7)	
Investment income	(21,600)	(26,088)	(21,200)	(20,793)	(14,131)
Total income to the Fund	**(129,500)**	**(143,707)**	**(126,100)**	**(130,773)**	**(122,198)**
Spending					
Benefits payable	94,700	95,175	98,700	102,179	105,741
Transfers out	6,000	3,185	4,900	49,841	4,720
Management expenses	8,679	8,709	9,215	9,403	9,786
Total spending for the Fund	**109,379**	**107,069**	**112,815**	**161,423**	**120,247**
Profit and losses on disposal of investments and changes in the market value of investments	**(130,522)**	**(120,449)**	**(127,712)**	**(226,762)**	**(141,908)**
Net increase in the Fund	**(150,643)**	**(157,087)**	**(140,997)**	**(196,112)**	**(143,859)**

CIPFA guidance 'Accounting for Local Government Pension Scheme Management Costs' states that investment management costs should include the transaction costs associated with the acquisition or disposal of fund assets. The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance in the Fund accounts. Consequently, the forecasted and actual management expenses reported in the table above for 2013/14 have been increased by £1.086m and profit and loss on disposal of investments and changes in the market value of investments have been increased by £1.086m to reflect the transaction costs which had been deducted at source. The forecast for 2014/15 has been restated in the same way using previously estimated transaction costs of £0.836m.

Net Asset Statement	2013/2014		2014/2015		2015/2016
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,599,635	1,615,869	1,728,980	1,805,231	1,931,597
Government Bonds	161,232	151,375	155,613	172,456	177,285
Other Bonds	159,013	154,479	160,504	175,504	182,349
Property	43,026	53,802	56,869	59,987	63,406
Cash and Other	81,318	86,958	87,393	89,895	90,344
Net Investment Assets	**2,044,224**	**2,062,483**	**2,189,359**	**2,303,073**	**2,444,981**

The 2015/2016 forecasts for total investment assets are based on the actual figures for 31st March 2015, 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
Equities	7.0% pa
Government Bonds	2.8% pa
Other Bonds	3.9% pa
Property investments	5.7% pa
Cash	0.5% pa
Discount rate	**5.6% pa**

3.8 **Operational expenses**

	2013/2014		2014/2015		2015/2016
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Administrative costs	1,150	1,201	1,060	995	1,125
Investment management expenses	6,854	6,816	7,491	7,753	7,916
Oversight and governance costs	675	692	664	655	745
Total	**8,679**	**8,709**	**9,215**	**9,403**	**9,786**

3.9 **Analysis of pension overpayments**

The pension fund routinely participates in the National Fraud Initiative (NFI). The last NFI was carried out in 2014.

4. Administrative management performance

4.1 Key administration performance indicators

The table below shows the key administration related Performance Indicators for 2014/2015.

Performance Indicator	Target for Completion (days)*	% Processed within Target	Average Number of Days
Transfer	10	95.3	2.4
Death	5	99.2	0.6
Retirement Estimate	10	72.8	5.8
Deferred	10	89.5	7.8
Retirement	5	73.3	4.9

*From receipt of clean and complete data

4.2 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	2014/2015 Costs £000	Cost per Member £
Membership as at 31 March 2015			
Contributors	22,880		
Pensioners	15,204		
Deferred benefits	15,153		
Total scheme members	**53,237**		
Administrative costs		995	**18.7**
Investment management expenses		7,753	**145.6**
Oversight and governance costs		655	**12.3**
Total management expenses		**9,403**	
Total Cost Per Scheme Member			**176.6**

4.3 Key staffing indicators

There are 23.2 full time equivalent members of staff in the Pension Section, including the Pension Manager

- **The Payroll Team**

The Payroll team comprises of 3.4 members of 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.

- **The Benefits Team**

The Benefits team comprises 10 members of 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 53,237 as at 31 March 2015, the Payroll and Benefits staff to fund member ratio is 1 full time staff member to 3,973 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	3.4	1,596	469
Benefits Team	10	10,162	1,016
Total	**13.4**	**11,758**	**877**

*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 3 members of staff and has been responsible for communicating the new LGPS2014 to employers and employees, and developing communication with active members, deferred members, pensioners, employers and other stakeholders.

4.4 **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	27	7	34
Admitted body	1	1	2
Deemed body	30	7	37
Total	**58**	**15**	**73**

4.5 **Contributions received in 2014/2015 split by employers and employees**

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Administering Authority				
Torfaen CBC	3,401	11,664	15,065	13,911
Scheduled Bodies				
Blaenau Gwent CBC	2,704	10,204	12,908	13,820
Caerphilly CBC	6,561	22,007	28,568	21,649
Monmouthshire CC	2,763	9,857	12,620	10,522
Newport City Council	3,989	13,397	17,386	16,799
Caldicot & Wentloog LDB	33	124	157	50
Valuation Panel	9	32	41	31
Coleg Gwent	666	2,201	2,867	2,085
Chepstow Town Council	5	19	24	6
Brynmawr Town Council	1	3	4	56
Gwent Police Authority	0	0	0	1,828
Chief Constable (Gwent)	1,356	3418	4,774	775
Police & Crime Comm (Gwent)	92	100	192	0
Gwent Magistrates	0	0	0	431
Silent Valley Waste Disposal	6	29	35	26
Caldicot Town Council	3	9	12	0
Nantyglo & Blaina Town Council	1	5	6	8
Monmouth Town Council	2	6	8	1
Gwent Cremation Committee	12	34	46	47
Cwmbran Community Council	11	43	54	12
Pontypool Community Council	9	27	36	11
Tredegar Town Council	2	9	11	0
Rhymney Valley	0	0	0	1
Welsh Water	0	0	0	4
Rogerstone Community Council	4	10	14	2
Bargoed Town Council	1	2	3	11
Portskewett Community Council	1	1	2	0
Shirenewton Community Council	0	2	2	0
Henllys Community Council	1	1	2	0
Magor with Undy Com Council	2	7	9	0
Langstone Community Council	1	3	4	0
Former Scheduled Bodies				
Gwent County Council	0	0	0	11,957
Comm for New Towns	0	0	0	922
DHSS	0	0	0	9
Deemed Bodies				
Islwyn Transport	0	0	0	164
Newport Transport	13	278	291	1,156
Admitted Bodies				
Big Pit	0	0	0	34
Melin Homes (formerly EVHA)	117	236	353	11
Careers Wales Gwent	167	499	666	580
Citizen Advice Bureau Caerphilly	13	38	51	1
Mitie (formerly Ballast)	2	8	10	7
CWVYS	0	3	3	20
Capita Gwent Consultancy	0	0	0	1,283
Hafod Care	31	24	55	126
Archives	18	47	65	34

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
OCS Ex Monmouth CC	0	16	16	2
OCS Ex UWN	1	6	7	46
Manpower	0	0	0	17
Monmouthshire HA	263	592	855	495
Bron Afon	777	1,509	2,286	757
Newport City Homes	378	840	1,218	818
Tai Calon	430	1,063	1,493	1,053
Manpower UK Ltd	0	0	0	3
DRIVE	5	13	18	4
Regent Ex Mon CC	2	6	8	2
Regent Ex Monmouth Cluster	2	8	10	3
Regent Ex Abergavenny Cluster	0	1	1	0
Regent Ex Chepstow Cluster	2	9	11	0
Vinci	1	6	7	1
Compass Catering Newport	32	113	145	60
Compass Catering St Albans	1	4	5	0
National Trust	8	25	33	0
Barnardo's	5	13	18	14
Education Achievement Service	252	657	909	380
Caterlink NCC Caerleon	7	20	27	16
Caterlink NCC Npt High	12	39	51	3
Churchill	4	15	19	6
Monwell Ltd	23	77	100	66
Torfaen Leisure Trust	97	160	257	5
Borough Theatre	9	32	41	0
NCS - Norse	76	235	311	0
NPS - Newport	23	65	88	0
Life Leisure	111	266	377	38
Totals	**24,518**	**80,137**	**104,655**	**102,179**

INVESTMENT POLICY AND PERFORMANCE REPORT

1. Investment objectives

1.1 From an investment perspective this report reflects on a year that has, despite some periods of market uncertainty and volatility, seen a continuation of the post financial crisis global economic recovery, reflected in a very good period for global investment markets. The year has again seen varying levels of return across the asset classes and regions in which the Fund invests and this, together with the volatility experienced at times, demonstrates the need for a diversified investment strategy to spread investment risk as far as is possible within the constraints of return required by the Fund to help meet its long term funding target of 100% cover for member benefits payable into the future.

1.2 The objective in investing Fund monies is thus the maximisation of the return on the money entrusted to the Fund, consistent with acceptable levels of risk. The portfolio's investment performance directly influences the contribution employers need to make to the Fund to pay for the statutory benefits payable from it. However, two particular factors need to be borne in mind. Firstly, the Fund's liabilities are very long term and secondly, those liabilities will increase with inflation and the rising level of employees' salaries and wages to the time of retirement. The need to ensure liquidity to pay benefits as they fall due is also a consideration in determining investment strategy. At present Fund income is exceeding expenditure and so the Fund has not been faced with the prospect of enforced realisation of investment. This requires regular monitoring however as the 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, fixed interest investments, equity, property and alternative investments. More details are contained in the Funding Strategy Statement (see page 40). The principal powers to invest, and the regulations governing fund investments, were most recently consolidated within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1st January 2010.

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

1.5 The reporting period has seen no significant changes in the Fund's investment management arrangements. The changes made last year within the Fund's Emerging Market and Far Eastern equity mandates, with the appointments of Fidelity and Invesco respectively to manage these, have been successfully embedded within the Fund's accounting and performance monitoring arrangements. Both mandates have also performed well during the year so a pleasing start to the new arrangements.

Beyond that, there was a change made in October 2014, for cost efficiency reasons, within the Fund's allocation to UK Equities by transferring a portion of the Fund's directly owned (segregated) share holdings into a pooled fund arrangement, though still with the same manager, BlackRock. This was however essentially a "house-keeping" change and there were no further changes made during the year to report.

1.6 At the reporting date therefore, the Fund's assets remain primarily held with seven external fund managers namely Aberdeen Asset Managers, BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management, Nomura Asset Management and Standard Life Investments.

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 2015 (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 2015 (%)
UK Equities				
UK Equities	Passive	BlackRock	13.8	11.8
UK Equities	Active	Lazard	19.6	18.8
UK Equities	Active	Standard Life	4.6	4.5
Overseas Equities				
US Equities	Passive	BlackRock	7.0	9.5
European Equities	Active	BlackRock	14.0	13.6
Japanese Equities	Active	Nomura	3.0	3.3
Far East Equities	Active	Invesco	4.0	5.3
Emerging Markets	Active	Fidelity	2.0	2.7
Global Equities	Active	Aberdeen	9.0	9.0
Fixed Interest				
Government Bonds	Active	BlackRock	7.0	7.5
Corporate Bonds	Active	BlackRock	7.0	7.6
Alternative Investments				
Diversified Alternatives	Active	Standard Life	3.0	2.8
Other	Active	M&G	1.0	0.4
Other				
Cash/Other	Active	TCBC	3.0	0.6
Property Unit Trusts	Active	TCBC	2.0	2.6
Total			**100.0**	**100.0**

2.2 The table shows that variances to strategy and actual allocations are not extensive but the following provides some detail on 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 be achieved by tactically allocating the excess cash across a number of other Fund investments. The 2.4% 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.

- In terms of US Equities then these investments have continued to perform very strongly, leading the allocation to naturally move marginally further upward during the year relative to other weaker performing asset classes. The continuing strong US performance means the Fund is currently comfortable with the overweight position which generally fits with a momentum started in 2009 to slightly lower domestic equity exposure versus overseas equities. This is also demonstrated within the net 1.3% overweight to Far Eastern Equities and the 2.9% underweight across UK Equities evident at the year end.

2.3 At 31 March 2015 the net investment assets of the Fund (measured at bid-price market value) were administered as follows:-

	Investments at Market Value	%	Cash & Other Balances	%	Investment Liabilities	%	Net Investment Assets	%
	£000		**£000**		**£000**		**£000**	
BlackRock	1,151,249	50.0	-	-	-	-	1,151,249	50.0
Lazard	432,459	18.8	6,734	0.3	-	-	439,193	19.1
Aberdeen	206,489	9.0	-	-	-	-	206,489	9.0
Standard Life	169,007	7.3	-	-	-	-	169,007	7.3
Invesco	123,084	5.3	-	-	-	-	123,084	5.3
Nomura	74,798	3.3	-	-	-	-	74,798	3.3
Fidelity	61,217	2.7	-	-	-	-	61,217	2.7
TCBC	69,992	3.0	8,044	0.3	-	-	78,036	3.3
Total	**2,288,295**	**99.4**	**14,778**	**0.6**	**-**	**-**	**2,303,073**	**100**

To comply with reporting requirements, any creditors in respect of investment transactions and other liabilities directly connected with investment transactions are shown separately within the Net Assets Statement as an investment liability, rather than reducing the cash at fund manager figure within the investment assets. There are no investment liabilities as at 31 March 2015.

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 2015, versus both the Fund's bespoke investment benchmark and the Local Authority average performance, as provided by WM Performance Services:-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
Greater Gwent (Torfaen)	11.84	11.42	8.50	8.43
Strategic Benchmark	11.38	11.01	8.23	8.01
Out/(Under) Performance	**+0.46**	**+0.41**	**+0.27**	**+0.42**
Greater Gwent (Torfaen)	11.84	11.42	8.50	8.43
WM Local Authority Average	13.25	11.08	8.76	7.91
Out/(Under) Performance	**-1.41**	**+0.34**	**-0.26**	**+0.52**

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 2015:-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
UK Equities	6.3	11.7	8.9	7.7
US Equities	26.4	19.1	15.0	11.0
European Equities	8.9	16.0	7.9	9.4
Asia (ex Japan) Equities	21.0	8.1	5.6	12.4
Emerging Market Equities	21.4	3.1	0.7	11.6
Japanese Equities	25.7	11.3	5.8	4.2
Global Equities	11.0	10.1	8.6	N/A
Government Bonds	13.9	6.5	8.2	6.9
Corporate Bonds	13.6	9.9	9.1	7.0
Property	14.8	9.1	7.6	2.3
Alternatives	9.9	7.1	6.8	N/A
Cash and Other	0.3	0.4	0.8	N/A
Total	**11.84**	**11.42**	**8.50**	**8.43**

Performance data supplied by BNY Mellon Asset Servicing / WM Performance Services

3.3 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2015 the Fund made an overall investment return of 11.84% compared with 11.38% for the benchmark return.

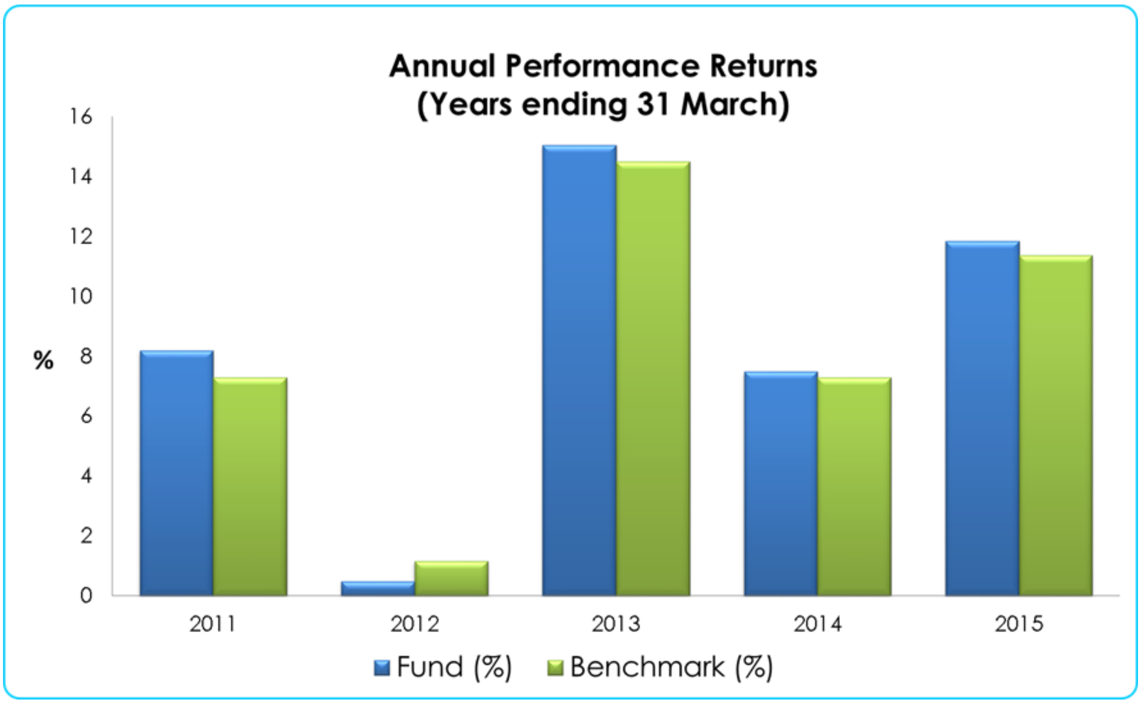
3.4 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's strategic asset allocation weightings of 38% UK Equities, 30% Overseas Equities, 9% Global Equities, 14% Fixed Interest, 2% UK Property Unit Trusts, 4% Alternative Investments and 3% Cash.

3.5 The +0.46% out-performance for 2014/15 means that the Greater Gwent Fund has achieved above benchmark performance in 5 out of the last 6 years.

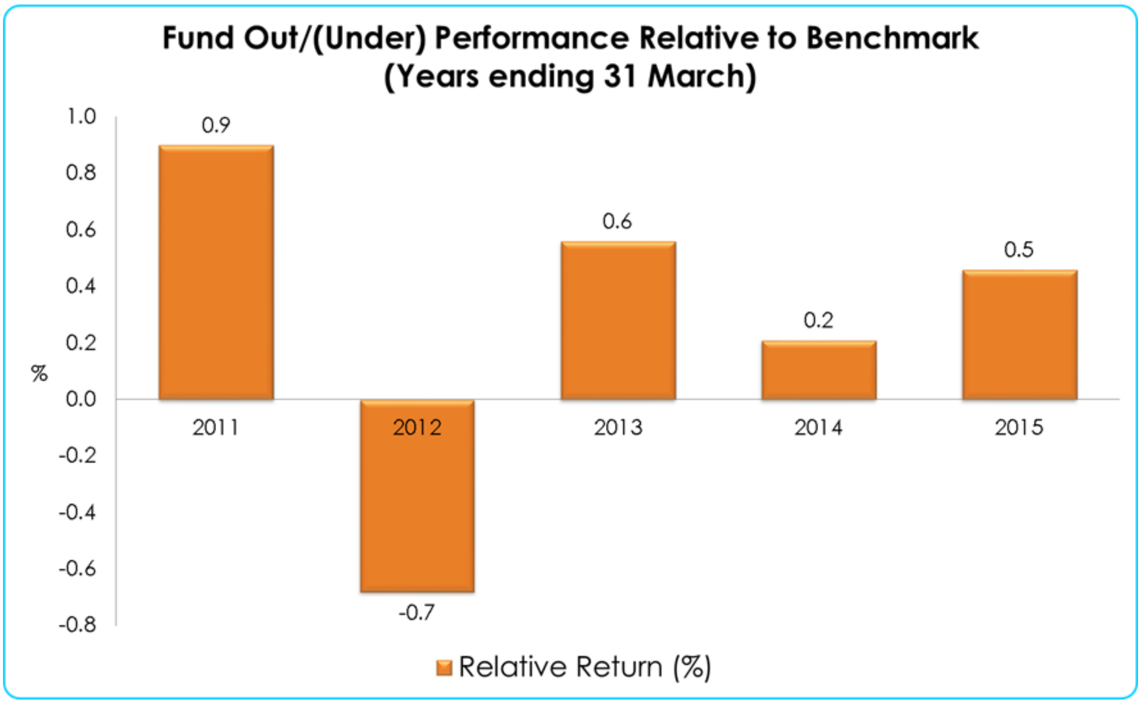
3.6 The Fund also subscribes to the WM State Street Local Authority performance service, which shows that the return for the average Local Authority fund for the year ending 31 March 2015 was 13.25%. Though the Fund therefore under-performed the 1 year average by -1.41% in the year under review, it has out-performed the average over the longer term 3 and 5 year periods by+0.34% and +0.52% respectively

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

Last year's Annual Report noted a period of overall continuing global economic recovery that generally supported world equity markets, albeit generating differing levels of performance across the world's regions and markets as economies grew at different rates and individual governments and central banks continued to adjust policy accordingly. 2014/15 has seen further evidence of the period of post financial crisis recovery and healing continuing. The varying speeds of regional economic recovery has again been evident, though maybe to a lesser degree, as markets, across all the asset classes in which the Fund invests, have generally been very strong.

In the United States (and to an extent in the UK) the continuing economic recovery has meant that momentum has shifted somewhat during the year from monetary easing towards the prospects of interest rate rises. Though the timing remains uncertain, this gradual change in emphasis has been a notable feature of the year. At the same time however other world economies, such as Europe, Japan and to an extent China, are continuing to stimulate their economies via monetary easing. This "mix" of policy, together with periods of geo-political uncertainty, has meant that, despite the strong headlines, there have been periods of considerable market volatility throughout the period under review. The following provides a flavour of the year's economic and political events and the impact on markets as the year developed.

After a generally strong 2013, 2014 had seen a much more muted start across global markets and asset classes with concerns remaining over emerging markets; worries of a slowdown in China and geo-political concerns in Ukraine impacted sentiment.

The start of the 2014/15 reporting period (**2014 Q2**), however was more positive in overall turns with Central Bank assurances and intervention helping to secure, despite continuing global geo-political tensions, all the asset classes and regions in which the Fund invests to post positive market returns. the US Federal reserve Chair, Janet Yellen, bolstered markets when she indicated that interest rates would remain at a record low for some time to come and the European Central Bank President, Mario Draghi, attempted to kick-start the struggling Euro-zone economy by announcing a series of bold policy measures in June. Data from China pointing to an economy stabilising after a period of decelerating growth, was positive for global sentiment and Asian markets in particular and equities were further lifted by well-received political elections in emerging markets and buoyant corporate activity from around the world. However, geopolitics continued to buffet markets. In addition to the ongoing tensions in the Ukraine, the eruption of violence in the Middle East caused the price of oil to spike prompting a rise in "profit taking" from investors, seeking safety in some of the more defensive holdings with the proceeds.

This pattern largely continued into **(2014 Q3)** when, despite some increased volatility, the continued central bank support allowed most asset classes and regions to continue to edge higher. Global equities were broadly positive over the quarter, with sentiment driven by ongoing central bank policy support and improving US economic data. Also the European Central Bank was particularly active, cutting interest rates and announcing an asset-purchase scheme. Data from China, however, was mixed but maybe just positive overall with some continuing signs of stabilisation in the economy. Geopolitics again, played their part, with the West imposing stricter sanctions on Russia; civilian protests in Hong Kong and the ongoing tensions in the Middle East unsettling markets. Meanwhile, declining commodity prices and a rising US dollar hit a number of emerging nations.

The year progressed in similar vein into **(2014 Q4)** when, despite some further volatility, most asset classes and regions continued to edge higher. The period did however see a number of economic factors especially affecting global market sentiment most notably a plunging oil price but also ongoing geo-political tensions with Ukraine and Russia. The period also saw further evidence of uneven global economic growth and also an apparent slide towards deflation in Europe. Central bank policy continued to dictate sentiment with the heightened prospect of a US rate hike in 2015 unnerving some markets (especially Emerging Markets which saw a sell off) but, by contrast, further stimulus measures in Japan surprised markets in a positive way. A rate cut in China also boosted risk assets and the European Central Bank continuing to progress towards quantitative easing.

Approaching the end of the reporting period, then familiar themes dictated sentiment in **(2015 Q1)** including ongoing central bank policy initiatives; the depressed oil price; and mixed economic data. The strength of the US dollar, continued to affect world markets though the backdrop in the US, was one of somewhat mixed economic data and a relatively poor corporate earnings season. In Europe the ECB launched a larger than expected QE programme but the Greek election result brought renewed tensions around the possibility of a Greek Euro exit. Also the Swiss National bank shocked traders as it dropped the Swiss Franc's peg to the Euro. Chinese economic data was mixed, with Q4 GDP above expectations but manufacturing and trade data disappointing. Central Bank activity (or expectations of it) however supported Asia Pacific markets generally and Japanese markets were supported by the decision of more of Japan's largest pension funds to switch more bonds into equities, though Japanese economic data was mixed in the quarter and, in particular, core inflation fell back to zero. Geopolitics remained a feature, as Ukraine/Russia agreed a ceasefire and violence erupted in Yemen. In the UK, the underlying economy continued to progress with data revealing that the UK economy grew 2.6% in 2014, the fastest pace since 2007. Despite all of the above causing further periods of market volatility, global equity markets were pretty robust in Q1 overall.

4.2 Market performance summary

Against the above predominantly positive backdrop global Equity Markets performed well overall but, as we saw last year, there was a noticeable divergence of performance over the reporting period across the world's regions. Looking at the regions in which the Fund invests, then US equities led the way with the index returning over 26% in the year, though very closely followed by Japanese equities with returns also around the 26% mark. The continuing recovery in Asian equities led to market returns of above 19% and the similarly improving picture in the developing world generated returns of above 13% for the year in Emerging Market equities. It was Europe and the UK equity market that lagged during the period. Both saw returns in single figures, with Europe (excluding UK) returning approaching 8% and the UK equity market returning around 6.5% over the year.

Fixed Interest investments staged a very strong recovery indeed during the period following very flat overall levels of return last year. With any interest rate rises remaining firmly out on the horizon , the trend in yields was lower rather than higher during much of the year, leading to levels of market return in fixed interest that few would have predicted . This environment saw both Gilts and Corporate Bond markets consistently progressing throughout the year, though especially during the final quarter of 2014. The market return for the Fund's UK Gilt benchmark was thus a quite remarkable 13.9% with the UK Corporate Bond index close behind on 13.1%

Within other asset classes in which the Fund invests, then UK Commercial Property had another strong period. Benchmark returns from the sector were, like last year, positive in each of the quarters of 2014 and this carried on into the start of 2015, with the market recording an overall return for the period of over +14%.

The consolidated performance of all the above asset classes and regions in which the Fund invests has produced a very strong overall market (benchmark) return for the Fund during the period of +11.38%.

5. How did our managers perform?

In addition to the above market (benchmark) performance, the Fund looks to generate returns across the majority (almost 80%) of its asset allocation via active management, where the Fund's investment managers look to out-perform the respective market returns. **In aggregate, active management has enabled the Fund to out-perform the market return of +11.38% by +0.46% over the period and thus generating the year's overall 11.84% investment return for the Fund.** On face value, this may not seem a great deal of additional (active) return, but longer term performance returns show that the Fund has generated, on average, a similar level of excess return each year for the last 10 years from its active management. In cash terms therefore this additional active performance has generated a significant amount (on average of maybe upwards of £5million per annum) to pay the Fund's administration costs and support the payment of member benefits each year.

Active management has therefore been successful in overall terms for the Fund during the period and over recent years. With the significant levels of diversification employed across the Fund we would not expect all our managers to perform identically and indeed, though some active allocations and managers have performed very well, there have been one or two exceptions during the year – within the Fund's Global equities mandate managed by Aberdeen, and also the Standard Life UK Equity mandate. Both companies provide their views on the factors that have contributed to this within the manager sections later in this report.

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

Asset Class / Region	Manager	Share of Fund at Year end %	Fund Performance for Year %	Benchmark Performance for Year %	Relative Performance for Year %
Equities					
UK (Passive)	BlackRock	11.8	6.61	6.57	**+0.04**
UK (Active)	Lazard	18.8	7.65	6.57	**+1.08**
UK (Active)	Standard Life	4.5	0.12	6.57	**-6.45**
US (Passive)	BlackRock	9.5	26.43	26.45	**-0.02**
European (Active)	BlackRock	13.6	8.86	7.69	**+1.17**
Japanese (Active)	Nomura	3.3	25.70	26.04	**-0.34**
Asia (ex Japan)	Invesco	5.3	21.00	19.42	**+1.58**
Emerging Markets	Fidelity	2.7	21.44	13.19	**+8.25**
Global (Active)	Aberdeen	9.0	11.03	19.72	**-8.69**
Fixed Interest					
Gilts	BlackRock	7.5	13.92	13.92	**0.00**
Corporate Bonds	BlackRock	7.6	13.61	13.08	**+0.53**
Other					
Alternatives	Standard Life GARS / In house	3.2	9.93	0.68	**+9.25**
Property	Various	2.6	14.84	14.43	**+0.41**
Cash and other investment balances	Various	0.6	0.25	0.35	**-0.10**
CONSOLIDATED		**100.0**	**11.84**	**11.38**	**+0.46**

Performance data supplied by BNY Mellon Asset Servicing

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

BLACKROCK

European Equities

As European Equities made sound market progress during the period, the BlackRock European fund added to this by strongly outperforming its benchmark and out-performing in 3 out of the 4 quarters. "The period however started with a negative 2014 Q2 though losses were concentrated in the early part of the period as markets experienced a strong reversal in factor and industry performance. Many of the trades that performed well in 2013 and the first three months of 2014 were sold down aggressively. Over the course of May and June some of the losses were recovered as the expected performance from the investment model's contrarian signals materialised.

The Fund marginally out-performed over the third quarter as the poor earnings and growth backdrop saw a number of firms heavily punished for any negativity in reported fundamentals or outlook. Though some model signals struggled, valuation insights helped us to identify overpriced stocks that have been unable to meet expectations and analyst sentiment and measures of fundamental quality performed well enabling us to avoid stocks facing difficulties in that environment.

The out-performance continued into the second half of the year with the portfolio well positioned to benefit from the fall in oil prices at both an industry and stock level. Signals pointed towards a negative stance on energy companies and analysis of business exposure identified individual firms that would either be positively or negatively impacted by energy price moves. The period ended with another quarter of positive performance as the Fund was, once again, well positioned in firms benefitting from low oil prices and using "text-based" analysis of company exposures in identifying good picks in the transportation and construction sectors. The Fund's fast reversal signals also helped as the bounce in oil prices at the beginning of January caused a temporary setback for these themes."

Gilt Bond Fund

In a very strong year of market returns the Gilt Fund was overall flat against its benchmark over the review period, out-performing at the start and end of the period but with a weaker period in between. "The Fund outperformed its benchmark in 2014 Q2 with cross country and volatility strategies the biggest positive contributors and an off benchmark position to UK corporates further adding to total returns. Q3 saw under-performance however as positive currency strategies could not compensate for the negative impact of sector/industry selection, interest rate and mortgage strategies.

The second half of the year also started with a negative quarter relative to benchmark with asset allocation and off benchmark allocations to corporate bonds being the main detractors as macro concerns around Russia; weaker commodity prices; increased bond issuance and some year end illiquidity led to a broad based credit market weakness. This over-rode the positive impact of a performance rebound from many of the strategies that had detracted during Q3. The period ended however with the Fund outperforming its benchmark in 2015 Q1 as the strong rebound of interest rates, currency and mortgage strategies continued into the quarter."

Corporate Bond Fund

Against a similarly strong market background the Corporate Bond fund outperformed its benchmark in the review period, out-performing in 3 out of the 4 quarters. "The fund out-performed in 2014 Q2 with, as with the Gilt Fund, cross country and volatility strategies being the main positive contributors and an overweight position in UK corporates also contributing significantly. The Fund underperformed its benchmark in Q3 as, despite additive returns from interest rate and currency, the under performance arising from mortgage strategies and sector/security selection outweighed these.

Unlike the Gilt Fund, the Corporate Bond fund started the second half of the year with a positive quarter relative to benchmark driven by outperformance from the mortgage, interest rate rates and currency strategies. Credit sector tilts/security selection and Asset Allocation strategies detracted. Credit sector positioning and security selection was however a drag in the quarter of broad-based credit market weakness. A tilt towards the industrial sector was the main source of underperformance. The period ended with another quarter of out-performance as mortgage, asset allocation and currency strategies did well. Interest rate positions were flat over the quarter but credit sector tilts/security selection decisions added value with, in stark contrast to the previous quarter, an overweight towards the industrial sector was the main source of outperformance".

LAZARD
ASSET MANAGEMENT

UK Equities

The UK equity market made solid gains over the review period as the UK economy continued to show signs of momentum despite times of heightened volatility due to geo-political pressures evident over the period. The Lazard portfolio added to the market returns with strong benchmark out-performance over the year. "In particular, stock selection in financials helped returns, with a holding in Man Group, and an underweight position to the benchmark in Standard Chartered, among our strongest performing positions. Stock selection in the health care sector also added to returns, in part due to our holding in Shire, which was our strongest performing position. Hospital operator Spire Healthcare also helped relative returns.

In the basic materials sector, an underweight position relative to the benchmark in BHP Billiton was one of our strongest positions as mining stocks struggled due to weakening commodity prices during the second half of the period. Stock selection in the consumer services sector also contributed positively to performance, in part due to our holdings in Spirit Pub Company and catering company Compass. However, Boohoo.com hurt returns. The low oil price negatively affected performance in Hunting and Premier Oil. However, not owning Tullow Oil helped relative returns as the company's share price fell in line with crude oil prices.

Technology was our worse performing sector during the period, and big data business WANdisco our worse relative performing holding. Industrials stocks hurt performance during the period, in part due to our holding in Weir Group.

Once the noise of the election campaign has receded, we expect investment to pick up, as overseas investors once again look to the United Kingdom, and growth continues to gain momentum. The European Central Bank's decision to proceed with quantitative easing and a pick-up of growth in the euro zone should also feed into the UK's economic performance, though the possibility of a Greek exit from the euro zone could continue to cause uncertainty. We believe the appetite for risk remains, with UK growth exhibiting momentum, and the possibility of a weakening pound against the US dollar aiding earnings. Bearing all of this in mind, we think it will be adept stock pickers able to source strong, yet undervalued, companies that thrive in such an environment."

Aberdeen

Global Equities

The global equity market backdrop was a strong one, but the Aberdeen Fund again struggled in the review period, and to an even greater extent than the previous year. "The past year has been similar in a number of ways to the previous twelve months, with modest economic progress seen in the US, but policy remaining very accommodative, and the story persisting for other countries and regions. Europe is still struggling to make headway; the story in the UK has been reasonable, but not spectacular; Japan has shown some effect from the concerted efforts of Prime Minister Abe; while Asia and other developing regions such as Latin America demonstrated mixed outcomes from domestic policies and in the downdraft from US policy.

The main markets that led the global index substantially higher were the US and Japan and, by contrast, Europe and the UK rose modestly. These broad trends at a country and regional level were again a primary reason for the portfolio's performance to lag the wider index. We have been underweight US equities versus the index, believing that a more diverse portfolio is appropriate, but the long term enthusiasm that we hold for developing economies, in particular the likes of Brazil, has not been rewarded. Nonetheless, we believe that there are many good businesses operating in those markets, with strong balance sheets and management teams with good track records, and remain supportive of them.

The country allocation, along with drag from weak local currencies, was compounded by relatively weak sector and stock selection. Materials was one sector that was weak; an overweight compounded the negative from Vale, the Brazilian iron ore producer. BHP Billiton, a global low cost mining group, also fell against investor worries of lower raw material prices. In Financials, Banco Bradesco, a domestic Brazilian bank that has good lending margins and a successful management, was another stock that fell back. The other key story for the period was the dramatic collapse in oil and energy prices. Oil producers and service companies faced a dramatic reassessment of their earnings capacity by stock markets. Holdings in the fund that suffered included Tenaris, a specialist seamless pipe manufacturer; Schlumberger, an international oil services group; and oil and gas producers Royal Dutch Shell, Eni, and EOG Resources. By contrast, positive stories included insurance stocks Zurich and AIA; CVS Health from the US and drug manufacturer Novartis; and Japanese robotics firm Fanuc.

The outlook remains unclear. We believe that markets are being inflated artificially with a continued strategy of ultra-low interest rates across global economies, with little evidence of inflation or a turn in policy, meaning that investors have been willing to accept risk. We remain cautious about how much further equities can go. We will continue to look for high quality and well run companies that will continue to perform well even in a less certain economic environment."

STANDARD LIFE INVESTMENTS

UK Equities

UK equities recorded mid-single-digit returns despite a number of geopolitical and macroeconomic events causing periods of considerable volatility and distracting investors from the underlying domestic recovery. Against this backdrop, the Standard Life UK mandate has under-performed its benchmark over the review period.

"The Fund's mining exposure hurt returns. Anglo American, Vedanta Resources, Rio Tinto and Glencore all face pressure from the turbulent commodity environment and worries over Chinese growth. Performance was also affected by our exposure to regional airline Flybe as competition increased at London City airport. Turbulence continued to affect Shire shares within a pharmaceuticals sector impacted by both potential and actual merger and acquisition activity.

International Consolidated Airlines, owner of British Airways and Iberia, performed well as oil price weakness and strong transatlantic demand combined to boost earnings forecasts. The underweight positions in Royal Dutch Shell and BHP Billiton were also helpful for relative returns, partly mitigating some of the commodity-related pressures elsewhere in the Fund. TUI Travel was another positive as the market continued to warm to its merger with TUI AG and shares in Songbird Estates outperformed following a bid approach from the Qataris.

Despite a more becalmed geopolitical environment in recent weeks and months, we continue to believe that the potential for renewed volatility remains. We still expect domestic economic data to strengthen over the medium term and the underperformance of bonds has helped to close the gap between expensive defensive parts of the equity market and the rest. This process may have further to go as oil prices stabilise, fears about deflation diminish and as employment data continues to suggest a tightening labour market. These factors continue to provide stock-picking opportunities, particularly among more domestically focused companies, and should mean that UK equities will remain an attractive destination for investors in 2015."

Global Absolute Return Strategies (GARS)

The Fund out-performed its index significantly over the review period amidst a backdrop where "divergent central bank policy remained a central market force with Europe and Japan maintaining a supportive monetary stance, while the US appeared poised to raise rates.

Early in the review period, geopolitical unrest in Iraq and Ukraine prompted fears of oil supply disruption, benefiting our exposure to global equity oil majors. Markets nevertheless made gains, reassured by upbeat US economic data and continued central bank support. US dollar strength was a dominant feature through much of the review period and our currency pairs preferring the US dollar versus the yen, euro and Canadian dollar all made gains. While speculation surrounded the exact timing of the first US interest rate hike, the US economy was felt to be far closer to monetary tightening than other regions, given the improving US economic landscape. By contrast, in frailer economies like Europe and Japan, the bias remained firmly towards monetary easing.

The precipitous decline in the price of oil and other commodities was a focal point in the latter half of the year, fuelling doubts about global growth and eventually prompting an aggressive risk sell-off in December. Resource-related assets were hardest hit, hurting our global miners versus Swiss equity and global equity oil major's positions. Countering this, our long US dollar versus Canadian dollar strategy was profitable, as Canada's heavy reliance on commodities undermined the currency. In early 2015, the European Central Bank finally announced bold, if belated, stimulus action to boost Eurozone growth. This restored an upbeat tone to markets for the remainder of the year and generated solid performance from our European and global equities exposures.

Our central expectation is still for modest global growth, albeit with regional variations. A growing divergence in central bank monetary policy will remain an important driver of asset returns. On the one hand, the US appears to be nearing a tighter monetary regime, whereas economies like Europe and Japan continue on a looser monetary path. Geopolitical tensions remain high and on many metrics asset prices appear expensive. We seek to exploit the opportunities that these conditions present by implementing a diversified range of strategies using multiple asset classes"

Asia (ex Japan) Equities

In a very strong period of market returns for Asian equities, the Pension Fund's first year with Invesco Perpetual managing the region's allocation, saw a period of strong performance in excess of the fund's benchmark. "Asian equity markets made solid gains over the period, benefiting from increased optimism surrounding leadership change and reform in a number of countries across the region. Whilst weaker-than-expected economic data in China and commodity price weakness increased uncertainty in the global macroeconomic outlook, positive momentum has been regained as a number of countries have eased monetary policy given the lack of inflationary pressures and the lacklustre outlook for global growth.

Fund performance benefitted from strong stock selection, particularly in the IT and materials sectors and UPL was by far the biggest contributor. Stock selection in India contributed positively, with holdings in more economically sensitive areas of the market, such as ICICI Bank and Adani Ports & Special Economic Zone, benefiting from expectations of meaningful progress on economic and policy reform. In the IT sector, Chinese internet companies NetEase and Baidu enjoyed strong share price gains and conglomerates Hutchison Whampoa and CK Hutchison (Cheung Kong) outperformed on raised hopes of a restructuring plan. Other notable contributors included, Industrial & Commercial Bank of China, Bank Negara Indonesia and AIA Group. Our limited exposure in Malaysia contributed positively as this market underperformed.

Conversely, stock selection in South Korea detracted, particularly our exposure to the Hyundai Motor Group over concerns that it had overpaid for a plot of land on which to build its new HQ. Other detractors from South Korea, where the strength of the domestic economic recovery has disappointed, included department store operator Shinsegae and DGB Financial. Elsewhere, global supply chain manager Noble Group and Galaxy Entertainment also detracted.

We are broadly positive in our outlook for Asian equity markets. In China, there is an acceptance of the need for a gradual transition towards a slower, more sustainable economic growth environment but with the government committed to supporting consumer confidence as other areas of the economy are slowing. Elsewhere, with little to suggest a strong rebound in global growth in the near-term, we would not expect a significant pick up in Asia's exports growth. However, the region's growth profile continues to compare favourably to that of developed markets and, at a corporate level, lower commodity prices and a slowdown in wage inflation are helping to stabilise margins and support the region's earnings growth outlook.

We believe the fund remains well balanced, with exposure to a variety of businesses which possess what we consider to be strong competitive advantages and undervalued earnings growth prospects. While we continue to favour the Asian consumer growth story, we prefer to hold companies with indirect exposure to the theme, such as Hong Kong listed conglomerates, financial groups and Chinese internet companies. We also find selected Asian exporters attractive, particularly those that remain globally competitive with an ability to gain market share and benefit from a gradual pick-up in global trade.

NOMURA

Japanese Equities

The review period proved to be a strong period for the Japanese market though, in overall terms, the Nomura fund slightly under-performed the very strong benchmark return over the year.

"Having begun 2014 in a nervous mood ahead of the planned increase in consumption tax, the market eventually regained its composure from mid-April. The market continued to move higher into the third quarter boosted by the government announcement at the end of June of its long-awaited structural reform programme. Despite a short lived correction over disappointing economic releases and concerns over possible US interest rate rises, announcement of an even more accommodating monetary policy by the Bank of Japan put downward pressure on the yen and this set the scene for further equity gains over the following weeks. Despite some initial uncertainty around a snap Japanese election and a period of mixed macro news from Europe, Japanese investors became more upbeat on signs of a recovery in domestic production and encouraging corporate earnings results and the rally continued through to the period end with the resilient earnings outlook becoming a key driver of growing interest in Japan by foreign investors.

The period saw strong positive stock selection but some disappointing sector allocation results. The biggest positive stock contributors were overweight positions in electrical components maker TDK, bearing manufacturer NSK and chemical company Daicel along with an underweight in mobile phone operator Softbank. The biggest detractors to performance were overweight positions in wire and cable maker Sumitomo Electric Industries, pump manufacturer Ebara, aluminium products company UACJ and engineering company Mitsubishi Heavy Industries.

We are cautiously optimistic about the outlook for Japanese equities. The global economic backdrop should be supportive with growth continuing but at a pace moderate enough to keep monetary policy conditions relatively accommodative. At the same time we expect a modest pick-up in economic conditions in Japan based on an improving picture for industrial production and a brightening outlook for domestic consumption; the latter benefiting from salary increases and lower energy costs.

In the short to medium term then the positive corporate earnings outlook provides a bullish argument for Japanese equities and, over the medium to longer term, a programme of corporate governance reform should help company management focus on improving bottom-line returns. We do not however expect all companies to focus wholeheartedly on improving their return structures so we believe that it is important to remain highly selective when picking stocks, relying on our disciplined, research based approach. In essence we are looking for stocks that are significantly undervalued but where the company has a competitive core business for the long-term combined with forward-looking management who understands both the potential of their business and is not afraid to take the often painful restructuring necessary to raise returns and deliver value to shareholders.

Emerging Market Equities

In a strong period of market returns for Emerging Market equities, the Pension Fund's first year with Fidelity managing the region's allocation saw a period of very strong performance in excess of the fund's benchmark. "Emerging market equities rose during the period. A rebound in Chinese economic growth supported equities, helped by supportive government policy, as it was in India where markets rose due to optimism around economic reforms. However, the decline in prices of commodities such as oil negatively impacted countries that are net-exporter of these goods. Gains were also partially held back by escalating geopolitical tensions, notably those in Russia/Crimea. The fund strongly outperformed the index over the period, driven by stock selection in the consumer discretionary, consumer staples and financials sectors. The underweight exposures towards energy and materials sectors buoyed relative performance as prices of commodities including oil fell sharply in the second half of the period. From a country perspective, selected holdings in South Africa and India enhanced gains. Within consumer discretionary, the position in media company Naspers advanced on the back of performance of its ecommerce and internet businesses, particularly its Chinese subsidiary Tencent. The holding in furniture retailer Steinhoff International added value, the allocation to China-based SAIC Motor Corporation also proved helpful. In the consumer staples sector, the exposure to South Korean beauty products company Amorepacific enhanced gains and within financials, shares in India based HDFC Bank and insurer AIA Group added to returns.

Emerging market equities started 2015 on an encouraging note. Monetary policy decisions in the developed world and economic growth issues in large developing economies were the major factors that impacted sentiment. Going forward, emerging market equities will be impacted by governments' reform measures and investors' reactions to these efforts. In addition, markets will continue to be influenced by monetary policy decisions in the US and Europe as the developing and developed worlds are inextricably linked through global capital and trade flows. US monetary tightening will be a particular risk for emerging economies that ignored the warning signs of stimulus reduction in 2013. Investor sentiment is likely to be impacted by the prospect of an increase in interest rates, which may lead to capital outflows from developing countries. Some countries such as India have reacted to such warnings by controlling their current account deficit and implementing reforms to encourage capital inflows. Others, such as South Africa, Turkey and Brazil have been less proactive. Therefore, the latter group would be at a higher risk from monetary policy tightening in the developed world.

Another factor that will affect emerging market equities is lower commodity prices with the region a mix of net commodity exporting economies (including a number of Latin American countries, Russia, South Africa and Nigeria) and, net commodity importers such as India, Thailand, Indonesia and the Philippines. Within Asia, China is the powerhouse; what happens here dictates the tone for the rest of the region and here policymakers seem willing to accept a lower level of overall economic growth. India seems set to benefit from economic reforms under the new leadership. In Latin America, Brazil is in a more precarious position given subdued economic growth and a weak outlook for commodity exports, particularly to China. Overall, the long-term return potential of many emerging countries offsets the temporary risks they face. This is because favourable demographics, infrastructure spending, rising incomes, increased consumer spending and associated lifestyle changes will continue to drive these economies. However, the days of 'a rising tide lifts all ships' are very much in the past. Today's emerging markets are populated by two groups – at one end are economies that are seeking to deploy an agenda of reform and create a solid base from which to move forward. At the other end are countries that are continuing with their current deficit situations, with little immediate impetus to do anything about it. Therefore, stock selection though a bottom-up fundamental analysis approach is the key to maximising returns."

SCHEME ADMINISTRATION REPORT

1. The Pension Administration Team

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

1.1 The introduction of the LGPS 2014 and in particular the Transitional Protections which apply to active members who moved from the previous scheme to the LGPS 2014 on 1st April 2014 resulted in a substantial increase in the complexity of the LGPS. The delay in laying the Transitional Regulations before Parliament (they were only laid on the 10th March 2014) provided little time for the staff of the Greater Gwent (Torfaen) Pension Fund to prepare and to put in place new procedures and documents prior to the commencement date of the LGPS 2014 on 1st April 2014. In spite of these difficulties the staff worked extremely hard to get to grips with the complexities of the new scheme and to ensure that all pensions were paid correctly and on time. Some of our work was, of necessity, put on hold whilst we awaited clarification of some aspects of the Regulations relating to, in particular, the treatment of previous deferred membership for new active members. The final guidance on this matter has only recently been received and this delay is reflected in the outstanding transfers as illustrated in the table in 2.1 below.

1.2 The major restructuring of the pension service which was implemented on 1st June 2013 proved invaluable in ensuring that we had resources in place prior to the introduction of the LGPS 2014. The re-organisation of the Benefit Team ensured that this group of staff were able to concentrate on the application of the regulations whilst the strengthened Systems Support Team was able to concentrate on improving the quality of the data held through a data cleansing exercise and improving the quality and timeliness of data submissions from employers. The new Communications Team has also been of great benefit in ensuring that employers are aware of their responsibilities under the LGPS Regulations and in providing guidance to pension fund staff, employers and members on LGPS Regulations and related legislation.

1.3 Five members of the Pension Team are currently undertaking professional pension qualifications specifically related to the LGPS. This is a three year qualification which commenced in October 2013. I am pleased to report that all have passed each of the exams and assignments which they have taken during the current year. 12 of the remaining 19 staff already hold a professional pension qualification.

1.4 Following the introduction of the LGPS 2014 it is a requirement of the Pension Fund that scheme employers submit CARE data on a monthly basis. In addition, some employers are providing monthly spreadsheets of new members and changes to existing member details. This enables the Pension Fund to hold the most up to date information relating to the members and reduces the number of queries which need to be raised with employers when a member leaves or requests an estimate. Employers are still required to submit individual leaver notifications and the year end submission. The Pension Fund has invested in an electronic interface which facilitates the transfer of monthly membership data from each of the employers' payroll systems to the pension administration system. This facility is continuing to be rolled out to the employers to assist them with meeting the challenges of the increased data requirements of the LGPS 2014 Scheme and the desire to move away from paper forms. The electronic interface enables all the information required by the Pension Fund to be transferred to the pension administration system on a monthly basis and eliminates the need for the monthly CARE data, the monthly new member and changes spreadsheets, the financial information section of the leaver notification and the year end submission. We are actively encouraging all employers to sign up for this facility, which will provide benefits for both the Pension Fund and employers. This will also help in meeting the Central Government desire for increased frequency and quality of data reporting and comply with the Pensions Regulator requirements in relation to the accuracy of data held by the Pension Fund.

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

2. Administration service and current developments

2.1 Core work

The work undertaken by the Pension 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 2014, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2015.

	Work outstanding 1 April 2014	New	Total	Completed	Work in progress 31 March 2015
Retirements processed	471	1,126	1,597	1,282	315
Deferred processed	346	2,336	2,682	2,315	367
Retirement estimates	632	2,412	3,044	2,590	454
Deaths processed	147	545	692	565	127
Transfers in/out	1,058	1,178	2,236	866	1,370
New Starters	887	2,682	3,569	2,900	669
Total	**3,541**	**10,279**	**13,820**	**10,518**	**3,302**

The Pension Team has continued to review our working practices and procedures in light of changes to the Regulations and the increasing requirements of the job. Staff members have increasingly demonstrated their flexible attitude and approach, which has enabled the successful implementation of the LGPS 2014 and for work to be reallocated within the team to manage workload priorities and developments effectively.

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

2.2 Other activity

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

- The implementation of the 2014 Scheme including communicating the changes to employers and members through road-shows for scheme members and providing newsletters and guides on the new scheme changes.
- Facilitating training for employers, including the production of Newsletters and Bulletins, further development of the 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 has increased the number of members who are at risk of exceeding the allowance and increasingly the Pension Fund is receiving enquiries from members who have the opportunity for promotion.
- The establishment of a Local Pension Board which will be in place by July 2015.

- Commencing 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 at a national level with regard to further reform of the Local Government Pension Scheme including providing responses to the DCLG Consultation on Scheme Governance.
- 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:-

www.greatergwentpensionsfund.co.uk/complaints

2.4 Current challenges

- The main challenge facing the Pension Team remains the LGPS 2014 Scheme. The increased complexity means that the members and employers have difficulty in understanding how the regulations will impact in a particular case and therefore the Pension Fund staff need to provide an explanation which is clear and concise.

- The timescale within which the Pension Fund must provide each member with an Annual Benefit Statement has been reduced and for the year ended 31st March 2015 Annual Benefit Statements must be sent to all active members by the end of August 2015. Delays in the receipt of year end data from employers may result in the Pension Fund being unable to meet this deadline.

- The reduction in the Annual Allowance to £40,000 from 1st April 2014 has resulted in more members having a potential tax charge. 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 effect their annual allowance position. The annual allowance regime may therefore be acting as a disincentive to career advancement.

- The Life Time Allowance which is the total amount that an individual can hold in total in pension savings will reduce from £1.25 million to £1 million with effect from 6th April 2016. This could also have tax implications on some pension fund members.

- 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 transfer 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 can not 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.

- 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 is therefore devising robust procedures which will be applied to these cases in line with the guidance from LGA, the Pensions Regulator, DWP and the pensions industry. The implementation of these new procedures will impact 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. The changes which will occur over the next few years will have an impact on the work of the Pensions Team.

3.2 The Public Service Pension Scheme Act 2013 came into effect in full in April 2015. This Act covers all public service pension schemes including the LGPS.

3.3 The removal of contracting out in April 2016 will have an impact on the Pension Fund funding and employer costs as the rebate currently paid to both employee members and to employers will cease.

3.4 The next actuarial valuation of the Pension Fund will be carried out as at 31st March 2016 and will set the employers contribution rates for the three years commencing 1st April 2017. A valuation on the model fund will also be carried out at this time which may result in the cost cap mechanism being activated.

3.5 It is unclear what impact Local Government re-organisation in Wales will have on the LGPS Funds in Wales.

3.6 The new Governance arrangements will impose more prescriptive reporting requirements on the Pension Fund.

3.7 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

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

1.2 Main objectives

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

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

1.3 Types of investments

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

1.4 Realisation of investments

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

1.5 Investment management arrangements

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

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

1.6 Risk

The Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising returns and to limit risk to acceptable levels. This is achieved through a variety of actions and is detailed more fully in the complete version of the SIP available on the Pension Fund's website via the link on Page 42 of this document.

1.7 Compliance

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

1.8 Feedback and review

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

2. Socially Responsible Investing & Corporate Governance

2.1 Socially Responsible Investment

The Fund has considered how Social, Environmental and Ethical factors should be taken into account in the selection, retention and realisation of investments. This was initially considered under the Fund's previous governance arrangements by its Investment Panel when members considered that they should, in all circumstances, act in the best financial interests of the Beneficiaries. In view of the Investment Strategy adopted by the Fund, where this primary consideration is not prejudiced, Investment Managers are required to take account of Social, Environmental or Ethical factors to the extent that they consider it appropriate. Within its current governance arrangements the Fund's Pensions Committee has also reviewed the Fund's approach to Socially Responsible Investment via the formation of a separate Environmental Social and Corporate Governance (ESG) working group, asked to specifically consider the Fund's current approach to environmental, social and corporate governance matters within its investment decision making process. The group met throughout 2011/12 and reported back to Pensions Committee following completion of the initial phase of its work programme, reviewing the Fund's current approach and considering options for change. The Group's report to Committee was a positive one and welcomed by the Pensions Committee as they were generally impressed with the extent of engagement, monitoring and reporting carried out by the Fund's investment managers and content with the Fund's approach to promoting wider representation across LGPS Funds. The Pensions Committee confirmed that they were content that the Group be "reconvened" and take forward the future potential work areas it had identified and it was anticipated that the ESG Working Group would therefore reconvene and report further during 2014. However, mindful of the change in LGPS governance required following the 2013 Public Sector Pensions Act, and the establishment of a Pension Board for the Fund, this will now be considered further during 2015 as the Pension Board becomes embedded in the Fund's amended governance arrangements. Any subsequent policy decisions made by the Pensions Committee will be incorporated in future versions of the Fund's Statement of Investment Principles.

2.2 **Myners Compliance**

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

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

As part of its on-going review of good practice and compliance with the principles, the Fund will be giving further consideration to these and related issues each year. A detailed position statement showing the extent of the Fund's compliance with the revised set of principles is contained within the full Statement of Investment Principles available via the link on Page 42 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 42 of this document.

4. Communications Policy Statement

4.1 The Communications policy of the Greater Gwent (Torfaen) Pension Fund is currently undergoing a review to address:-

- 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

4.2 Notwithstanding the above, during the financial year the Fund has ensured that:-

For scheme members

- We kept our website up-to-date with information relating to the LGPS 2014 changes, including leaflets, full guides relating to pensions topics and life events, and online video presentations; in both English and Welsh.
- Issued each member with a hardcopy newsletter on the changes.
- Working co-operatively with Scheme Employers to promote pensions information to Scheme Members, delivered a series of workplace presentations to members on the LGPS 2014 changes, including question and answer sessions.
- Issued a hardcopy guidebook on LGPS 2014 to each member, in order to comply with the requirements of the Occupational and Personal Pensions Scheme (Disclosure of Information) Regulations 2013.

For scheme employers

- Issued each Scheme Employer with copies of the Local Government Association's payroll and human resources specifications for LGPS 2014, outlining the data to be recorded for each member, and to be provided to the Fund.
- Issued newsletters to Scheme Employers on preparing for the LGPS 2014 changes.
- Delivered a comprehensive training session on the LGPS 2014 changes to the employer role.
- Issued email updates on the LGPS 2014 changes and LGA training sessions available to employers.
- Issued copies of LGA's Payroll Guide to the 2014 Scheme and HR Guide to the 2014 Scheme to each employer.
- Issued a new suite of forms for employers to use for LGPS 2014.
- Updated the Employers' Area of our website with guidance on LGPS 2014.

5. Pension Fund Annual Report

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

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

- **Actuarial Valuation**
  www.greatergwentpensionsfund.co.uk/actuarial-valuations

- **Governance Policy & Compliance Statement**
  www.greatergwentpensionsfund.co.uk/governance-strategy-compliance-statement

- **Funding Strategy Statement**
  www.greatergwentpensionsfund.co.uk/funding-strategy-statement

- **Statement of Investment Principles**
  www.greatergwentpensionsfund.co.uk/statement-investment-principles

- **Communications Policy Statement**
  www.greatergwentpensionsfund.co.uk/communications-policy

NATIONAL LGPS ANNUAL REPORT DATA

1.1 In July 2013 the Shadow Scheme Advisory Board set up a working party to gather all LGPS annual reports in one place as a single information source. In autumn 2014 the first ever Scheme Annual Report was published using 2012/13 data. The end of the financial year coincided with the publication of the second report that shows that the LGPS is the largest defined benefit (DB) scheme in England and Wales, with over 10,000 employers and 5m members. The report highlights that:

- The total membership of the LGPS grew by 243,000 (4.9%) to 5m members in 2014 from 4.8m in 2013 and number of LGPS employers increased by 1,331 (14%) to 10,671.
- The total assets of the LGPS increased by £11.2bn (6.0%) from £180.9bn to £192.1bn. These assets were invested in pooled investment vehicles (41.1%), public equities (38.5%), fixed interest/index linked (7.9%), property (6.6%), as well as other asset classes (5.7%).
- The net investment return on the scheme assets (after fees) was +5.9%.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.

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.

1.2 **Analysis of net investment assets as at 31 March 2015**

31 March 2015	UK £m	Non-UK £m	Global £m	Total £m
Equities	807.8	790.9	206.5	1,805.2
Bonds	251.6	96.4	-	348.0
Alternatives	70.0	-	-	70.0
Cash and cash equivalents	14.8	-	-	14.8
Other	-	-	65.1	65.1
Total	**1,144.2**	**887.3**	**271.6**	**2,303.1**

1.3 **Analysis of investment income due in 2014/2015**

31 March 2015	UK £000	Non-UK £000	Global £000	Total £000
Equities	18,488	-	-	18,488
Bonds	-	-	-	-
Alternatives	2,218	-	-	2,218
Cash and cash equivalents	87	-	-	87
Other	-	-	-	-
Total	**20,793**	**-**	**-**	**20,793**

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

MERCER

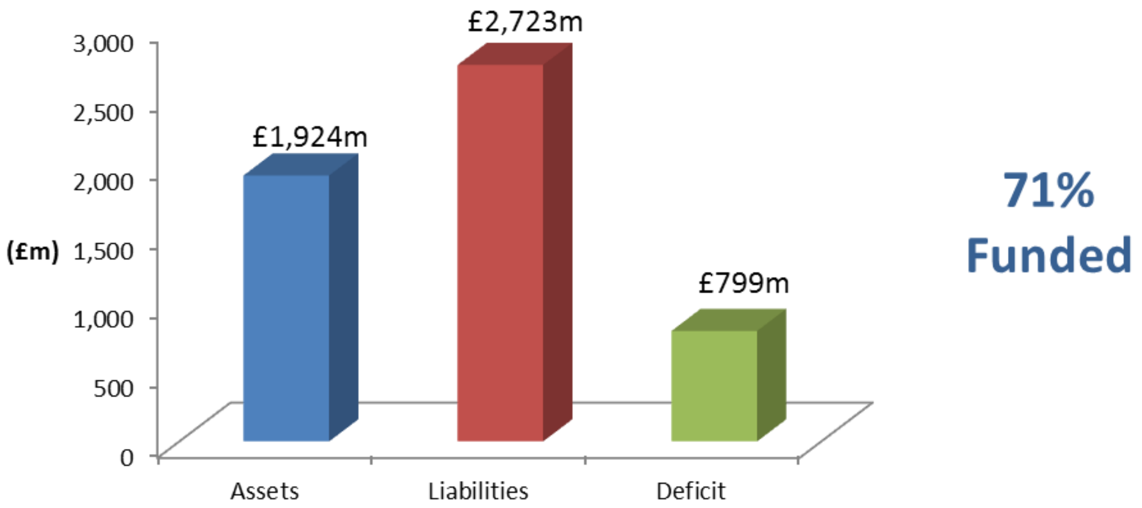
GREATER GWENT (TORFAEN) PENSION FUND

Accounts for the year ended 31 March 2015 - Statement by the Consulting Actuary

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

An actuarial valuation of the Greater Gwent (Torfaen) Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,924 million represented 71% of the Fund's past service liabilities of £2,723 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £799 million.



The valuation also showed that a common rate of contribution of 13.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 76% with a resulting deficit of £625 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £29 million per annum increasing at 4.1% per annum (equivalent to approximately 7.8% of projected Pensionable Pay at the valuation date) for 25 years if all assumptions are borne out in practice.

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

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

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

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

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £2,971 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£503 million. Adding interest over the year increases the liabilities by c£133 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£41 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £3,566 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2015

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

I have examined the pension fund accounts and related notes contained in the 2014/15 Annual Report of Greater Gwent (Torfaen) Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Torfaen County Borough Council for the year ended 31 March 2015 which were authorised for issue on 21 July 2015. 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 of the fund report, management and investment report, fund manager investment report and the statement by the consulting actuary.

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

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Greater Gwent (Torfaen) Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Torfaen County Borough Council for the year ended 31 March 2015 which were authorised for issue on 21 July 2015 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, 23 July 2015, and the date of this statement.

AJ Barrett

Anthony Barrett
For and on behalf of
Auditor General for Wales

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

Date: 23/7/15

Electronic publication of financial statements

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

Pension Fund Accounts

Contents	Page Number

Fund Account for the Year Ended 31 March 2015

	Note	2013/2014 £000	2014/2015 £000
Dealings with members, employers and others directly involved in the fund			
Contributions receivable	7	(109,666)	(104,655)
Transfers in	8	(7,946)	(5,318)
Other income	9	(7)	(7)
		(117,619)	(109,980)
Benefits payable	10	95,175	102,179
Payments to and on account of leavers	11	3,185	49,841
		98,360	152,020
		(19,259)	**42,040**
Management expenses	12	**8,709**	**9,403**
Returns on investments			
Investment income	13	(27,822)	(22,419)
Taxes on income	14	1,734	1,626
Profit and losses on disposal of investments and changes in the market value of investments	16a	(120,449)	(226,762)
Net return on investments		**(146,537)**	**(247,555)**
Net (increase)/decrease in the net assets available for benefits during the year		**(157,087)**	**(196,112)**

Net Assets Statement for the Year Ended 31 March 2015

	Note	As at 31 March 2014 Bid Price basis £000	As at 31 March 2015 Bid Price basis £000
Investment assets	16	2,249,820	2,291,598
Cash deposits	16	11,500	11,475
		2,261,320	**2,303,073**
Investment liabilities	16	(198,837)	-
Current assets	21	22,305	23,051
Current liabilities	22	(3,901)	(49,125)
Net assets of the Scheme available to fund benefits at 31st March		**2,080,887**	**2,276,999**

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 20.

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 42.

1.1 General

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

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

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

As administering authority, Torfaen County Borough Council is responsible for interpreting all pension laws, keeping accurate records, calculating and paying benefits, and providing information to employees, employers and other relevant bodies. Torfaen County Borough Council has established within its Constitution a Pensions Committee to discharge its duties as administering authority of the Fund. The Council has also established a Pension Fund Management Group to provide wider stakeholder representation and communication in matters relating to the Fund. However the role of this Group is currently under consideration given that the Council has now established a new 'Pension Board', constituted in accordance with the requirements of the 2013 Public Service Pensions Act, to assist the Administering Authority in its role as the Scheme Manager of the Pension Fund.

1.2 Membership

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

There are 58 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table in appendix 2 (page 82) provides some further details in terms of membership.

1.3 Benefits

Pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as at 31 March 2014 but from 1 April 2014 pensions have been worked out in a different way as the scheme became a career average scheme. This summary of benefits table incorporates the changes to the LGPS from 1 April 2014 as referred to in the Administration Report on page 34.

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

1.4 **Funding**

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

Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 12.5 % of pensionable pay for the financial year ended 31 March 2015. Contributions are additionally made by Fund employers which are set by the Fund's triennial actuarial valuations. The valuation that affects these accounts was at 31 March 2013 and during the year ended 31 March 2015 employer contribution rates ranged from 5% to 26.9% of pensionable pay plus additional lump sums.

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

2. BASIS OF PREPARATION

2.1 The Fund Account summarises the Fund's transactions for the 2014/15 financial year and its position at year end as at 31 March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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 20, page 76.

2.3 The accounts have been prepared in accordance with IAS26 (Accounting and Reporting by Retirement Benefit Plans) except where interpretations or adaptations to fit the public sector are detailed in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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.

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

iii) Investment Income

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

3.2 **Fund account – expense items**

i) Benefits Payable

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

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

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

ii) 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'.

The CIPFA guidance states that investment management costs should include the transaction costs associated with the acquisition or disposal of fund assets. The comparator figures for 2013/14 have been restated to reflect the implementation of the CIPFA guidance. Consequently, management expenses reported in the Fund Account for 2013/14 have been increased by £1.086m to £8.709m and profit and loss on disposal of investments and changes in the market value of investments has similarly been increased by £1.086m to £120.449m to reflect the fees which had been deducted at source.

- 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.

- 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 2014/15 £0.706m of fees is based on such estimates (nil in 2013/14).

iv) Taxation

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

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

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

3.3 **Net assets statement**

i) Financial Instruments

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

- Financial instruments at fair value through profit or loss

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

- Loans and receivables

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

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

- Financial liabilities at amortised cost

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

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

ii) Valuation of Investment Assets

The fair values of investments included in the Net Assets Statement as at 31 March 2015 have been determined as follows:-

- Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued on the basis of the bid price at the close of business on 31 March 2015. Other quoted investments are valued on the basis of the bid price (or, if unavailable, most recent transaction) on the relevant stock market. Unquoted investments are valued by the fund manager at year end in accordance with generally accepted guidelines.

- Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing on 31 March 2015.

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

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

- In 2014/15 cash was held partly by fund managers and partly by the administering authority. The administering authority has the option of investing fixed term in specified investments or alternatively in instant access money market fund accounts, in accordance with the Fund's Cash Management Strategy which is reviewed and approved annually by the Pensions Committee. (The lending party is the Pension Fund rather than Torfaen County Borough Council as administering authority).

iii) Investment Liabilities

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

3.4 **Actuarial present value of promised retirement benefits**

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 20, page 76).

3.5 **Additional voluntary contributions**

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

AVCs are not included in the accounts in accordance with section 4(2)b of the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 23, page 78).

4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

4.1 **Pension fund liability**

The triennial formal valuation of the Fund per the LGPS Regulations 1997 (as amended) differs from the IAS19 annual valuations of the promised retirement benefits at the Balance Sheet date. The Pension Fund Valuation is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 19, page 74. 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 20, page 76. 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 balance sheet 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 2015 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% increase in the discount rate assumption would result in a decrease in the pension liability of £323m. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £46m and a one-year increase in life expectancy would increase the liability by approximately £69m. The effects of a decrease in CPI inflation / pension increase would be the same as an increase in discount rate.
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 £10m. 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 2015 and the date that the accounting statements are authorised for issue. This is known as a non-adjusting post balance sheet event.

7. CONTRIBUTIONS RECEIVABLE

The assessed rate for the Fund as a whole for 2014/15 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 (see note 1 for details of fund membership). The deficit funding contains employers' lump sum payments and contributions paid over the 13.1%.

By category

2013/14 £000		2014/15 £000
(85,426)	Employers	(80,137)
(24,240)	Members	(24,518)
(109,666)	**Total**	**(104,655)**

By authority

2013/14 £000		2014/15 £000
(14,629)	Administering Authority	(15,065)
(79,909)	Scheduled bodies	(79,784)
(198)	Deemed bodies	(291)
(14,930)	Admitted bodies	(9,515)
(109,666)	**Total**	**(104,655)**

By type

2013/14 £000		2014/15 £000
(24,229)	Employees' normal contributions	(24,512)
(11)	Employees additional contributions	(6)
(42,247)	Employers' normal contributions	(50,173)
(39,917)	Employers' deficit recovery contributions	(25,575)
(3,262)	Employers' augmentation contributions	(4,389)
(109,666)	**Total**	**(104,655)**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2013/14 £000		2014/15 £000
(7,946)	Individual transfers in from other schemes	(5,318)
(7,946)		**(5,318)**

9. OTHER INCOME

2013/14 £000		2014/15 £000
(7)	LGPS 2014 Employer workshops	-
-	Audit fee reimbursement	(7)
(7)		**(7)**

10. BENEFITS PAYABLE

By category

2013/14 £000		2014/15 £000
51,788	Pensions - statutory	54,737
20,762	Pension increases	21,755
19,047	Commutation of pensions and lump sum retirement benefits	21,979
2,515	Lump sum death benefits	2,527
1,063	Additional allowances	1,181
95,175		**102,179**

By authority

2013/14 £000		2014/15 £000
13,031	Administering Authority	13,911
76,504	Scheduled Bodies	81,062
1,400	Deemed Bodies	1,319
4,240	Admitted Bodies	5,887
95,175		**102,179**

11. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2013/14 £000		2014/15 £000
7	Contributions returned to employees	116
1	Payments in lieu of graduated pension contributions	33
-	Group transfers out to other schemes	45,000
3,177	Individual transfers out to other schemes	4,692
3,185		**49,841**

The 2014/15 payments include a provision for the group transfer from the University of Wales, Newport to the University of South Wales in the Rhondda Cynon Taf Pension Fund.

12. MANAGEMENT EXPENSES

2013/14 £000		2014/15 £000
1,201	Administrative costs	995
6,816	Investment management expenses	7,753
692	Oversight and governance costs	655
8,709		**9,403**

CIPFA have issued updated guidance on accounting for local government pension scheme management costs, with the aim of producing robust, consistent and comparable data across all LGPS funds. This is linked to the wider requirements of the DCLG around the national costs of the scheme and the need to be able to compare and compile cumulative data across the LGPS. This analysis of the costs of managing the Greater Gwent (Torfaen) Pension Fund during the period has been prepared in accordance with CIPFA guidance. It replaces the previously separate notes for ‘Other Payments’, ‘Administrative Expenses’ and ‘Investment Expenses’.

The investment management expenses above include £0.109m (nil in 2013/14) in respect of performance-related fees payable to the fund’s investment managers. It also includes £0.992m in respect of transaction costs (2013/14 has been restated for £1.086m transaction costs that originally reduced the change in market value during the year - see note 3.2.ii and note 16a).

In addition to these costs, indirect costs are incurred through the bid/offer spread on investments within pooled investments. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 16a).

13. INVESTMENT INCOME

2013/14 £000		2014/15 £000
(25,666)	Equity dividends	(20,114)
(453)	Pooled investments (M&G)	(436)
(1,649)	Pooled property investments	(1,782)
(54)	Interest on cash deposits	(87)
(27,822)		**(22,419)**

14. TAXES ON INCOME

2013/14 £000		2014/15 £000
1,734	Withholding tax - equities	1,626
1,734		**1,626**

15. INVESTMENT EXPENSES

2013/14 £000		2014/15 £000
6,678	Management fees	7,617
138	Custody fees	136
6,816		**7,753**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

16. INVESTMENTS

Value at 31.03.14 bid price £000		Value at 31.03.15 bid price £000
	Investment assets	
650,995	Equities	432,488
1,340,316	Pooled investments	1,795,820
53,802	Pooled property investments	59,987
11,500	Cash deposits	11,475
3,869	Investment income due	3,303
200,838	Amounts receivable for sales	-
2,261,320	**Total investment assets**	**2,303,073**
	Investment liabilities	
(198,837)	Amounts payable for purchases	-
(198,837)	**Total investment liabilities**	**-**
2,062,483	**Net investment assets**	**2,303,073**

a) Reconciliation of movements in investments

Transaction costs incurred during the year total £0.992m (£1.086m in 2013/14) and have been reported separately for the first time this year (see note 3.2.ii and note 12). In addition to these costs, indirect costs are incurred through the bid-offer spread on investment purchases.

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

Major asset class	Market Value 1 April 2014 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31 March 2015 £000
Equities	**650,995**	161,066	(389,588)	10,015	**432,488**
Pooled investments	**1,340,316**	497,492	(250,480)	208,492	**1,795,820**
Pooled property investments	**53,802**	-	-	6,185	**59,987**
	2,045,113	658,558	(640,068)	224,692	**2,288,295**
Other investment balances:					
• Cash deposits	**11,500**			2,070	**11,475**
• Investment income due	**3,869**				**3,303**
• Amounts receivable for sales of investments	**200,838**				**-**
• Amounts payable for purchases of investments	**(198,837)**				**-**
Net investment assets	**2,062,483**			**226,762**	**2,303,073**

Major asset class	Market Value 1 April 2013 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31 March 2014 £000
Equities	**607,181**	183,332	(176,910)	37,392	**650,995**
Pooled investments	**1,252,450**	296,961	(286,076)	76,981	**1,340,316**
Pooled property investments	**40,400**	9,006	-	4,396	**53,802**
	1,900,031	489,299	(462,986)	118,769	**2,045,113**
Other investment balances:					
• Cash deposits	**10,760**			1,680	**11,500**
• Investment income due	**3,770**				**3,869**
• Amounts receivable for sales of investments	**234**				**200,838**
• Amounts payable for purchases of investments	**(7)**				**(198,837)**
Net investment assets	**1,914,788**			**120,449**	**2,062,483**

b) Analysis of investments

Major Asset Class	31 March 2014 £000 Bid Price		%	31 March 2015 £000 Bid Price		%
Equities						
UK						
Quoted	650,995	**650,995**	**31.6**	432,488	**432,488**	**18.8**
Unquoted Pooled funds – additional analysis						
UK						
Unit Trusts						
Gilt Fund	129,222			155,952		
Corporate Bond Fund	72,299	**201,521**	**9.8**	95,632	**251,584**	**10.9**
Unitised Insurance Policies						
UK Equities Smaller Companies Fund	3,944			-		
UK Equities Fund	103,771	**107,715**	**5.2**	375,339	**375,339**	**16.3**
Other Managed Funds						
M&G Limited Partnership	10,862	**10,862**	**0.5**	10,005	**10,005**	**0.4**
Overseas						
Unit Trusts						
Gilt Fund	22,153			16,504		
Corporate Bond Fund	82,180	**104,333**	**5.0**	79,872	**96,376**	**4.2**
Unitised Insurance Policies						
European Equities Fund	287,436			312,911		
US Equities Fund	173,138			218,905		
Global Equities Fund	185,982			206,489		
GARS Fund	58,726	**705,282**	**34.2**	65,112	**803,417**	**34.9**
Other Managed Funds						
Far East Equities Fund	101,064			123,084		
Emerging Markets Equities Fund	50,207			61,217		
Japanese Equities Fund	59,332	**210,603**	**10.2**	74,798	**259,099**	**11.3**
Unquoted Pooled Property Investments						
UK Property Unit Trusts	53,802	**53,802**	**2.6**	59,987	**59,987**	**2.6**
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	4,361			3,924		
Cash on deposit with financial institutions	7,139	**11,500**	**0.6**	7,551	**11,475**	**0.5**
Other Investment Balances and Liabilities						
Other investment balances	204,707	**204,707**	**9.9**	3,303	**3,303**	**0.1**
Investment liabilities*	(198,837)	**(198,837)**	**(9.6)**	-	**-**	**-**
Net Investment Assets	**2,062,483**	**2,062,483**	**100**	**2,303,073**	**2,303,073**	**100**

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

c) Investments analysed by fund manager

Fund Manager	Proportion of Fund (%)	Value of Funds Held (£000)	Portfolios Held (actively managed unless otherwise stated)
BlackRock	-	29	UK Equities (Indexed)
	11.8	271,444	UK Equities Fund (Indexed)
	9.5	218,905	US Equities Fund (Indexed)
	7.5	172,456	Gilt Fund
	7.6	175,504	Corporate Bond Fund
	13.6	312,911	European Equities Fund
Net Assets held by BlackRock	**50.0**	**1,151,249**	
Lazard Asset Management	18.8	432,459	UK Equities
	0.2	3,924	Cash
	0.1	2,810	Other Investment Balances
Net Assets held by LAM	**19.1**	**439,193**	
Aberdeen Asset Managers	9.0	206,489	Global Equities Fund
Net Assets held by Aberdeen	**9.0**	**206,489**	
Standard Life Investments	4.5	103,895	UK Equities Fund
	2.8	65,112	GARS Fund
Net Assets held by SLI	**7.3**	**169,007**	
Invesco Perpetual	5.3	123,084	Far East Equities Fund
Net Assets held by Invesco	**5.3**	**123,084**	
Nomura Asset Management	3.3	74,798	Japanese Equities Fund
Net Assets held by Nomura	**3.3**	**74,798**	
Fidelity Worldwide Investment	2.7	61,217	Emerging Markets Equities Fund
Net Assets held by Fidelity	**2.7**	**61,217**	
Net Assets held by Fund Managers	**96.7**	**2,225,037**	
Torfaen County Borough Council	2.6	59,987	UK Property Unit Trusts
	0.3	7,551	Cash on deposit with financial institutions
	0.4	10,005	M&G Limited Partnership
	-	493	Other Investment Balances
Net Assets held via Administering Authority	**3.3**	**78,036**	
Net Investment Assets	**100**	**2,303,073**	

d) Employer related investments

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

e) Investments held in pooled investment vehicles

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

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

17. FINANCIAL INSTRUMENTS

a) Classification of financial instruments

Accounting policies (note 3, page 52) describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities by category as at 31 March 2015. The assets and liabilities held by the Fund are classified as designated at fair value through profit and loss, loans and receivables and financial liabilities at amortised cost.

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2014				31 March 2015		
£000	£000	£000		£000	£000	£000
			Financial Assets			
650,995			Equities	432,488		
1,340,316			Pooled investments	1,795,820		
53,802			Pooled property investments	59,987		
	11,500		Cash		11,475	
204,707			Other investment balances	3,303		
	22,305		Debtors		23,051	
2,249,820	**33,805**	**-**		**2,291,598**	**34,526**	**-**
			Financial liabilities			
(198,837)			Other investment balances			
		(3,901)	Creditors			(49,125)
(198,837)	**-**	**(3,901)**		**-**	**-**	**(49,125)**
2,050,983	**33,805**	**(3,901)**	**Total**	**2,291,598**	**34,526**	**(49,125)**

b) Net gains and losses on financial instruments

31 March 2014 £000		31 March 2015 £000
	Financial assets	
118,769	Fair value through profit and loss	223,700
1,680	Loans and receivables	3,062
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
-	Fair value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
120,449	**Total**	**226,762**

c) Fair value of financial instruments and liabilities

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

31 March 2014 Carrying value £000	31 March 2014 Fair value £000		31 March 2015 Carrying value £000	31 March 2015 Fair value £000
		Financial assets		
1,636,549	2,249,820	Fair value through profit and loss	1,527,363	2,291,598
33,805	33,805	Loans and receivables	34,526	34,526
1,670,354	**2,283,625**	**Total financial assets**	**1,561,889**	**2,326,124**
		Financial liabilities		
(198,837)	(198,837)	Fair value through profit and loss	-	-
(3,901)	(3,901)	Financial liabilities measured at amortised cost	(49,125)	(49,125)
(202,738)	**(202,738)**	**Total financial liabilities**	**(49,125)**	**(49,125)**

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

d) Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

	31 March 2014 £000	31 March 2015 £000
Opening balance	**9,728**	**10,862**
Contributions	2,151	773
Equalisation (repayment of contributions)	(48)	-
Net income and expenses	464	422
Return on investment	(453)	(436)
Interest on investment	(20)	(24)
Return of capital	(974)	(1,591)
Net change in unrealised appreciation/(depreciation)	14	(1)
Closing balance	**10,862**	**10,005**

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

Values at 31 March 2015	Quoted Market Price **Level 1** £000	Using observable inputs **Level 2** £000	With significant unobservable inputs **Level 3** £000	**Total** £000
Financial assets				
Financial assets at fair value through profit and loss	435,791	1,845,802	10,005	2,291,598
Loans and receivables	34,526			34,526
Total financial assets	**470,317**	**1,845,802**	**10,005**	**2,326,124**
Financial liabilities				
Financial liabilities at fair value through profit and loss				
Financial liabilities at amortised cost	(49,125)			(49,125)
Total financial liabilities	**(49,125)**			**(49,125)**
Net financial assets	**421,192**	**1,845,802**	**10,005**	**2,276,999**

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

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

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

Overall procedures for managing risk

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

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

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

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

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

a) Market risk

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

The Pension Fund's funding position is sensitive to market price changes on two levels. Changes in the market price of investments such as equities, affect the net assets available to fund promised member benefits. Changes in the yields (and thus price) of bonds, as well as affecting asset values, also affect the value placed on the Pension Fund's liabilities within its overall funding calculations. To give an indication of scale, the change in the market value of the Pension Fund's net investment assets during the year was an increase of £240.59 million.

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

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

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

Asset price risk

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

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

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

Asset price risk – sensitivity analysis

Following, in consultation with advisors, analysis of historic market data for the indices against which the Fund benchmarks its investments, the Fund has determined that the following movements in market price are reasonably possible for the 2015/16 reporting period:

Asset type	Potential market movement (+/-)
UK equities	10.62%
Overseas equities	11.58%
Fixed interest (Gilts)	6.50%
Fixed interest (Corporate Bonds)	6.00%
Pooled property investments	1.85%
Alternative investments	2.98%

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

Asset type	Long term performance expectations p.a. (+)
Equities	6.5%
Fixed interest (Gilts)	2.2%
Fixed interest (Corporate Bonds)	2.9%
Property investments	5.9%

Ignoring the potential for long term positive performance however and considering potential market price changes (volatility) only, should the market price of the fund investments increase/decrease in line with the potential market movements noted above, the change in the net assets available to pay benefits would be as follows (the prior year comparators using the applicable 2014/15 volatility assumptions are also shown below):

Asset type	Value as at 31 March 2015	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
Cash and cash equivalents	**11,475**	**0.00**	**11,475**	**11,475**
Investment portfolio assets:				
UK equities	807,827	10.62	893,618	722,036
Overseas equities	997,404	11.58	1,112,903	881,905
Fixed interest (Gilts)	172,456	6.50	183,666	161,246
Fixed interest (Corporate Bonds)	175,504	6.00	186,034	164,974
Pooled property investments	59,987	1.85	61,097	58,877
Alternative investments	75,117	2.98	77,355	72,879
Investment income due	3,303	0.00	3,303	3,303
Total assets available to pay benefits	**2,303,073**		**2,529,451**	**2,076,695**

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

Interest rate risk

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

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

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

Asset type	As at 31 March 2014 £000s	As at 31 March 2015 £000s
Cash on deposit with financial institutions	7,139	7,551
Cash held by Managers	4,361	3,924
Fixed interest securities	305,854	347,960
Total	**317,354**	**359,435**

Interest rate risk sensitivity analysis

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

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

Asset type	Value as at 31 March 2015 £000	Value on increase +1% £000	Value on decrease -1% £000
Cash on deposit with financial institutions	7,551	7,551	7,551
Cash held by Managers	3,924	3,924	3,924
Fixed Interest Securities	347,960	344,480	351,440
Total change in assets available	**359,435**	**355,955**	**362,915**

Asset type	Value as at 31 March 2014 £000	Value on increase +1% £000	Value on decrease -1% £000
Cash on deposit with financial institutions	7,139	7,139	7,139
Cash held by Managers	4,361	4,361	4,361
Fixed Interest Securities	305,854	302,795	308,913
Total change in assets available	**317,354**	**314,295**	**320,413**

Income source	Amount receivable in year ending 31 March 2015 £000	Income received on increase +1% £000	Income received on decrease -1% £000
Cash on deposit with financial institutions	84	85	83
Cash held by Managers	3	3	3
Fixed Interest Securities	-	-	-
Total change in assets available	**87**	**88**	**86**

Income source	Amount receivable in year ending 31 March 2014 £000	Income received on increase +1% £000	Income received on decrease -1% £000
Cash on deposit with financial institutions	54	55	53
Cash held by Managers	-	-	-
Fixed Interest Securities	-	-	-
Total change in assets available	**54**	**55**	**53**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, 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.

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 2014** £000	**Value as at 31 March 2015** £000
Overseas equities	857,159	997,404
Overseas fixed income (Gilts)	22,153	16,504
Overseas fixed interest (Corporate)	82,180	79,872
Global Absolute Return Strategies Fund (GARS)	58,726	65,112
Total overseas assets	**1,020,218**	**1,158,892**

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 2015 to be 5.06%. This has been calculated by examining the Fund's overseas asset allocation by country/region as and where appropriate, and calculating an overall figure for likely currency volatility to which the Fund could theoretically be exposed. Similar percentages have also been calculated based on the Fund's asset allocation for the prior reporting period. Consolidation of the data and analysis carried out indicates that, assuming that all other variables such as price movement and interest rates remain constant, a strengthening/weakening of sterling against the various currencies in which the Fund indirectly holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	**Asset value as at 31 March 2015** £000	**Potential change in exchange rates** %	**Value on increase** £000	**Value on decrease** £000
Overseas equities	997,404	4.93	1,046,576	948,232
Overseas fixed income (Gilts)	16,504	6.09	17,509	15,499
Overseas fixed interest (Corporate)	79,872	6.09	84,736	75,008
GARS Fund	65,112	5.61	68,765	61,459
Total change in assets available	**1,158,892**	**5.06**	**1,217,586**	**1,100,198**

Currency exposure - asset type	**Asset value as at 31 March 2014** £000	**Potential change in exchange rates** %	**Value on increase** £000	**Value on decrease** £000
Overseas equities	857,159	4.81	898,388	815,930
Overseas fixed income (Gilts)	22,153	5.67	23,409	20,897
Overseas fixed interest (Corporate)	82,180	5.67	86,840	77,520
GARS Fund	58,726	5.21	61,786	55,666
Total change in assets available	**1,020,218**	**4.92**	**1,070,423**	**970,013**

b) Credit risk

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

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

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

The Pension Fund's Cash Management Strategy for 2014/15 (and its forward looking strategy for 2015/16 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 Capita Asset Services for formulating and monitoring the Fund's list of approved counterparties. Capita uses a comprehensive method of assessing counterparty's credit ratings which includes overlaying the three credit rating agencies' scores with additional data, relative to each institution, such as rating watches and CDS spreads to advise of a maximum suggested investment period with that counterparty.

The Fund believes that it has, through a continuing difficult period for financial markets and institutions, adequately managed its exposure to credit risk. There have been no instances of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2015 was £7.6 million (31 March 2014 was £7.1 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	**Rating (Fitch Long Term)** (at 31 March 2015)	**Balances as at 31 March 2014** £000	**Balances as at 31 March 2015** £000
Money Market Funds			
BlackRock	AAA	1,693	549
Ignis	AAA	2,737	6,868
State Street	AAA	2,705	-
Bank Current Accounts			
TCBC Pension Fund		4	134
Total		**7,139**	**7,551**

c) Liquidity risk

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

The Pension Fund further manages its liquidity risk by maintaining a large proportion of its cash investments within money market funds or call accounts allowing virtually same day access to cash deposited without penalty. Indeed, at 31 March 2015, all Pension Fund cash balances were spread across such immediate access accounts. The Fund still retains the option to invest within fixed term deposits but, in accordance with the cash management strategy, these must currently be of maximum 6 months duration and placed with UK banks. At any point in time the whole of the Fund's cash investments can therefore be deemed to be reasonably liquid in that they could be 100% redeemed within a maximum 6 month period if required.

In practice however, the vast majority of cash deposits will be available to a much shorter timescale, as demonstrated at year end when all cash deposits were immediately available should this have been required. The Fund 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. The Fund's 2014/15 financial statements however show a deficit of expenditure over income of £30.65 million during the year. This is however essentially due to a significant (£45 million) provision required for an exceptional bulk transfer carried out during the year which will require a (post year-end) transfer of assets to follow the transfer of the membership liability. The size of this bulk transfer does however make it an exceptional event from a cash flow perspective requiring managed dis-investment from liquid (non-cash) fund assets. 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 2014/15 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.

19. FUNDING ARRANGEMENTS

19.1 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.

19.2 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.

19.3 The contribution rates for the unitary councils with effect from 1 April 2014 are as follows:-

Blaenau Gwent	Greater of a) 12.4% plus £3,384,800 or b) 21.5%
Caerphilly	Greater of a)12.8% plus £5,520,900 or b)19.5%
Monmouth	Greater of a)13.6% plus £2,842,700 or b) 21.1%
Newport	Greater of a) 12.4% plus £3,991,200 or b) 19.2%
Torfaen	Greater of a) 12.4% plus £3,837,000 or b) 21.2%

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.

19.4 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.

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

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

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

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

www.greatergwentpensionsfund.co.uk/actuarial-valuations

20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	**31 March 2015**
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increase in pensions (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

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

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

20.3 During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

20.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £2,971 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£503 million. Adding interest over the year increases the liabilities by c£133 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£41 million.

20.5 The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £3,566 million.

20.6 The Fund, in parallel, also uses its Actuarial assumptions and methodology as referred to in note 19 to provide an interim funding position on an annual basis between valuations as an appropriate monitoring mechanism.

21. CURRENT ASSETS

31 March 2014 £000		31 March 2015 £000
	Contributions due from employing bodies:-	
2,027	- Employees contributions	2,080
14,121	- Employers contributions	14,052
3,718	Early retirement costs	4,334
45	Fund manager fee rebates	197
10	Pension payroll	3
3	Interest	4
2,381	Group transfer receivable	2,381
22,305		**23,051**

Analysis of debtors

31 March 2014 £000		31 March 2015 £000
2,384	Central Government bodies	2,382
10,636	Other Local Authorities	11,040
9,285	Other entities and individuals	9,629
22,305		**23,051**

a) Funding of early retirement costs

During 2014/15, the cost to the pension fund of early retirements arising in that year was £4,111,430.63 which is paid by instalments over periods of up to five years. The cost includes the extra years of pension payments as a result of employees retiring early, plus the augmented costs.

The cost of early retirements is worked out by specialist computer software, and is recovered from the respective employers. The actuary has reflected this approach in the contribution levels.

The amounts included within the accounts are the instalments that are due in 2014/15 and in future financial years for early retirements known as at 31 March 2015. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2014/15 in respect of:		
Prior Years	1,370	
Current Year	2,709	4,079
Balances b/f 1 April 2014	3,718	
Payments Received in 2014/15	(3,773)	
Reversal of previous instalments due	(3,445)	(3,500)
Instalments due for 2015/16	1,433	
Instalments due for 2016/17 & later years	2,322	3,755
2014/15 Debtor		**4,334**

The instalments due for 2015/16 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2014/15.

22. CURRENT LIABILITIES

31 March 2014 £000		31 March 2015 £000
(1,580)	Unpaid benefits	(1,322)
(741)	Pension payroll	(801)
-	Inland Revenue	(7)
(1,464)	Investment management expenses	(1,909)
(69)	Oversight and governance costs	(54)
(47)	AVC	(32)
-	Group transfer payable	(45,000)
(3,901)		**(49,125)**

Analysis of creditors

31 March 2014 £000		31 March 2015 £000
(739)	Central Government bodies	(804)
(1,330)	Other Local Authorities	(973)
(1,832)	Other entities and individuals	(47,348)
(3,901)		**(49,125)**

23. ADDITIONAL VOLUNTARY CONTRIBUTIONS

23.1 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 2014/15	425	232	4	661
Market value of AVC Investments 31st March 2015	4,046	1,902	1,103	7,051

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.

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 12, page 59). 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**

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

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

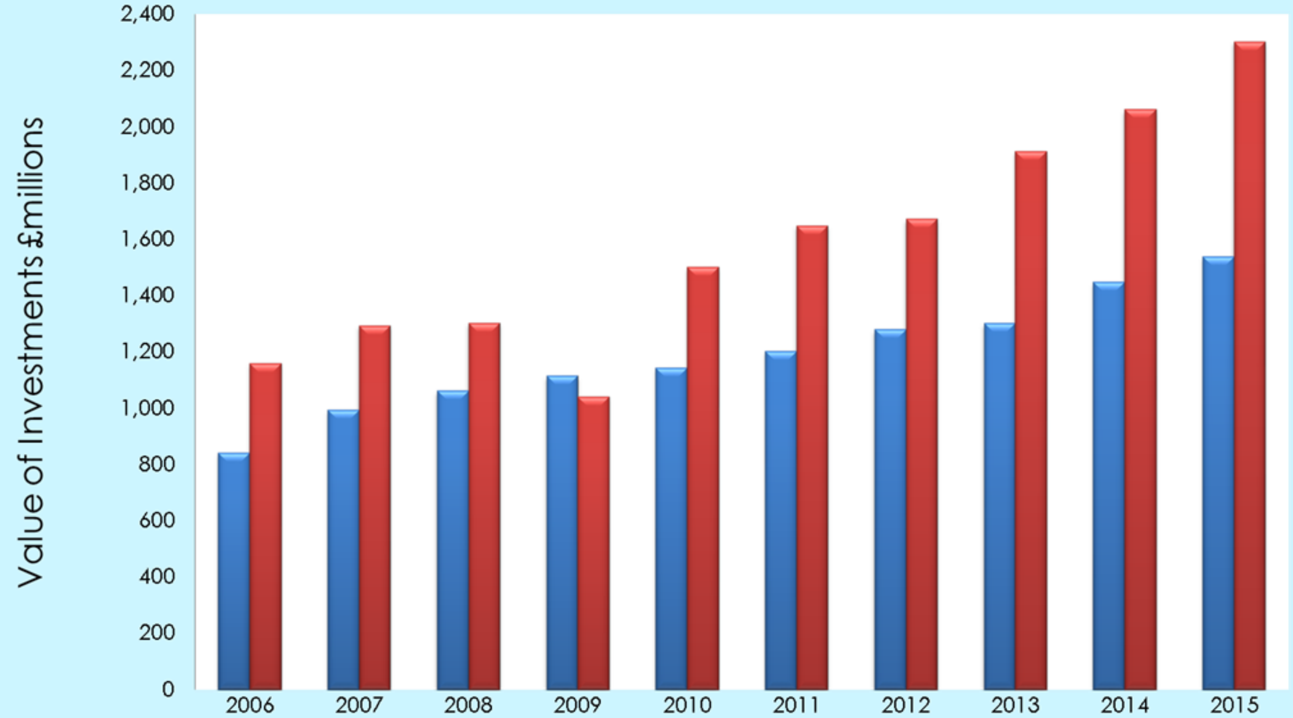
25. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENT

25.1 The fund invests in the Prudential/M&G UK Companies Financing Funds (Funds I and II) which are in the form of Limited Liability Partnerships. As at 31 March 2015 no further liability remains for Financing Fund I but it does for Financing Fund II. This investment has a committed amount of £8 million and the fund made a net contribution of £722,794 to Financing Fund II during 2014/15. A further liability of £5,174,104 exists at the year end.

Appendices

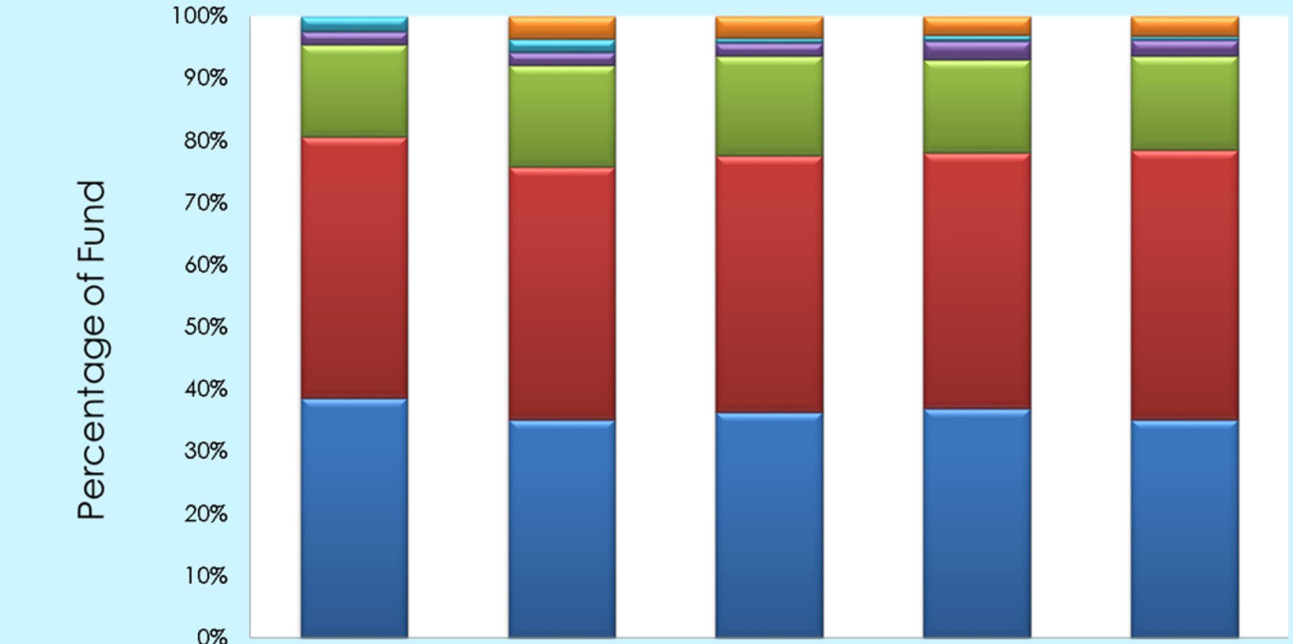
Appendix 1

Ten Year Valuation of Investments



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Book Cost	842	994	1,062	1,115	1,145	1,204	1,280	1,303	1,449	1,539
Market Value	1,160	1,294	1,303	1,042	1,502	1,650	1,673	1,915	2,062	2,303

Tactical Asset Allocation



	2010/11	2011/12	2012/13	2013/14	2014/15
Alternatives		4	4	3	3
Cash	2	2	1	1	1
Property Unit Trust	2	2	2	3	3
Fixed Interest	15	16	16	15	15
Overseas Equities	42	41	41	41	43
UK Equities	39	35	36	37	35

Appendix 2

Fund Membership

	Active Members 31/03/14	Active Members 31/03/15
Administering Authority		
Torfaen CBC	3,013	3,105
Current Scheduled Bodies		
Blaenau Gwent CBC	2,975	2,745
Caerphilly CBC	6,347	6,718
Monmouthshire CC	2,531	2,698
Newport City Council	3,869	3,822
Caldicot & Wentloog LDB	15	18
Valuation Panel	4	4
University of Wales, Newport	359	-
Coleg Gwent	686	667
Chepstow Town Council	6	6
Brynmawr Town Council	1	1
Gwent Police Authority	862	-
Chief Constable (Gwent)	-	807
Police & Crime Commissioner (Gwent)	-	19
Silent Valley Waste Disposal	3	3
Caldicot Town Council	2	2
Nantyglo & Blaina Town Council	1	1
Monmouth Town Council	2	2
Gwent Cremation Committee	9	9
Cwmbran Community Council	8	8
Pontypool Community Council	7	7
Tredegar Town Council	2	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
Deemed Bodies		
Newport Transport	12	10
Admitted Bodies		
Melin Homes	43	62
Careers Wales Gwent	100	97
Citizen Advice Bureau Caerphilly	8	8
Mitie (formerly Ballast)	2	2
Hafod Care	28	25
Archives	11	12
OCS Ex UWN	8	-
Monmouthshire Housing	159	157
Bron Afon	458	482
Newport City Homes	222	204
Tai Calon	254	258
DRIVE	5	4
Regent Ex Monmouth CC	5	7
Regent Ex Monmouth Cluster	3	3

Appendix 2

Fund Membership

	Active Members 31/03/14	Active Members 31/03/15
Admitted Bodies continued		
Regent Ex Abergavenny Cluster	3	2
Regent Ex Chepstow Cluster	8	7
Vinci	1	1
Compass Catering Newport	96	90
Compass St Albans	1	1
National Trust	8	7
Barnardo's	5	4
EAS	71	88
Caterlink NCC Caerleon	5	3
Caterlink NCC Newport High	5	5
Churchill	9	8
Monwell Ltd	30	23
Torfaen Leisure Trust	158	149
Borough Theatre	6	7
NPS Newport	-	17
NCS Norse	-	123
Life Leisure	-	360
Total Active Membership	22,435	22,880
Total Deferred Members	14,359	15,153
Total Pensioners and Dependants	14,820	15,204
Total Membership	**51,614**	**53,237**

Appendix 3

Top Ten UK Equity Segregated Holdings as at 31 March 2015

Company		Bid Market Value £
Royal Dutch Shell		19,491,083
BP		18,609,329
British American Tobacco		16,685,182
AstraZeneca		14,553,951
Vodafone Group		14,036,245
Shire		13,205,057
HSBC Holdings		12,739,530
Lloyds Banking Group		12,169,389
Diageo		11,881,703
Rio Tinto		11,852,878

Appendix 4

Ten Year Summary of Statistics

Revenue Account	**2005/06 £000**	**2006/07 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**	**2010/11 £000**	**2011/12 £000**	**2012/13 £000**	**2013/14 £000**	**2014/15 £000**
Contributions	85,798	91,427	99,087	105,720	113,894	110,304	101,652	101,028	109,666	104,655
Transfer Values Received	10,590	10,755	11,378	6,672	12,603	7,265	7,824	4,942	7,946	5,318
Investment Income and Other	20,401	19,043	18,682	18,096	16,043	17,099	21,448	20,659	26,095	20,800
Total Income	**116,789**	**121,225**	**129,147**	**130,488**	**142,540**	**134,668**	**130,924**	**126,629**	**143,707**	**130,773**
Pensions and Other Benefits	52,743	56,102	62,146	69,411	76,190	81,491	84,538	88,856	95,175	102,179
Transfer Values Paid	8,480	6,421	5,901	3,499	8,875	8,512	22,965	6,303	3,177	49,692
Refunds of Contributions	184	33	37	13	15	5	2	5	8	149
Fees and Other	3,084	4,257	5,179	4,199	4,667	5,810	6,032	6,642	8,709	9,403
Total Expenditure	**64,491**	**66,813**	**73,263**	**77,122**	**89,747**	**95,818**	**113,537**	**101,806**	**107,069**	**161,423**
Net Surplus for Year	52,298	54,412	55,884	53,366	52,793	38,850	17,387	24,823	36,638	(30,650)
Net Profit/(Loss) on Sale of Investments	76,604	96,856	12,152	(936)	(20,183)	20,631	40,620	14,317	119,325	75,822
Unrealised Change in Market Value	145,332	(17,694)	(64,259)	(310,662)	430,997	89,520	(52,621)	218,496	1,124	150,940
Increase/(Decrease) in the Fund	**274,234**	**133,574**	**3,777**	**(258,232)**	**463,607**	**149,001**	**5,386**	**257,636**	**157,087**	**196,112**

Investment Assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Book Cost at 31 March	841,761	993,537	1,061,990	1,114,650	1,144,901	1,203,604	1,279,958	1,302,617	1,449,212	1,538,838
Market Value at 31 March	1,160,168	1,294,237	1,302,616	1,042,438	1,501,677	1,649,900	1,673,634	1,914,788	2,062,483	2,303,073

Membership										
Contributors	21,187	21,559	21,834	22,143	21,667	21,196	20,550	20,582	22,435	22,880
Pensioners	11,383	11,740	12,183	12,610	13,091	13,576	13,910	14,296	14,820	15,204
Number of Preserved Benefits	7,080	8,216	9,067	9,735	10,577	11,378	12,189	13,180	14,359	15,153
Total	**39,650**	**41,515**	**43,084**	**44,488**	**45,335**	**46,150**	**46,649**	**48,058**	**51,614**	**53,237**

Appendix 5

Points of Contact

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

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

If you need more information you can write to:-

Torfaen County Borough Council
Civic Centre
Pontypool
Torfaen NP4 6YB

Or visit the website:-
www.greatergwentpensionsfund.co.uk