

2014

PENSIONS

ANNUAL REPORT

WATCH YOUR MONEY GROW



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RHONDDA CYNON TAF
TREFTADAETH GADARN | DYFODOL SICR

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■ Christopher Lee, C.P.F.A.
Group Director Corporate Services



Introduction



Welcome to the annual, and what is my first Pension Fund Report, providing an overview of the Fund's performance and key activities over the past year.

I was appointed to my new role at the end of March 2014, having actively participated on the Rhondda Cynon Taf (RCT) Pensions Panel for a number of years. Hopefully a seamless transition, it is my aim to continue to secure and build the RCT Fund over the long term, in the same vein as my predecessors.

I am pleased to report a successful year in respect of investment performance, with the RCT Fund achieving a return well above the local authority average. The Fund achieved a return of 7.2% against a WM scheme specific benchmark of 5.2%. This saw the RCT Fund ranked in the top quarter of local authority pension funds over the last 3 years.

The Fund Triennial Valuation was successfully concluded during 2013/14. Clearly as our employers are experiencing more and more budget pressures as organisations, I will continue to ensure that our monitoring and dialogue with the Fund Actuary remains appropriate and effective over the ensuing period.

'New Scheme' transitional regulations were not finalised until March '14, which provided a challenge both for the Fund's Administration Team and our scheme software provider, particularly at a time where a number of Employers were going through their own organisational change exercises. I understand that these initial glitches and amendments have since been rectified.

Looking ahead, there are positive signs of investment growth and recovery, albeit slow. Global markets will continue to be susceptible to changes in government policy around reversing quantitative easing and austerity measures. The Panel will continue to monitor and challenge our appointed Fund Managers accordingly.

From April 2015, further regulatory requirements include the establishment of a local Pension Board, the role of which aims to strengthen the transparency and governance of Public Sector Pension Funds. This is an additional tier to the existing Panel, and will act as a separate scrutiny and monitoring function of the Fund's investment and administration.

The collaboration across the Welsh Pension Funds is continuing, as is the work by the LGPS Shadow Scheme Advisory Board in respect of common investment vehicles. The Fund will continue to participate in any further consultation and provision of supplementary evidence to help inform such conclusions.

You will note some subtle additions to this year's report, which are now required for the purpose of Regulation 34(3) of the 2008 Regulation and Regulation 57 (3) of the 2013 Regulations.

I hope that the information held in the report is helpful; if you feel it could be improved we would welcome your suggestions.

A handwritten signature in black ink, appearing to read 'C Lee'.

Christopher Lee, C.P.F.A., Group Director Corporate Services

Summary

Participating Employers

Administering Authority
Rhondda Cynon Taf County Borough Council
Admitted Bodies
Agored Cymru
Capita Glamorgan Consultancy
Care Council for Wales
Careers Wales Association
Careers Wales - Mid Glamorgan and Powys Limited
Finance Wales Investment
Finance Wales Plc
Halo Leisure
Local Government Data Unit
Maesteg Town Hall
Merthyr Tydfil Institute for the Blind
Merthyr Valley Homes
Penywaun Enterprise Partnership
RCT Homes
Valleys to Coast Housing
VINCI Construction UK Limited
Welsh Government (former Welsh Development Agency)
Welsh Joint Education Committee (WJEC)

Definition of Bodies

Scheduled Bodies

These include County Councils, Police Authorities and the Environment Agency among many others.

Designated Bodies

Designated bodies, such as Community Councils are required to pass a resolution stating whom within their employment can join the scheme.

Admitted Bodies

Admitted Bodies can participate in the scheme by means of an admission agreement. These Admitted Bodies may state whether all or some of their employees can join the Scheme.

Scheduled & Designated Bodies
Amgen Cymru
Brackla Community Council
Bridgend College
Bridgend County Borough Council
Bridgend Town Council (no active members at present)
Central South Consortium
Coleg Morgannwg*
Coleg Y Cymoedd
Coychurch Crematorium Joint Committee
ESIS
Garw Valley Community Council
Gelligaer Community Council
Llanbradach Community Council (no active members at present)
Llanharry Community Council (no active members at present)
Llantrisant Community Council
Llantwit Fardre Community Council
Llwydcoed Crematorium Joint Committee
Maesteg Town Council
Merthyr College
Merthyr Tydfil County Borough Council
Police and Crime Commissioner for South Wales
Pontyclun Community Council
Pontypridd Town Council
Royal Welsh College of Music & Drama
South Wales Fire Authority
South Wales Valuation Tribunal
Tonyrefail Community Council
University of South Wales
Wales Probation Trust
Ystrad Mynach College*

* Coleg Morgannwg and Ystrad Mynach College merged in August 2013 to form Coleg Y Cymoedd

Contributors page (Who's Who)

Head of Service Pensions, Payroll & Payments - Ian Traylor

Ian joined Local Government in 1990 with the former Mid Glamorgan County Council and transferred to Rhondda Cynon Taf during the 1996 re-organisation. Ian has a well-established background in financial control / risk management with a primary career spent in Internal Audit. More recently joined the Pensions Service in 2006 and is an active member of the Pension Fund Investment and Administration Panel.



Senior Accountant, Treasury and Pension Fund Investments - Yvonne Keitch

With 32 years experience within local government, Yvonne is responsible for the administration of the pension fund investments. Yvonne has been the fund's Investment Manager since 1995.



Pension Fund Accountant - Ryan Emmett

Ryan is responsible for the maintenance and closure of the Pension Fund accounts, having gained a BSC in Mathematics from Cardiff University; Ryan has 18 years experience with Rhondda Cynon Taf County Borough Council and has been in his current post since January 2003.



Communications - Catherine Black

Catherine joined us in 2013. Previously she worked in an in-house pension administration department of a large multi-national retailer, where her role involved implementing regulatory changes, calculating member benefits and delivering presentations to scheme members.



Pension Panel Members

Pension Panel Member - Councillor Forey

Councillor Forey is the Cabinet Member for Partnerships and Adults' Social Services and is the representative for Aberdare East electoral division.



Pension Panel Member - Councillor Webber

Councillor Webber is Cabinet Member for Council Business and Public Relations and is the representative for Rhydfelin Central electoral division.



Group Director of Corporate Services & Section 151 Officer - Christopher Lee C.P.F.A.

Chris gained a BSC (Honours) degree from Swansea University in 1990 and went on to qualify as a Public Sector Chartered Accountant (CIPFA) in 1995 whilst working as a Group Accountant at Merthyr Tydfil Borough Council.

He joined Rhondda Cynon Taf in 1997 as a Finance Manager and was promoted in 1999 to the post of Chief Accountant for the Council. Chris also gained experience with the Audit Commission in 2001 before rejoining Rhondda Cynon Taf in 2002 as Divisional Director - Finance. He was appointed to Group Director of Corporate Services in March 2014.



Director of Financial Services & Deputy Section 151 Officer - Barrie Davies CIPFA/ACIS

Barrie joined Local Government with Mid Glamorgan County Council in 1985, moving to Rhondda Cynon Taf with re-organistaion in 1996. Barrie is an active member of the Investment and Administration Panel and was appointed to his current role in March 2014.



Head of Service Pensions, Payroll & Payments - Ian Traylor

Ian joined Local Government in 1990 with the former Mid Glamorgan County Council and transferred to Rhondda Cynon Taf during the 1996 re-organisation. Ian has a well-established background in financial control / risk management with a primary career spent in Internal Audit. More recently joined the Pensions Service in 2006 and is an active member of the Pensions Investment and Administration Panel .



Senior Accountant, Treasury and Pension Fund Investments - Yvonne Keitch

With 32 years experience within local government, Yvonne is responsible for the administration of the pension fund investments. Yvonne has been the fund's Investment Manager since 1995.



Head of Financial Reporting - Stephanie Davies F.C.C.A.

Following a career in the private sector, Stephanie joined Rhondda Cynon Taf in 2000 as a Principal Accountant responsible for the production of the Council's statutory accounts. In her current role, one of Stephanie's responsibilities is the management of the Pension Fund Investment team and she became a member of the Pension Fund Panel during 2014.



Pension Fund Accountant - Ryan Emmett

Ryan is responsible for the maintenance and closure of the Pension Fund accounts, having gained a BSC in Mathematics from Cardiff University; Ryan has 18 years experience with Rhondda Cynon Taf County Borough Council and has been in his current post since January 2003.



Carolyn Dobson

Carolyn Dobson is an Independent Investment Adviser for a number of LGPS funds including the Environment Agency, Staffordshire County Council, Buckinghamshire County Council and the London Borough of Enfield. She is also a trustee of the Avon Pension Scheme and Chairman of Qinetiq's pension fund. She was a Director of Abbey Asset Management and Murray Johnstone and has had over thirty one years experience as a fund manager and investment adviser.



David Cullinan

David is a Vice President within WM Performance Services, part of State Street's investment analytics division. Based in Edinburgh, he has been with the organisation for 28 years. For the last 22 years, David has primarily been concerned with managing client relationships.

He currently has relationships with a wide ranging portfolio of clients spanning public and private sector pension schemes, asset management organisations, life companies and charities.

Today he heads the Performance Consultancy team. This team has a very broad remit of supporting the client management population, governance of technical standards, market segment leadership, ad-hoc consultancy, independent advisorships and importantly, leading relationships with WM's largest and most complex clients.



■ Ian Traylor

Head of Service Pensions, Payroll & Payments



Administration Report



Introduction

2013/14 has been another busy year for the Service, ensuring that we were suitably prepared to implement the significant regulatory reform, whilst facilitating the increased demand from Employers implementing their own organisational changes, through downsizing and outsourcing exercises.

Unfortunately, some delay was experienced during the immediate transition period in early April'14, as the 'New Scheme' operational arrangements, including the software were being finalised. The necessary system updates have been rectified and we have minimised any further impact as the year has progressed.

The increased workloads for both estimate and actual benefit calculations have continued into 2014/15. It is important that Employers engage with the Fund at the earliest opportunity in order that suitable resources are aligned to meet these bulk activities and provide this necessary information within agreed timelines, where possible. It is also important to engage early if you are considering an outsourced arrangement that may require Admission to this Fund.

2014 Scheme Reforms

The Funds documentation has been updated in accordance with the new scheme, Employers have been provided with suitable HR and Payroll guides (updated May'14) and an Employee Guide has been produced, all available on the LGPS 2014 website.

The reform included changes to the way additional pension purchase / pension buyback is processed. This raised numerous comments from administering authorities and employers regarding the increased administration surrounding the introduction of Shared Cost APCs to purchase lost pension from 1 April 2014. In May 2014 the LGPC secretariat released the Additional Pension Contributions (APC) calculator on the LGPS 2014 website. The calculator provides scheme members with a facility to determine whether they would want to buy lost pension and provides the option to print off an election form to issue to their Employer and their Pension Fund.

We still have concerns around the administration of this process, specifically in relation to the buyback of adhoc leave of absence / strike days, given the varying levels of understanding of our diverse membership. Employers may wish to consider supporting their employees in some circumstances.

New Governance Requirements

Following on from the Hutton review, the LGPS (Amendment) Regulations 2014 have provided draft regulations on strengthening scheme governance.

At a local level it requires the creation of a Pension Board for the Fund by April 2015. This Board will provide a scrutiny function to the existing Pensions Investment and Administration Panel.

An LGPS Shadow Scheme Advisory Board has also been established who are currently tasked with the role of identifying opportunities for collaboration, cost savings and efficiencies within the Scheme nationally.

The Pensions Regulator (tPR) has launched a new section on their website on governance and administration of public service pension schemes. Two new brief guides have been produced in relation to Pension Boards and a draft Code of Practice that sets out the standards of governance and administration for the running of public service pension schemes.

A working group has been established and are currently reviewing the Fund's governance arrangements in light of these new draft proposals and code, to ensure our compliance.

Automatic Enrolment Guides

During 2014/15 the Fund's Employers that have a PAYE employee base of 50 to 249 should be working towards their Auto Enrolment staging date. Further information can be found at the Pension Regulator at www.thepensionsregulator.gov.uk/employers/what-is-automatic-enrolment.aspx

The LGA automatic enrolment guides and sample letters have been updated to reflect the latest amendments to the LGPS Regulations, the LGPS contribution rates/bands for 2014/15 and the Automatic Enrolment earnings trigger and qualifying earnings band for 2014/15. Further information can be found at www.local.gov.uk/web/workforcelibrary/technical-guides

HMRC Pension Tax Changes

The Lifetime Allowance (LTA) is the maximum amount of pension savings that you can build up over your lifetime that benefit from UK tax relief. The level of the standard LTA reduced from £1.5m to £1.25m with effect from 6 April 2014 onwards.

There is still the opportunity to protect any pension savings built up before 6 April 2014 from the LTA charge (for savings over £1.25m to an overall maximum of £1.5m), if you meet the relevant HMRC criteria. Application for Individual Protection (IP2014) can be accessed at www.hmrc.gov.uk/news/individual-protection.htm

Whilst the IP2014 will operate from 6th April 2014, there will be a three year period in which you will be able to apply for the protection (6 April 2014 to 5 April 2017). The Fund's Communications Team will shortly be contacting those scheme members that may fall into the above Lifetime Allowance bracket, for their personal consideration.

State Pensions Reform – Pensions Bill 2013/14

In May 2014 the Pensions Bill 2013/14 received Royal Assent becoming the Pensions Act 2014. The Act legislates for a fundamental change to the provision of state pension in the UK, alongside a number of significant changes for private pensions.

From 6 April 2016 the state pension system in the UK will change with the introduction of a new single-tier state pension. The new system will apply to individuals who reach their State Pension Age (SPA) on or after 6 April 2016. The Act now legislates for the acceleration of SPA from age 66 to 67 for both men and women between 6 April 2026 and 5 April 2028, as previously announced by Government in 2011.

For Fund Employers, the changes also see the abolition of contracting out for Defined Benefit (DB) schemes from April 2016. Whilst the Act gives powers to private sector DB occupational schemes to make amendments to offset the loss of the National Insurance rebate, this has not been extended to public service pension schemes (including the LGPS). Employers beware for budgeting purposes, as this will result in increased NI contributions on earnings from April 2016.

Pension liberation

As I have previously reported, the Fund has experienced a small number of potential liberation cases which we have been able to challenge and prevent progressing. These activities are fraudulent and claim to allow members to access immediate cash from their pension before age 55.

During October 2013 HMRC announced changes to the pension schemes registration process to combat pension liberation. HMRC has also changed the way they respond to requests from transferring scheme administrators for confirmation of the registration status of the receiving scheme.

The RCT Fund is fully supportive of these actions in combating such activities, which can see poorly informed scheme members lose lifetime pension savings through fees and tax penalties. You can find out more about pension liberation at www.thepensionsregulator.gov.uk



Performance Information

The results of key performance indicators identified and agreed by the Pension Panel for the period up to 31st March 2014 are listed in the adjacent table.

Service Standards

Many Fund employers have undertaken some rationalisation and internal restructuring over the last year and this has increased our workload for producing early retirement costs for employers, along with pension illustrations and retirement packs to members.

Providing this complex information in a timely and accurate manner has proved challenging but the demand has been met without a reduction in our published performance standards or to the detriment of other priority work.

This has been achieved by actively reallocating and targeting resources in line with our key objectives.

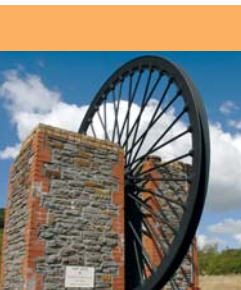
We participate in the Chartered Institute of Public Finance and Accountancy (CIPFA) Benchmarking Club which measures the service provided by Rhondda Cynon Taf Pension Fund against industry standards.

This table shows our actual performance against the benchmark standard.

Disputes

In line with legislation the Pension Fund has an Internal Disputes Resolution Procedure (IDRP) which deals with formal complaints against the Scheme. During 2013/14 one complaint under the procedure was received and settled with the complaint not being upheld.

Procedure Description	Performance Target	Intervention Target	Actual Performance	Number of cases Processed
Divorce Estimate (calculation for members)	10 days	95%	100%	107
Preserved Benefit (notification to leavers)	10 days	90%	91.89%	2,244
Refund of Contributions (payment back to scheme members)	10 days	95%	95.10%	69
Employer Request for Retirement Estimate	5 days	95%	97.76%	711
Retirement Payment (from active membership)	5 days	95%	96.42%	462
Preserved Benefit into Payment on Retirement	5 days	95%	93.10%	320
Transfer In (calculation from previous pension scheme including late transfer applications)	10 days	90%	89.76%	501
Transfer Out (payment to receiving pension scheme)	10 days	95%	95.19%	170



Membership of the Fund

Number of Employers

	Active	Ceased	Total
Scheduled Body	25	20	45
Admitted Body	18	8	26
Total	43	28	71

Fund membership at 31st March is as follows:-

Number of Contributing Members

Years	2010	2011	2012	2013	2014
Numbers	23923	23510	23669	24969	27432

Number of Deferred Beneficiaries

Years	2010	2011	2012	2013	2014
Numbers	12951	14607	15966	17758	18831

Number of Pensioners and Dependants

Years	2010	2011	2012	2013	2014
Numbers	15529	16421	17023	17354	17626

Number of Undecided Withdrawals

Years	2010	2011	2012	2013	2014
Numbers	2321	2380	2408	2390	2421

Membership Trends

	2009/10	2010/11	2011/12	2012/13	2013/14	% Increase from 12/13
Active Employers	44	43	42	44	43	
Contributors	23923	23510	23669	24969	27432	+9.86%
Pensioners	13050	13854	14391	14730	15005	+1.87%
Dependants	2479	2567	2632	2624	2621	-0.11%
Deferred Beneficiaries	12951	14607	15966	17758	18831	+6.04%

Fund Costs per Member

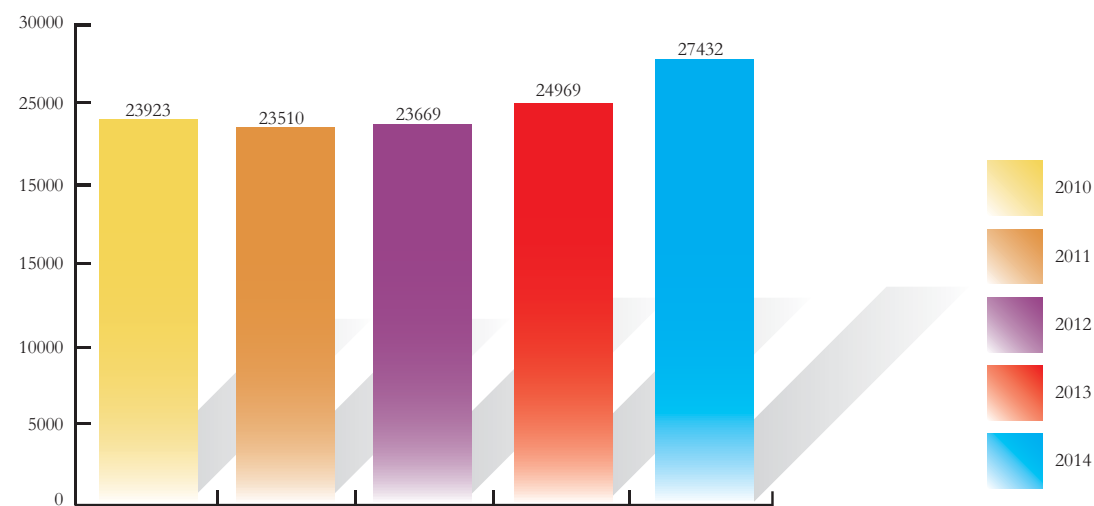
	Cost per member (£)
Administration	26.24
Investment Administration Expenses	3.98
Fund management expenses	85.52
TOTAL	115.74

The Pension Fund currently employs 24 full time equivalent staff in administration and 2 in Pension Fund investments and accounts.

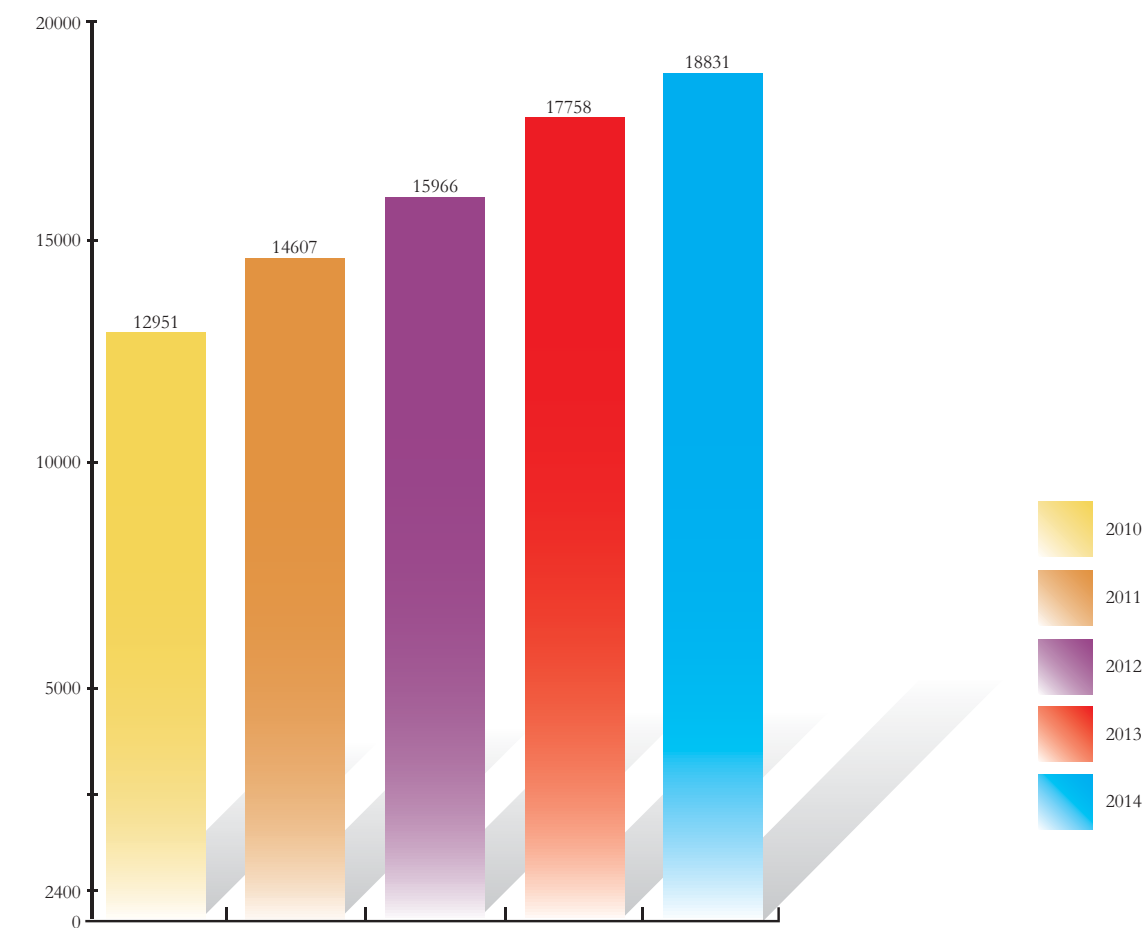
Membership and Analysis of The Fund

Fund membership at 31st March is as follows: -

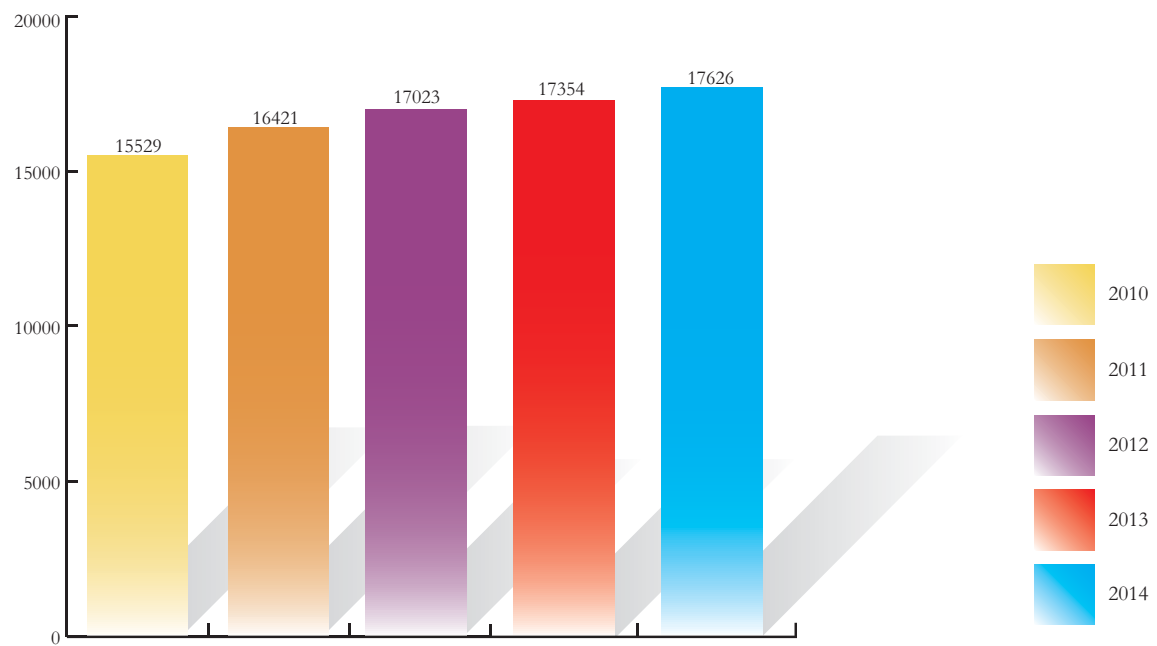
Number of Contributing Members



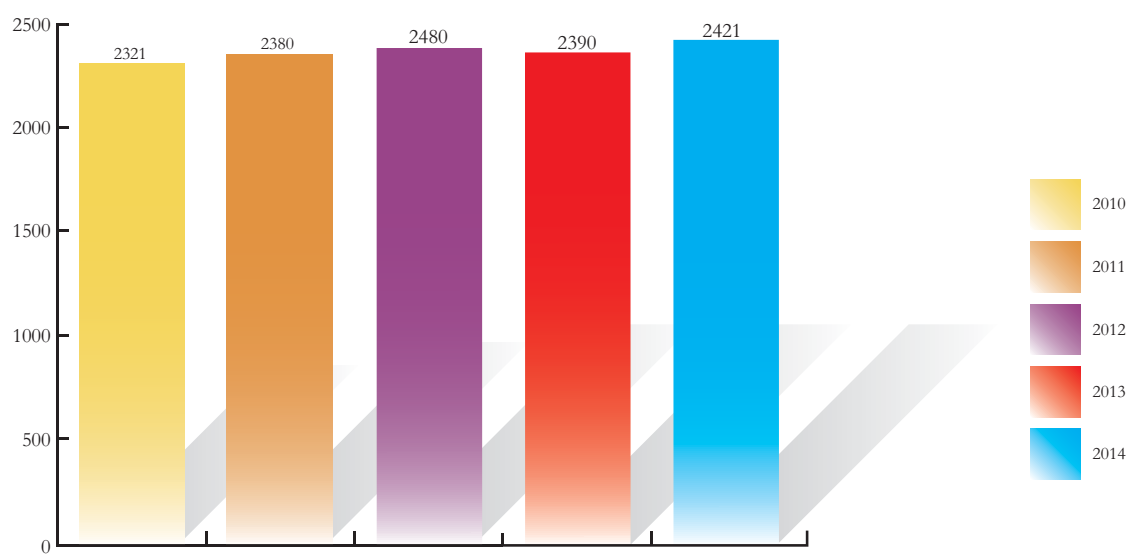
Number of Deferred Beneficiaries



Number of Pensioners and Dependants



Number of Undecided Withdrawals



Membership Analysis

Leavers from active status

	2012	2013	2014
Refund of Contributions	81	71	110
Transfers to other Schemes	0	5	5
Death in Service	22	16	28
Ill Health Retirements	59	43	38
Early / Normal Retirements	214	173	161
Redundancy / Efficiency Retirements	188	164	150
Flexible Retirements	41	35	33
Late Retirement	95	76	80
Opt Outs	-	-	577
Preserved Benefits	1500	1410	1878
Other Leavers	-	352	43
Total	2200	2345	3103



Deferred Benefits – Exits

	2012	2013	2014
Transfer to other Schemes	213	156	165
Deaths	23	18	20
Ill Health Retirements	5	5	8
Early / Normal Retirements	205	294	320
Other Benefits	1	10	0
Number of Deferred Members Re-entering the Scheme	112	6	72
Total	559	489	585

■ Yvonne Keitch

Senior Accountant, Treasury and Pension Fund Investments



Investment Report



Introduction

In absolute terms, for the year ending 31st March 2014, the average local authority pension fund achieved a return of 6.4%, led by strong returns from UK equities, US equity and European equities. Bond returns were more mixed with UK Corporates positive but UK Government, Index-Linked and Overseas Bonds all in negative territory. Average equity returns over the last 20 years stand at 7.6%, with bonds returning 6.6%.

At the start of the financial year, the market value of the Rhondda Cynon Taf Pension Fund investments was £2,043.5 million. By the 31st March 2014 the Fund had increased in value to £2,221.4 million.

Rhondda Cynon Taf Pension Fund produced a return of 7.2% in 2013/14, well ahead of the local authority average return of 6.4%, ranking in the 35th percentile. Most of the Fund's outperformance has been due to strong stock selection in equity investments. RCT Pension Fund was well ahead of benchmark over 3, 5, and 10 years, ranking in 16th percentile over 3 years, 32nd percentile over 5 years, and 18th percentile over 10 years.

Investment Management

Investment strategy is considered and agreed by the Pension Fund Investment and Administration Panel, which is chaired by the Rhondda Cynon Taf Group Director, Corporate Services and consists of two Rhondda Cynon Taf Council Members, two independent advisors and other finance officers.

The Panel meets quarterly to determine policy in the light of market movements and to question and challenge the Investment Managers on their performance. The Fund managers carry out the actual day-to-day investment management of the Fund. There are currently eight separate investment mandates.

Baillie Gifford Traditional Equities, Newton High Alpha Equities, Baillie Gifford High Alpha Equities, BlackRock UK Equities, Invesco UK Equities, F & C Bonds, CBRE Real Estate and L & G Passive Equities.

Investment Performance

For the year ending 31st March 2014, the Fund achieved a return of 7.2% against a WM scheme specific benchmark of 5.2%. The following analysis provides returns by asset class for 2013/14.

	Benchmark 2013/14 %	RCT 2013/14 %
UK Equities	8.8	12.1
Overseas Equities		
US	10.3	15.6
Continental Europe	18.3	12.2
Other Intl Equities	-9.9	-3.9
UK Bonds	-0.5	-0.2
Overseas Bonds		5.0
Property	6.9	6.9
Cash	0.4	1.1
Total Assets	5.2	7.2

Fund Manager Performance

The table below shows the relative performance of each manager against their respective benchmarks for the year ending 31st March 2014

	Benchmark %	Manager's Return %
F & C (Bonds)	-0.5	0.0
Baillie Gifford (Traditional Equities)	7.2	9.8
Baillie Gifford (High Alpha Equities)	6.7	12.6
Newton (High Alpha Equities)	6.7	6.4
CBRE Real Estate	6.9	6.7
BlackRock (UK Equities)	8.8	9.0
Invesco (UK Equities)	8.8	14.4
Legal & General (Passive Equities)	6.8	6.9

All fund managers have customised benchmarks.



Details of Fund Managers

The market values of investments held by the fund managers employed by the fund are detailed in the following table.

Fund Manager	Market Value		Proportion of Fund	
	31/03/13 £'000	31/03/14 £'000	31/03/13 %	31/03/14 %
Baillie Gifford (Traditional Equities)	405,627	445,289	19.9	20.1
Baillie Gifford (High Alpha Equities)	364,727	410,975	17.8	18.5
Newton (High Alpha Equities)	306,361	326,311	15.0	14.7
Invesco (UK Equities)	101,020	115,614	4.9	5.2
BlackRock (UK Equities)	97,258	105,847	4.8	4.8
Legal & General (Passive Equities)	149,958	196,619	7.3	8.9
F&C (Bonds)	460,396	460,541	22.5	20.7
CBRE (Property)	123,774	131,242	6.1	5.9
Internal	34,179	27,209	1.7	1.2
Total	2,043,300	2,219,647	100.00	100.00

No single investment accounted for more than 5% of the Fund's assets.

The market value of investments shown in this table includes short-term investments such as cash balances and money deposits, and so differs from the total of long-term investments only.

Investment risk is mitigated by employing a number of fund managers to diversify manager risk, with mandates covering a variety of assets including equities, bonds and property. Managers must maintain a diversified portfolio of investments and comply with the LGPS investment regulations, and any additional restrictions set by the Investments Panel. The underlying investments are further diversified by country and industry sector.

Each manager's performance is monitored quarterly by the Investments Panel against a target linked to an asset allocation benchmark, effectively constraining managers from deviating significantly from the intended approach, while still permitting some flexibility to enhance returns.

Profits and Losses on Investments

For the year ending 31st March 2014, the Fund obtained a return of 7.2% against a WM Local Authority Average of 6.4%, which ranked in the 35th percentile. The Fund's three-year return was 8.9% against the WM average of 7.5%, ranking in the 16th percentile of Funds measured.

	2012/13 £'000	2013/14 £'000
Profits on sales	43,805	73,836
Losses on sales	(32,447)	(23,887)
Net profit / (loss) on sales	11,358	49,949
Change in market value	215,016	41,566
Net increase/ (decrease) in value	226,374	91,515

Custodial Arrangements

Rhondda Cynon Taf Pension Fund has appointed State Street to act as custodian for the shares of the pension fund. Shares are held to the order of the custodian for the benefit of Rhondda Cynon Taf. State Street is regulated in the UK by the Financial Conduct Authority.

Fund Manager and Advisor Fees

Fund manager fees are charged on a reducing scale based upon the market value of the fund. Some managers also have an additional performance fee element, if agreed outperformance targets are achieved.

The Fund's advisors receive a fixed annual fee for their services and attendance at quarterly meetings. Any additional meetings incur an extra charge.

Analysis of Investments at Fair Value

	2012/13		2013/14	
	£'000	£'000	£'000	£'000
Equities				
UK	292,406		324,216	
Overseas	800,194		873,493	
		1,092,600		1,197,709
Fixed interest				
UK	438,897		417,446	
Overseas	5,383		18,378	
		444,280		435,824
Index linked				
UK	5,646		13,111	
Overseas	0		0	
		5,646		13,111
Pooled investments				
UK - property	100,682		114,103	
Overseas - property	19,189		16,098	
UK – other	121,371		138,599	
Overseas - other	191,153		239,203	
		432,395		508,003
Total long-term investments		1,974,921		2,154,647

The Investments Panel has decided that the Fund will not enter into any stock lending arrangements. All investments held are quoted investments, and no assets were reclassified. Carrying values of assets held in the balance sheet are the same as the Fair Values shown above.

All investments above are deemed to be Financial Instruments designated "Fair Value through Profit and Loss". All investment income, profits / losses on disposals of investments, and changes in the value of investments recognized in the Fund Account arise from Financial Instruments designated "Fair Value through Profit and Loss", with the exception of interest on Cash Deposits. Cash Deposits are deemed to be Financial Instruments designated "Loans and Receivables".

Geographical Spread of the Fund

The Fund Managers invest in shares in a number of countries.

The table below shows the value of shares held by the Fund Managers as at 31st March 2014:

	£'000	%
UK Equities	462,816	20.8
European Equities	302,778	13.6
US and Canadian Equities	537,092	24.2
Japanese Equities	81,201	3.7
Pacific Equities	66,834	3.0
Other International Equities	124,790	5.6
Bonds	448,935	20.2
Property	130,201	5.9
Cash & Equivalents	66,780	3.0
Total	2,221,427	100.0

Analysis of Investment Income accrued during 2013/14

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	4,799	288	24,445	29,532
Bonds	23,238	619	0	23,857
Property (Direct Holdings)	0	0	0	0
Alternatives	3,812	141	0	3,953
Cash and Cash Equivalents	125		0	125
Other	0	0	0	0
Total	31,974	1,048	24,445	57,467

Analysis of Fund Assets as at 31st March 2014

	UK £'000	Non-UK £'000	Global £'000	Total £'000
Equities	415,709	0	1,159,802	1,575,511
Bonds	430,557	18,378	0	448,935
Property (Direct Holdings)	0	0	0	0
Alternatives	114,103	16,098	0	130,201
Cash and Cash Equivalents	44,007	0	22,773	66,780
Other	0	0	0	0
Total	1,004,376	34,476	1,182,575	2,221,427

Largest Share Holding

The ten largest holdings of each active equity fund manager as at 31st March 2014 are

Baillie Gifford's (Traditional Equities) Ten Largest Holdings

Share	£'000
Svenska Handelsbanken	8,406
Ashtead	8,120
St James Place	7,695
GBL	7,570
Total	6,947
Nestle	6,913
Investor	6,651
Hargreaves Lansdown	6,369
Prudential	6,018
Atlas Copco	5,516

Baillie Gifford's (High Alpha) Ten Largest holdings

Share	£'000
Prudential	12,806
Royal Caribbean Cruises	11,042
Roche	9,222
Google	8,028
TD Ameritrade	8,025
ebay	7,803
Ryannair	7,612
Nestle	7,343
Moodys	6,977
Amazon	6,656

Newton's (High Alpha) Ten Largest holdings

Share	£'000
Microsoft	9,728
Roche	8,564
Novartis	7,937
Toyota Motor	7,391
Google	7,352
Bayer	7,303
Apple	6,836
Pfizer	6,714
Total	6,674
CitiGroup	6,292

BlackRock's (UK Equities) Ten Largest Holdings

Share	£'000
Next	9,339
Compass	8,799
British American Tobacco	8,225
British Sky Broadcasting	7,389
Reckit Benckiser	7,247
Wolseley	7,164
Reed Elsevier	5,953
Rio Tinto	5,640
BG	5,486
Easyjet	4,972



Statement of Investment Principles

1. Overall Responsibility

Rhondda Cynon Taf County Borough Council is the designated statutory body responsible for administering the Rhondda Cynon Taf County Borough Council Pension Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

The Council has appointed the Group Director - Corporate Services with Section 151 responsibilities to act as adviser to the Council in respect of its Pension Fund responsibilities. An Investment Advisory Panel has been formed to advise him in this capacity. This is made up of:

- Two Councillors
- The Section 151 Officer
- The Deputy Section 151 Officer
- Head of Financial Reporting
- Head of Service (Pension, Payroll and Payments)
- Senior Accountant, Pension Fund and Treasury
- The Pension Fund Accountant
- Independent Advisors

The Panel meets quarterly. The Council is not strictly a trustee (technically, this is the Department for Communities and Local Government) but acts in a quasi - trustee role.

2. Primary Objective

The Fund's objective is to provide for members' pension and lump sum benefits on their retirement or for the dependant's benefits on death before or after retirement, on a defined basis.

3. Funding Objectives

Rhondda Cynon Taf should manage the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the actuarial value of the Fund's assets and that an appropriate level of contribution is agreed by the Authority to meet the cost of future benefits arising.

The assumptions used for this test correspond with the assumptions used in the latest Actuarial Valuation. This position will be reviewed at least at each triennial Actuarial Valuation.

4. Investment Objectives

The Fund's objective is to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding objectives on an ongoing basis.

The Investment Advisory Panel will ensure that one or more investment managers are appointed who are authorised under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to manage the assets of the Fund.



Contracts / mandates will be in place giving instructions to the Managers as to how the investment portfolio is to be managed.

The Investment Advisory Panel may give specific directions as to the strategic asset allocations and will ensure the suitability of assets in relation to the needs of the Fund. The investment managers (each of which will have a benchmark and target to reflect their mandate) will be given full discretion over the choice of individual stocks and will be expected to maintain a diversified portfolio.

5. Kinds of Investments To Be Held

As at March 2014 the fund employs the following investment managers:

Traditional equity manager	20%
Global passive equity manager	9%
2 Global high alpha managers	33%
2 UK equity high alpha managers	10%
Fixed Interest Manager	21%
Property Manager	6%

The Investment Advisory Panel has agreed a benchmark which provides an effective balance between risk and return.

The Investment Advisory Panel has agreed not to invest in private equity at the present time.

The Investment Advisory Panel has agreed not to stock lend at the present time.

6. Policy on Risk

The adoption of an asset allocation benchmark and the monitoring of performance relative to a performance target constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage the Fund in such a way to enhance returns.

The appointment of more than one investment manager introduces diversification of manager risk.

Each manager is expected to maintain a diversified portfolio of investments and adhere to restrictions imposed within their agreement.

7. Expected Return on Investments

The overall investment objective is to maximise investment returns and to minimise employer contributions over the long term within agreed risk tolerances.

The requirement is to move towards 100% funding over a period of time. This is agreed with the Actuary as the average expected future working lifetime of the scheme membership. The funding level is computed triennially, following an actuarial review.

The Fund's assets are managed on an active basis (except the 9% Global Passive Equity mandate) and are expected to outperform their benchmarks over the long term. In this way the investment performance achieved by the Fund is expected to exceed the rate of return assumed by the Actuary in funding the Fund on an ongoing basis.

The Fund's investment managers have been given weighted average benchmarks and targets to reflect their mandates. Both asset allocation and stock selection is monitored. The current targets for each mandate are as follows:-

Portfolio	Portfolio Benchmark Index	Portfolio Target
Traditional equity manager	UK - FTSE All Share US – FTSE All World Europe – FTSE All World Europe Far East – FTSE All World Dev Asia Other Intl – MSCI Emerging Index	Composite Index +1% pa over rolling 3 year period
Global passive equity manager	FTSE A W All World	Index
Global high alpha managers	MSCI All Countries World Index	Index + 2% over rolling 3 year period
UK equity high alpha managers	FTSE All Share Index	Index +2% over rolling 3 year period
Fixed Interest Manager	UK Govn Bonds – FTS UK Govn All Stocks UK Corporate – IBoxx GBP Non Gilts	Composite Index +0.5% pa over rolling 3 year period
Property Manager	RPI	Index +4.5%

Review of the investment managers is ongoing based on the quarterly and annual performance data supplied to the Panel by the WM Company.

8. Realisation Of Investments

Fund Managers are required to hold only assets that are readily realisable. Any investment within a pooled fund that is not readily tradeable requires specific approval.

9. Socially Responsible Investments

The overriding principle of the Fund's investment policy is to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

However, the Investment Advisory Panel expects the Fund's investment managers to consider environmental, social and governance issues when assessing investment opportunities.

The incorporation of these factors into investment managers' stock selection decisions should serve to enhance the process, rather than restrict choice in any way. The Fund does not negatively screen stocks from the investment universe available to managers.

The Panel also expects the Fund's active investment managers to proactively engage with the companies that they invest in to encourage good corporate governance.

The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.

10. Exercise Of Voting Rights

All the Fund's active equity investment managers are expected to exercise their voting rights to promote good corporate governance and social and environmental responsibility.

The Investment Advisory Panel has agreed a voting template which incorporates best practice governance guidelines. An independent voting agency is employed to monitor and compare the voting records of the managers against this template.

11. Custody

Rhondda Cynon Taf has appointed a global custodian. All the investments are held by the custodian to the account of the Pension Fund. The Council holds an appropriate working cash balance.

12. Advisors

Rhondda Cynon Taf has appointed two independent advisors. The Advisors are employed to give strategic advice to the Panel on investment matters.

13. Actuary

Rhondda Cynon Taf has appointed an independent actuary. The main purpose of the actuary is to ascertain the Fund's financial position.

14. Administration

On behalf of Rhondda Cynon Taf County Borough Council, the Group Director, Corporate Services exercises continual monitoring of the fund managers' investment related actions and administration. This includes:

- maintaining the investment ledger and suitable accounting procedures for the Fund's assets
- preparing a quarterly report to the Investment Advisory Panel
- preparing an audited annual report and accounts
- maintaining an up to date record of in-house managed cash balances to ensure surplus cash is invested promptly or that resources are available to cover benefit payments

15. Fees Of Advisors And Fund Managers

Fund Managers fees are charged on a reducing scale basis based on the market value of the Fund. Some managers have performance related fees. Fees are paid quarterly.

Advisors fees are fixed and are paid quarterly.

16. Review Of Structure

The Investment Advisory Panel reviews its structure and composition on a three - yearly basis.

17. Annual Business Plan

Rhondda Cynon Taf produces annual business plans for all areas of service including Pensions Administration and Fund Investment.

Myners Investment Principles - Compliance Statement

Principle 1. Effective Decision Making

Administering authorities should ensure that:

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

■▶ Full compliance

Principle 2. Clear Objectives

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

■▶ Full compliance

Principle 3. Risk and liabilities

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

■▶ Full compliance

Principle 4. Performance assessment

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

■▶ Full compliance

Principle 5. Responsible ownership

Administering authorities should:

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

■▶ Full compliance

Principle 6. Transparency and reporting

Administering authorities should:

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

■▶ Full compliance



■ Ryan Emmett
Pension Fund Accountant



Accounts Report



Fund Account

2012/13		2013/14	
£'000		£'000	£'000
	Contributions		
(93,606)	Employer contributions	(85,908)	
(26,267)	Member contributions	(27,120)	
(119,873)			(113,028)
(7,521)	Transfers in from other pension funds	(15,216)	
(2,743)	Other income	(5,467)	
(10,264)			(20,683)
	Benefits		
86,135	Pensions	89,430	
18,784	Commutation of pensions and lump sum retirement benefits	17,248	
2,010	Lump sum death benefits	2,409	
106,929			109,087
	Payments to and on account of leavers		
4,830	Transfers out to other pension funds	6,805	
8	Other payments	11	
4,838			6,816
1,862	Administrative expenses		1,740
(16,508)	Net (Additions) / Withdrawals from Dealings With Members		(16,068)
	Investment income		
(26,117)	Income from fixed interest securities	(23,557)	
(24,871)	Dividends from equities	(25,795)	
(162)	Income from index-linked securities	(470)	
(6,916)	Income from pooled investment vehicles	(7,519)	
(85)	Interest on cash deposits	(126)	
(58,151)			(57,467)
(226,374)	(Profits) and losses on disposal of investments and changes in the value of investments	(91,515)	
5,392	Investment Management Expenses		5,935
1,331	Taxes On Income		1,339
(277,802))	Net Returns On Investments		(141,708)
(294,310)	Net (increase)/decrease in net assets available for benefits during the year		(157,776)
(1,785,026)	Opening net assets		(2,079,336)
(2,079,336)	Closing net assets		(2,237,112)

Net Asset Statement

31/03/13		31/03/14	
£'000		£'000	£'000
	Investment Assets		
	Fixed interest securities		
210,907	Public Sector	176,791	
233,373	Corporate Bonds	259,033	
			435,824
1,092,600	Equities		1,197,709
	Index Linked Securities		
5,646	Public sector	13,111	13,111
	Pooled Investment Vehicles		
61,546	Open Ended Investment Companies	65,569	
250,978	Managed Funds	312,233	
119,871	Property	130,201	
			508,003
67,682	Cash Deposits		71,969
	Other Investment Balances		
6,393	Accrued interest	6,236	
5,897	Investment debtors	13,917	
1,261	Tax recoverable	1,431	
			21,584
2,056,154			2,248,200
	Investment Liabilities		
(1,231)	Investment Creditors		(17,355)
2,054,923	Net Investment Assets		2,230,845
	Current Assets		
5,054	Contributions Due from Employers	5,618	
196	Cash Balances	1,780	
500	Amount owed from RCT	556	
21,475	Other current assets	2,215	
			10,169
	Current Liabilities		
(2,812)	Current liabilities	(3,902)	
			(3,902)
2,079,336	Net assets of the scheme available to fund benefits at the period end		2,237,112

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

A summary of the actuarial position of the scheme, which takes account of these obligations, is included. These accounts should be read in conjunction with that report.

There have been no significant post balance sheet events.



Christopher Lee C.P.F.A

Group Director Corporate Services

A full and comprehensive report of the Pension Fund Accounts can be obtained on request from Ryan Emmett on 01443 680734.



Notes to the Pension Fund Accounts

Introduction

These accounts have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2013/14 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. A more detailed Pension Fund Annual Report is available on request from the Corporate Service Group Director.

Accounting Policies

Accruals Concept

Where material, accruals are made for employee and employer fund contributions, investment income, benefits paid, administration costs, investment management fees and advisors fees. Transfer values are accounted for on a cash basis, with the exception of material group transfers.

Investment Valuation of Financial Instruments

In terms of "Fair Value" all investments have quoted prices in active markets, with the exception of Pooled Property Funds. Listed securities are valued in accordance with IAS 39 – Financial Instruments, using bid prices as at 31st March 2014 obtained from recognised Stock Exchanges. Fixed interest securities are valued "clean", excluding accrued interest. Sterling valuations of securities denominated in foreign currencies are based on closing exchange rates as at 31st March 2014.

Pooled Property Funds are valued using reliable valuation techniques to determine Fair Value. Property valuations are represented by unit prices, based on underlying independent professional valuations. No assets require significant judgements or assumptions to determine Fair Value.

Additional Voluntary Contributions (AVC's)

Scheme members may elect to make additional voluntary pension contributions from their salaries. These AVCs are not included in the Pension Fund Accounts in accordance with regulation 5(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 1998.

The amount of AVC contributions paid during the year amounted to £1,069k (£1,022k in 2012/13) and the market value of separately invested AVCs at the balance sheet date was £6,324k (£5,276k in 2012/13).

Acquisition and Disposal Costs

Transaction costs incurred in acquiring or disposing of investments are included as part of the purchase cost or netted off against sales proceeds, as appropriate.

Transaction costs include fees, commissions and duties. Transaction costs incurred during 2013/14 amounted to £0.6m (£0.6m in 2012/13).

In addition to the direct costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.



Contributions

Employers' Contributions

Employers' contribution rates are determined by the Fund's actuary so as to maintain the fund in a state of solvency, having regard to existing and prospective liabilities. Valuations of the Fund's assets and liabilities for this purpose are carried out every three years. The latest valuation was carried out as at 31st March 2013 and the results were implemented from 1st April 2014.

Employees' Contributions

Changes to the Local Government Pension Scheme mean that since 1st April 2008 employee contributions are tiered, so that higher earners pay a greater percentage of their salary into the scheme. The bands for the year 2013/14 were:

Full Time Equivalent Pay	Contribution Rate
Up to £13,700	5.5%
£13,701, up to £16,100	5.8%
£16,101, up to £20,800	5.9%
£20,801, up to £34,700	6.5%
£34,701, up to £46,500	6.8%
£46,501, up to £87,100	7.2%
More than £87,100	7.5%



Contributions Receivable and Benefits Payable

Contributions received and benefits paid are shown in the table below.

Type of Body	Employee Contributions		Employer Contributions		Pensions, Lump Sums and Death Benefits	
	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000	2012/13 £'000	2013/14 £'000
Administering	8,465	8,596	28,385	28,966	22,982	24,444
Admitted	2,824	2,828	20,412	12,418	10,529	10,465
Scheduled	14,978	15,696	44,809	44,524	73,418	74,178
Total	26,267	27,120	93,606	85,908	106,929	109,087

Included in employer contributions are £9,099k of deficit funding contributions (£18,877k in 2012/13) and £27k of augmented contributions (£18k in 2012/13).

Contributions Received From Employers

	Employer Contributions (£)	Employee Contributions (£)
Agored Cymru	17,380	4,025
Amgen Cymru	83,095	32,908
Brackla Community Council	6,470	2,610
Bridgend County Borough Council	16,240,973	4,939,660
Bridgend College	852,373	329,267
Capita Glamorgan Consultancy	249,348	77,263
Care Council For Wales	511,704	168,531
Careers Wales Association	58,390	15,219
Careers Wales- Mid Glamorgan and Powys Limited	1,015,357	190,643
Central South Consortium	567,540	235,307
Coleg Y Cymoedd	959,557	375,014
Coychurch Crematorium	20,527	8,236
Finance Wales Investment	397,201	135,063
Finance Wales Plc	310,007	88,059
Garw Valley Community Council	3,900	1,690
Gelligaer Community Council	2,745	922
Halo Leisure Services Ltd	288,949	98,685
Llantrisant Community Council	11,031	2,712
Llantwit Fardre Community Council	12,462	2,136
Llwydcoed Crematorium	33,292	10,541
Local Government Data Unit	105,310	45,377
Maesteg Town Council	4,790	1,867
Maesteg Town Hall	6,787	623
Merthyr Tydfil Institute for the Blind	35,700	4,243
Merthyr College	300,828	123,437
Merthyr Tydfil County Borough Council	8,064,142	2,098,087
Merthyr Valley Homes	465,198	241,911
Pen-y-waun Enterprise Council	35,035	7,111
Pontypridd Town Council	50,164	12,715
Pontyclun Community Council	6,571	1,988
RCT Homes	929,574	472,905
Rhondda Cynon Taff County Borough Council	28,965,762	8,595,516
Royal Welsh College Of Music & Drama	302,631	121,671
South Wales Valuation Tribunal	27,588	6,892
Police And Crime Commissioner for South Wales	8,128,432	3,435,163
South Wales Fire Authority	1,302,281	469,267
Tonyrefail Community Council	21,203	6,036
University Of South Wales	3,960,681	1,608,181
Valleys To Coast Housing	437,110	200,297
Vinci Construction UK Limited	16,799	5,072
Wales Probation Trust	3,376,542	1,800,213
Welsh Gov (Former Welsh Development Agency)	5,083,715	636,397
WJEC	2,453,980	436,592
Ystrad Mynach College	185,466	69,478
Total	85,908,590	27,119,530

Over 99.75% of contributions, in monetary terms, were received on time. Contributions were received late on 31 occasions. Contributions received are monitored on a monthly basis and employers contacted if statutory deadlines are missed.

Taxation

As a registered public service scheme the pension fund is exempt from UK income tax and capital gains tax. Overseas investment income incurs withholding tax in the country of origin unless exemption is granted.

Irrecoverable tax is accounted for as an expense in the Fund Account, with any recoverable tax shown as an asset in the Net Assets Statement.

There is a small liability to income tax on refunds of contributions and compounded pensions (small pensions converted into lump sums). These amounts are paid to HMRC on a quarterly basis.

VAT is recoverable on all activities, so the accounts are shown exclusive of VAT

Administration Expenses

The administration costs borne by the Fund in 2013/14 are set out below:

	2012/13 £'000	2013/14 £'000
Fund Management Expenses	5,195	5,671
Investment Administration Expenses	197	264
Pension Administration Expenses	1,862	1,740
Total	7,254	7,675

This represents 0.34% (0.35% as at 31st March 2013) of the value of the Pension Fund as at 31st March 2014.

Transactions with Related Parties

In the course of fulfilling its role as administering authority to the Fund, Rhondda Cynon Taf CBC provided services to the Fund for which it charged £1.3m (£1.3m in 2012/13). These costs are mainly in respect of those staff employed in ensuring that the pension service is delivered.

At the year-end, contributions outstanding from the Employing Bodies in the Fund amounted to £5.6m (£5.1m in 2012/13), of which £4.2m related to employer contributions and £1.4m to employee contributions.

Contingencies

There is a contingent liability of £350k (£344k in 2012/13) in respect of refundable contributions for leavers who have not yet claimed refunds.

Other Income

Fund Account 'Other Income' comprises of the following:

	2012/13 £'000	2013/14 £'000
Capital charge for early access to retirement benefits	2,490	3,317
Closing Valuation Deficit Payments	45	1,998
Reimbursements re former Glamorgan CC	188	150
Other	20	2
Total	2,743	5,467

Other Payments

	2012/13 £'000	2013/14 £'000
Refunds of contributions	9	11
State scheme premiums	(1)	0
Total	8	11

Group Transfers

The Fund received cash transfers in respect of the Wales Probation Trust amounting to £26,779,000 during 2013/14. There were no group transfers out of the scheme.

After the balance sheet date, the University of South Wales transferred into the Fund, but the amount of the transfer payment has not yet been agreed. There is also a transfer out of the Fund in respect of the Probation Service expected in 2014/15 estimated at approximately £155 million.

Audit Opinion

Independent Auditor's Statement to the Members of the Administering Authority of Rhondda Cynon Taf Local Government Pension Fund

I have examined the pension fund accounts and related notes contained in the 2014 Annual Report of Rhondda CynonTaf Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Report of Rhondda Cynon Taf County Borough Council for the year ended 31 March 2014, which were authorised for issue on 24 September 2014. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Independent Auditor

The Administering Authority, Rhondda Cynon Taf 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 Administration Report, Investment Report, Accounts Report, Actuary's Report and Communication Report. I conducted my work based on the requirements of Bulletin 2008/3 issued by the Auditing Practices Board. My report on the pension fund accounts and related notes included in the Statement of Accounts produced by Rhondda Cynon Taf 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 Rhondda Cynon Taf Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Rhondda Cynon Taf County Borough Council for the year ended 31 March 2014, which were authorised for issue on 24 September 2014 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the authority's Statement of Accounts, 30 September 2014 and the date of this statement.

Anthony Barrett
Appointed Auditor

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Actuary's Report



Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Rhondda Cynon Taf County Borough Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets (of £2,080.4M) covering 78% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:
 - 13.8% of pensionable pay p.a. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2014, amounting to £29.4M in 2014/2015, and increasing by 3.9% p.a. thereafter.

This would imply an average employer contribution rate of about 20.6% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 3.9% p.a.

3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2014 (the "actuarial valuation report"). In some instances, increases to contributions were phased in over a period of up to 6 years. In addition to the contribution rate shown, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.



5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in Service	
In service	
Scheduled Bodies	5.6% p.a.
Admission Bodies	5.2% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	5.6% p.a.
Admission Bodies	3.6% p.a.
Rate of long term pay increases *:	3.9% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.4%p.a.

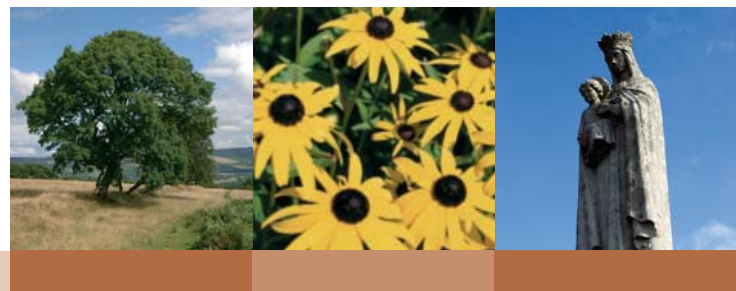
* A short term Pensionable Pay increase assumption was adopted for scheduled bodies of 1.0% p.a. for the three year period after the valuation date.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed off on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.



8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Rhondda Cynon Taf County Borough Council, the Administering Authority of the Fund, in respect of this statement.

Aon Hewitt Limited

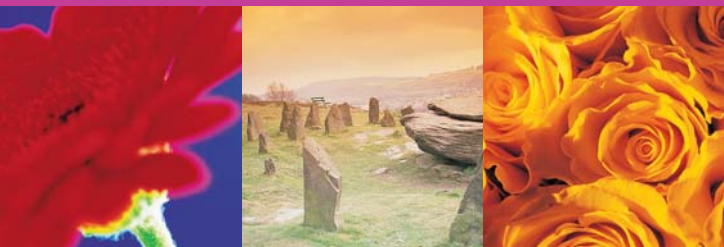
July 2014



■ Catherine Black
Communications



Communication Report



Annual Meetings

The 2013 Annual General Meeting was held in November with representatives from our major fund employers attending. Presentations covered Pension Fund Performance and the 2013 Actuarial Valuation.

Helpdesk

Our Helpdesk continues to assist with pension queries and calls can be made between the hours of 9 a.m. to 5 p.m. Monday to Friday.

You can contact the Helpdesk on **01443 680 611**

Website

The Pension Fund website has proved to be a useful tool to communicate with members. It contains information for existing and previous members as well as pensioners. All pension fund literature is up-loaded to the site and content is kept up to date with changes. Commonly used forms are available to download. The Helpdesk regularly refers members to the web-site to download forms or to get information.

The website can be viewed at www.rctpensions.org.uk

Presentations

The Communications Team is happy to provide seminars based on the following lifestyle changes: -

- Induction
- Mid Life Planning
- Pre Retirement

Prudential

Our Regional Prudential Workplace Consultant has links to a number of the larger Fund employers and runs annual seminars which explain the LGPS and the importance of planning for retirement and the benefits of paying AVC's.

During 2013/2014, with the reduction in the Annual Allowance and the Lifetime Allowance in April 2014, Prudential ran a number of seminars for members who could possibly be impacted by the changes which gave an overview of the tax allowances and the limits.

Annual Benefit Statements

In line with regulations the Fund issues Annual Benefits Statements to all active and deferred members.

The statements for active members include details of the benefits built up to date along with explanations of how they are calculated. They also include the amount of pension built up during the scheme year for the purpose of testing against the Annual Allowance.

The statements for deferred members show the value of their benefits based on the years cost of living increase.

Home Visits

In cases of Serious Ill Health, a representative of the Pension Section will attend a home visit in conjunction with Human Resource representatives if appropriate.

Electronic Communications

Email continues to be a popular method of communicating with the department

The introduction of Member Self Service continues to be investigated which will allow members to update certain information and be able to run retirement projections. The facility also offers the opportunity to send communications, such as newsletters or Annual Benefit Statements to members.

The System Administration team is looking into improving the way that we receive information from employers using existing and new software.

LGPS 2014

The Local Government Pension Scheme Regulations 2013 were laid before Parliament on 19th September 2013 which outlined the structure of the LGPS from 1st April 2014.

The main changes are:

- Benefits are based on Career Average Re-valued Earnings (CARE)
- Accrual rate of 1/49th
- Definition of pensionable pay to include non-contractual overtime
- Introduction of a new 50/50 option where members can pay less for short periods of time and build up pension at half the rate they would normally
- Increased contribution rates for higher earners
- Normal Pension Age linked to State Pension Age

Benefits from membership in the scheme prior to April 2014 will maintain a final salary link with a members final salary (based on the pensionable pay definition in force before April 2014) being determined when they leave the scheme.

A Newsletter, which was produced on an All Wales basis, was sent to all active members of the scheme in early March 2014 which explained the main changes and how benefits will be calculated.

The RCT Pension Fund website has been updated to reflect the changes to the LGPS and we have included a link to www.LGPS2014.org which has been set up and maintained by the Local Government Association as a central source of

information. This central website includes calculators which members can use to calculate the cost and benefits of moving to the new 50/50 section and the cost of buying additional pension.

The LGA produced a set of member factsheets covering a number of topics and these have also been added to the RCT website.

The Communication and Administration Teams have been working together to review our processes and correspondence to ensure that the Fund is compliant with the new regulations, that the details we receive from employers when members join or leave the fund include the new information required and that our members fully understand how their benefits are calculated.

While the changes are being implemented regular communications are issued to our Fund employers to keep them up to date with the changes to the regulations and the resources available to their payroll and HR functions. A training session has been planned to explain the changes to the scheme to employers and the impact of these changes on the employers administration processes.

During the year the All Wales Communications Group has worked in collaboration on the design of the 2014 Annual Benefit Statements as, in line with Shadow Advisory Board Guidance, they will only include details of the benefits built up to 31st March 2014 and will not include any projections.



Cost of Living Increases

Pensions payable to members who retire on health grounds and to members' spouses and children are increased annually in line with the Consumer Price Index (CPI).

Pensions payable to other members who have reached the age of 55 also benefit from annual inflation proofing. Where a pensioner has an entitlement to a Guaranteed Minimum Pension (relating to membership up to 5 April 1997), some or all of the statutory inflation proofing may be provided by the Department of Work and Pensions.

The 2013/2014 increase was 2.7%

Further information

More information about the Scheme can be found in the Members Guide available from any of the participating employers or from the Pensions Section.

Contributors' Contact Information

For information about the Local Government Pension Scheme and pension matters in general please contact:

The Pensions Helpdesk

Tel: 01443 680611 Fax: 01443 680717 or write to:-Group Director Corporate Services, Pension Section,
Rhondda Cynon Taf County Borough Council, Bronwydd, Porth, CF39 9DL.
Email: pensions@rhondda-cynon-taff.gov.uk

Pensions Administration Policy

Mr Ian Traylor – Head of Service for Pensions, Payroll & Payments
Tel: 01443 680611
Email: ian.d.traylor@rhondda-cynon-taff.gov.uk

Fund Investments

Miss Yvonne Keitch - Investment Officer
Tel: 01443 680563
Email: yvonne.keitch@rhondda-cynon-taff.gov.uk

Pension Fund Accounts

Mr Ryan Emmett - Pensions Fund Accountant
Tel: 01443 680734
Email: ryan.emmett@rhondda-cynon-taff.gov.uk

Pensions Presentations or Training Sessions

Mrs Catherine Black - Communications Manager
Tel: 01443 680646
Email: catherine.black@rhondda-cynon-taff.gov.uk

Pension Fund Governance

Administering authorities must ensure that existing solid governance arrangements are maintained and developed to help support the decision making process.

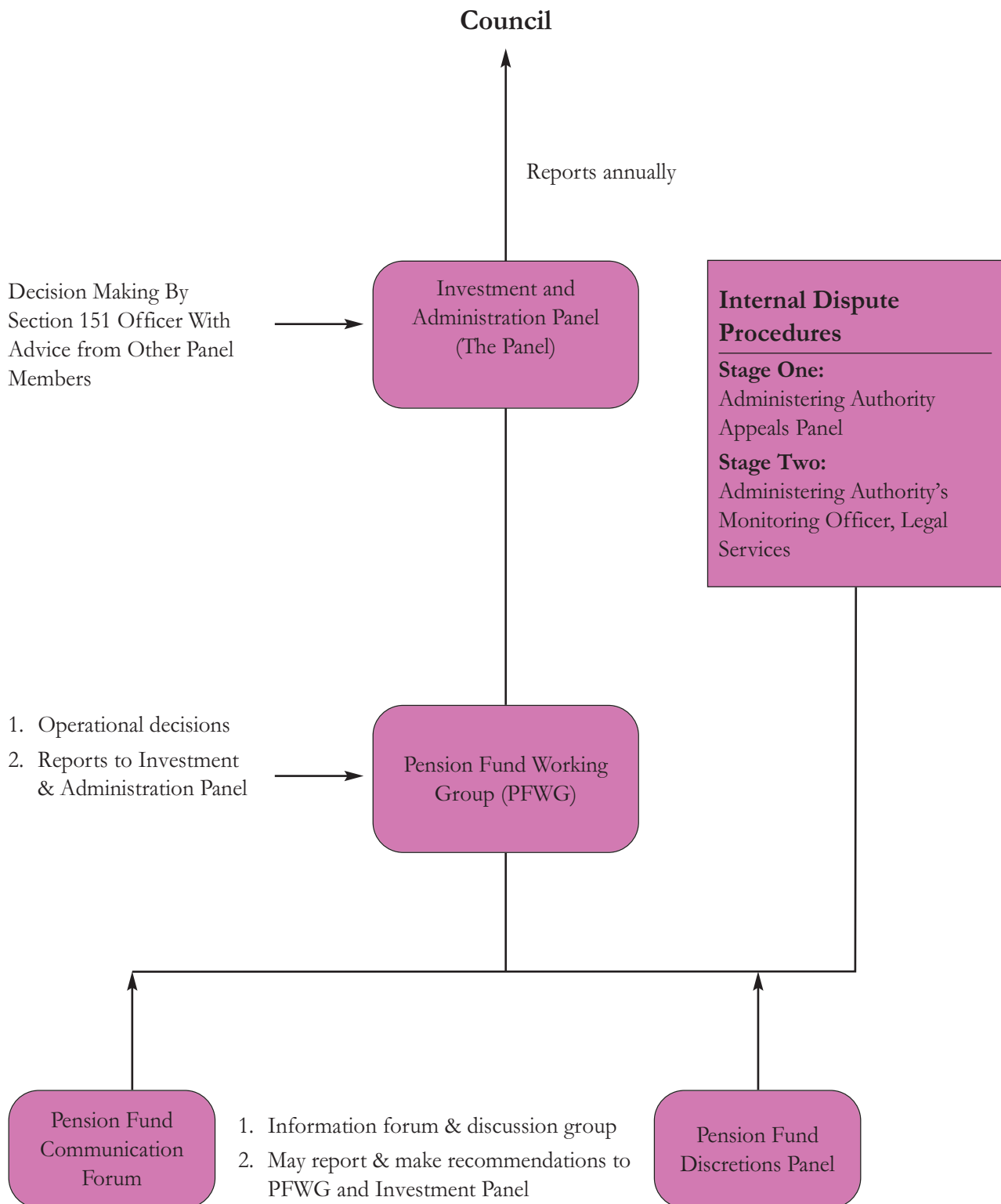
The Governance arrangements for the Rhondda Cynon Taf Pension Fund are summarised and clarified in a number of key documents that relate to the effective stewardship of the Fund.

- An overarching Governance Statement of Compliance that indicates the Fund's position against the Government's best practice standards
- A Governance Policy Statement which provides an overview of the management structure, decision making and employer engagements within the scheme
- We are committed to providing a comprehensive communication and information service to participating employers and members of the pension scheme and services we provide can be found in our Communications Policy Statement.

- A Pension Administration Strategy which seeks to improve efficiency in the delivery of agreed standards of quality and to ensure compliance with statutory requirements
- The Statement of Investment Principles which shows, in detail how we manage the Fund's investments.
- The Funding Strategy Statement which provides a summary of how we will fund our pension liabilities and includes an overview of how any risks to the fund are identified, managed and reviewed.
- The 2013 Valuation Report which explains the assumptions, data and the results of the latest valuation exercise

All of these documents can be found under the Governance & Investment section of our pension website, or alternatively, please contact our helpdesk for a copy.

Pension Fund Governance Structure



Pension Panel Attendance 2013/14

This table shows the attendance at meetings during the year

	Investment and Administration Panel (Total meetings held = 4)	Pension Fund Working Group (Total meetings held = 4)	Pension Fund Communications Forum (Total meetings held = 2)	Pension Fund Discretion Panel (Total meetings held =1)
Cllr Forey	2	-	-	-
Cllr Webber	2	-	-	-
Steve Merritt	3	-	1	-
Chris Lee	3	4	2	-
Barrie Davies	4	4	-	1
Nick Jones	-	-	1	1
Ian Traylor	4	4	2	1
Stephanie Davies	1	4	-	-
Yvonne Keitch	4	4	2	-
Ryan Emmett	4	4	-	-
Denise Stone	-	-	2	1
Catherine Black	-	-	2	-

Knowledge and Skills

To identify the skills required by decision makers for the Local Government Pension Scheme CIPFA have developed a knowledge and skills framework which the Fund have adopted to ensure all panel and working group members have the required level of knowledge. The core requirements are

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices

Members of panels and working groups for the Rhondda Cynon Taf Fund regularly attend training sessions to ensure a full understanding of the Local Government Pension Scheme, including legislation, scheme benefits, investment strategy, actuarial methods and pensions accounting.

The table below outlines the training received during the year

Audience	Area of Framework	Delivered by	Date
Senior Accountant Pension Fund & Treasury Management and Accountant Pension Fund & Treasury Management	Financial Markets and Products Knowledge	Convergex (Fund Manager) re transition management	April 2013
Pension Fund Investment and Administration Panel	Financial Services Procurement and Relationship Management	Appointed consultant of asset liability study	March 2013 – June 2013
Senior Accountant Pension Fund & Treasury Management and Accountant Pension Fund & Treasury Management	Financial Markets and Products Knowledge	Albourne Partners (Fund Manager) re hedge funds, private equity and real estate.	June 2013
Senior Accountant Pension Fund & Treasury Management and Accountant Pension Fund & Treasury Management	Financial Markets and Products Knowledge	SSGM (Fund Manager) re transition management	June 2013
Pension Fund Investment and Administration Panel	Investment Performance and Risk Management Financial Markets and Products Knowledge Pensions Legislative and Governance Context	WM (performance management company)	June 2013
Head of Financial Reporting, Senior Accountant Pension Fund & Treasury Management, Pensions Administration Manager and Accountant Pension Fund & Treasury Management	Pensions Accounting and Auditing Standard	Internal – Closure of pension fund accounts and review of disclosure check list	June / July 2013
Head of Financial Reporting, Senior Accountant Pension Fund & Treasury Management, Pensions Administration Manager and Accountant Pension Fund & Treasury Management	Pensions Accounting and Auditing Standard	External auditors – discussions with Welsh Audit Office on closure of accounts	July to September 2013
Group Director of Corporate Services and Deputy Section 151 Officer	Financial Markets and Products Knowledge	LGC Investment Seminar	September 2013
Head of Financial Accounting, Senior Accountant Pension Fund & Treasury Management and Accountant Pension Fund & Treasury Management	Financial Markets and Products Knowledge	Sector Client Relationship Manager	September 2013
Senior Accountant Pension Fund & Treasury Management and Accountant Pension Fund & Treasury Management	Financial Services Procurement and Relationship Management	State Street Relationship Manager	September 2013
Pension Fund Investment and Administration Panel	Investment Performance and Risk Management Financial Markets and Products Knowledge Pensions Legislative and Governance Context	Fund Managers	September 2013
Senior Accountant Pension Fund & Treasury Management and Accountant Pension Fund & Treasury Management	Financial Markets and Products Knowledge	Sector Regional Meeting	September 2013

Audience	Area of Framework	Delivered by	Date
Pensions Administration Manager & Pensions Team Manager	Pensions Legislative and Governance	Pensions Managers Annual Conference (South West Councils)	November 2013
Pensions Investment Panel and Pensions Administration Manager	Actuarial Methods, Standards and Practices	Aon Hewitt Actuary at the RCT Annual General Meeting	November 2013
Pensions Investment Panel and Pensions Administration Manager	Investment Performance and Risk Management	WM Company at the RCT Annual General Meeting	November 2013
Pension Fund Investment and Administration Panel	Investment Performance and Risk Management Financial Markets and Products Knowledge Pensions Legislative and Governance Context	Fund Managers - BlackRock and B Finance re Diversified Growth Funds	November 2013
Senior Accountant Pension Fund & Treasury Management	Financial Markets and Products Knowledge	Logotech Usergroup meeting	December 2013
Head of Financial Accounting, Senior Accountant Pension Fund & Treasury Management and Accountant Pension Fund & Treasury Management	Financial Markets and Products Knowledge	Sector Client Relationship Manager	December 2013
Pensions Administration Manager & Pensions Team Manager	Pensions Legislative and Governance Context	Local Government Association Training on LGPS 2014	January 2014
Pension Fund Investment and Administration Panel	Investment Performance and Risk Management Financial Markets and Products Knowledge Pensions Legislative and Governance Context	Fund Managers	March 2014
Pensions Administration Manager & Pensions Team Manager	Pensions Legislative and Governance Context	All Wales Pensions Officer Group	Quarterly

Risk

The primary objective of the Fund is to ensure that there are sufficient assets to match pension scheme liabilities, accrued in accordance with past and present LGPS scheme design. In evaluating the risks associated with this objective, the Fund through its governance arrangements and discussion with the appointed Actuary, produce a Statement of Investment Principles, a Funding Strategy Statement and agree prudent valuation assumptions on a triennial basis. Whilst recognising that scheme contributions, investment and liability discharge are by nature, long term, the 'Funding' position is nevertheless reviewed and progress monitored throughout each valuation cycle.

A robust approach to 'Risk Management' is a fundamental principle within the Fund's governance framework. To help discharge this responsibility, risks are identified, monitored and control measures

implemented to help mitigate the likelihood or impact of such risks materialising. The Fund's Risk Register captures all risks, under the following categories; Funding, Investment, Governance, Operational and Regulatory. A copy of the RCT Fund's Risk Register can be obtained from the Fund website.

The Fund operations are subject to annual audit by both external and internal audit parties, where the robustness of our control mechanisms, procedures and accounting are independently scrutinised and reported to audit committee.

The Fund also participates in the National Fraud Initiative (NFI), where substantial data matching exercises are conducted across government data sources, identifying items requiring further investigation.

Partners

Scheme Actuary - Aon Hewitt Limited

The primary role of the actuary is to provide the fund with information about the fund's liabilities and the best way of meeting these liabilities. A valuation of the fund takes place every three years that enables the actuary to calculate liabilities versus the fund's assets. The actuary will then recommend appropriate contribution rates for employers to help prevent any future shortfalls.

Hewitt were appointed as the scheme's actuary in October 2003.



Fund Managers

The investment of the Pension Fund's assets is the responsibility of external Fund Managers appointed by the Fund. These Fund Managers are given specific mandates and performance targets, which are monitored by the Rhondda Cynon Taf Investments Panel at quarterly meetings.

Baillie Gifford Asset Management

Baillie Gifford is an Edinburgh based investment management partnership founded in 1908. They were appointed by the fund to manage global equities in 2005, and now have two separate equity mandates.



BlackRock Investment Management

BlackRock is one of the largest asset management firms in the world, across a broad range of investment assets. They were appointed to a UK equity mandate by the fund in 2010.



F & C Management

F&C is a major asset management company and a leading authority on responsible investments. Their relationship with the fund originally dates from 1994, and they currently manage a global bond mandate.



CBRE

CBRE is the world's leading commercial real estate advisor. They have managed a property portfolio for the fund since they acquired the previous manager ING in October 2011.



Invesco Perpetual

Invesco Perpetual is an investment company based in Henley-on-Thames. They were appointed in 2010 to manage a UK equity mandate for the fund.



Legal & General Investment Management

Legal & General Investment Management is a major investment manager, and one of the largest index-tracking managers in the world. They were appointed by the fund to manage a global passive equity/bond mandate in 2010.



Newton Investment Management

Newton is a major investment house, best known for its distinctive thematic investment approach. They have managed a high-performance global equity mandate for the fund since 2008.



State Street

State Street is a leading U.S. based provider of financial services to institutional investors. State Street provides a custody and performance measurement service for the RCT Pension Fund



Wales Audit Office

The Wales Audit Office is independent of government and is responsible for the annual audit of some £20 billion of annual public expenditure. Its mission is to promote improvement, so that people in Wales benefit from accountable, well-managed public services that offer the best possible value for money.



AVC Provider - Prudential

Prudential were appointed as the fund's Additional Voluntary Contributions (AVC) provider in 2002, and as a leading Local Government AVC provider, they work closely with our Pensions Section in ensuring members are aware of their options in topping up their existing pension provision.

Partners

Fund Legal Advisors - Eversheds



Bankers to the Fund - Barclays



