Greater Gwent (Torfaen) Pension Fund

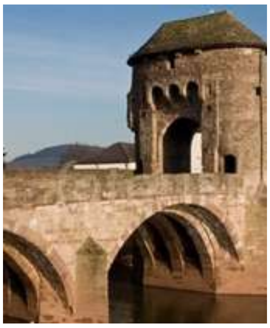
Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2012/2013

Nigel Aurelius, CPFA
Assistant Chief Executive Resources


lgps look forward with confidence

TORFAEN COUNTY BOROUGH
BWRDEISTREF SIROL TORFAEN

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INTRODUCTION

1. Introduction

1.1 What a strange and challenging year for local government pension funds. Lots of factors at global, national, scheme or local level that have, or will shortly, impact on Pension Funds. Some of these could have a positive impact whilst a greater number have created uncertainty for those charged with Pension Scheme Governance. Throughout a continuing period of change and uncertainty, during which markets have traded both up and down, the Fund has achieved a healthy annual investment return of 15.06% with a positive increase in its market value from £1,666 million to £1,924 million. Our investment performance return for the year was an out-performance against the benchmark (14.5%) that we set ourselves of 0.56%. Whilst encouraging, this needs to be viewed, however, within longer time horizons. The year also saw the number of active contributors within the Fund rise slightly for the first time in 5 years, which is helpful against a continuing trend of increasing numbers of pensioners and deferred members.

1.2 These apparently healthy headlines hide a plethora of change beneath the surface. In order to understand what the last year has involved, and to appreciate the challenges ahead, some of these issues are touched on below.

1.3 At a global level, and as commented upon last year, the issue of sovereign debt and economic recovery, or lack of, in many areas, has again dominated global economies and financial markets. There remains a lack of clarity as to whether the actions of Governments are effective in addressing the underlying weaknesses of economies struggling to grow, without burdening themselves with additional debt that they are unable to pay for. What is clear is that Pension Funds need to plan for lower returns and more uncertainty for a reasonable period of time ahead.

1.4 It would be nice to report a quiet year for once, but in a global economic sense it was anything but. The period under review was marked by on-going volatility as equity markets were challenged by concerns over global growth and the ability of sovereign nations to repay their debt. These concerns ensured that central banks such as the US Federal Reserve continued to adopt a supportive approach to financial markets. This commitment to keep the "wheels of the financial system turning" was echoed by other central banks, many of which announced asset purchase schemes during the year with further quantitative easing from the Bank of England and the Bank of Japan. Further policy stimulus was a common theme throughout the year in part due to rhetoric from politicians and financial institution leaders and this was supported by the US Federal Reserve announcing its Quantitative Easing 3(QE3), while the European Central Bank (ECB) provided details of its bond buying (OMT-outright monetary transactions) programme.

1.5 Within the Euro-zone itself the year saw some optimism that the worst may be behind Europe. Markets recognised a number of positive developments such as new credible Governments in Italy/Spain; a stabilisation in economic data and particularly the European Central Bank's Long-Term Refinancing Operation [LTRO]. However, economic growth data fluctuated throughout the year with the UK and Europe economies still suffering and clear signs from China of a slowing in their economy. Investors prepared for the possibility of a "disorderly" Greek exit from the Euro-zone before positive outcomes of the G20 and EU summits led to a rescue package for Spanish banks and a narrow victory for conservatives in the Greek election also provided some comfort for global markets. These results however saw market flows away from risk assets to safe havens which pushed government bond yields to record lows. In this environment it lead to increasingly difficult judgements having to be made between more riskier equity investments as opposed to very low yielding fixed interest investments.

1.6 The latter part of the year also saw political uncertainty due to the impending US presidential election, political change in Japan and China and the US fiscal cliff looming at the end of 2012. Markets did however make progress, although economic data remained mixed with UK and Europe continuing to disappoint. The Cyprus bail out threatened to create a potentially disproportionate degree of turbulence but the year ended with the US and China looking more positive as the major central banks remained committed to supporting the global financial system and all markets making some positive progress, including Japan. This market backdrop however presented opportunities as well as uncertainty and it was in this context that the Fund managed to achieve a 15.06% absolute return.

1.7 Nationally, the Government announced a series of pension related changes. The Pensions Bill and the separate Public Sector Pensions Act 2013 will alter not just retirement ages, scheme design and governance arrangements but will also re-position occupational schemes within the context of wider state pension provision (single tier pension provision) and the introduction of automatic enrolment of employees into pension schemes.

1.8 For the Local Government Pension Scheme itself, the changes above are only part of the story. The new Local Government Pension Scheme to be introduced from April 2014 will be a Career Average Revaluation of Earnings (CARE) scheme where pension benefits are based on average pay over an individual's working life rather than the level of final salary at the point of retirement. In addition, there is increased attention being paid to how individual Funds can most effectively deliver their services, and collaboration and/or merger of organisational structures has formed part of the wider debate during the last 12 months. Within Wales, collaboration is already part of the fabric but work is being undertaken to explore whether there is more that can be done.

1.9 Closer to home, the Pension Section have had to cope with increasing levels of activity brought about by higher interest in pensions generally. The Pension team administers benefits across the Fund and in the last 12 months saw an increase in tasks undertaken of about 12% from 7,019 to 7,863. This included calculations for Retirements, Deferred benefits, Retirement estimates, Deaths, Transfers in/out and New Starters

1.10 The combined effect of continuing market uncertainty, Public Sector Pensions reform, wider Central Government policy on pay and pensions, auto enrolment, possible new collaboration and governance initiatives, together with increasing workloads all provide for uncertain times. The Fund has, perhaps understandably, attempted to steer a careful course over the past 12 months through these turbulent waters.

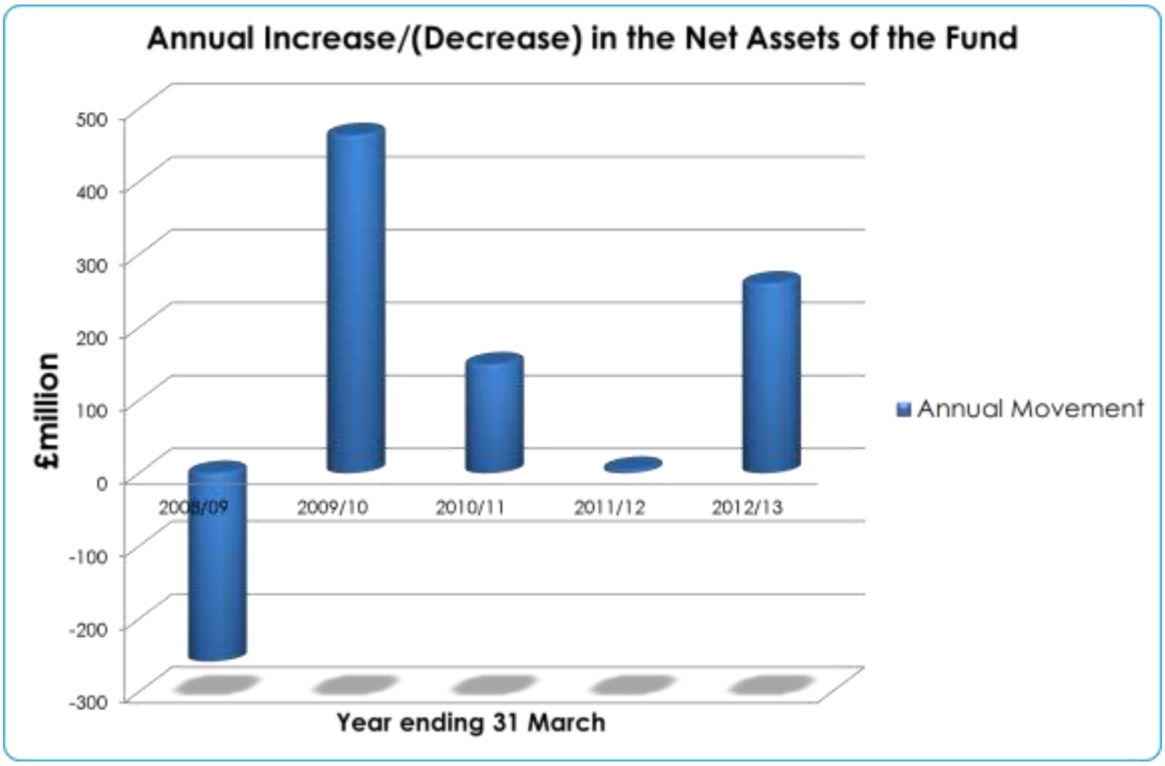
1.11 Against this backdrop, I can only thank and pay tribute to colleagues within the Resources Directorate who have had to cope in the face of these changes whilst attempting to maintain, and indeed improve, the service provided to our scheme members. Finally, I would like to formally place on record my specific thanks to the officers and staff involved with the pension fund and thank them for all their hard work and commitment throughout the year. They place the scheme members first and I know how much this is valued by our customers.

NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES
TORFAEN COUNTY BOROUGH COUNCIL
JUNE 2013

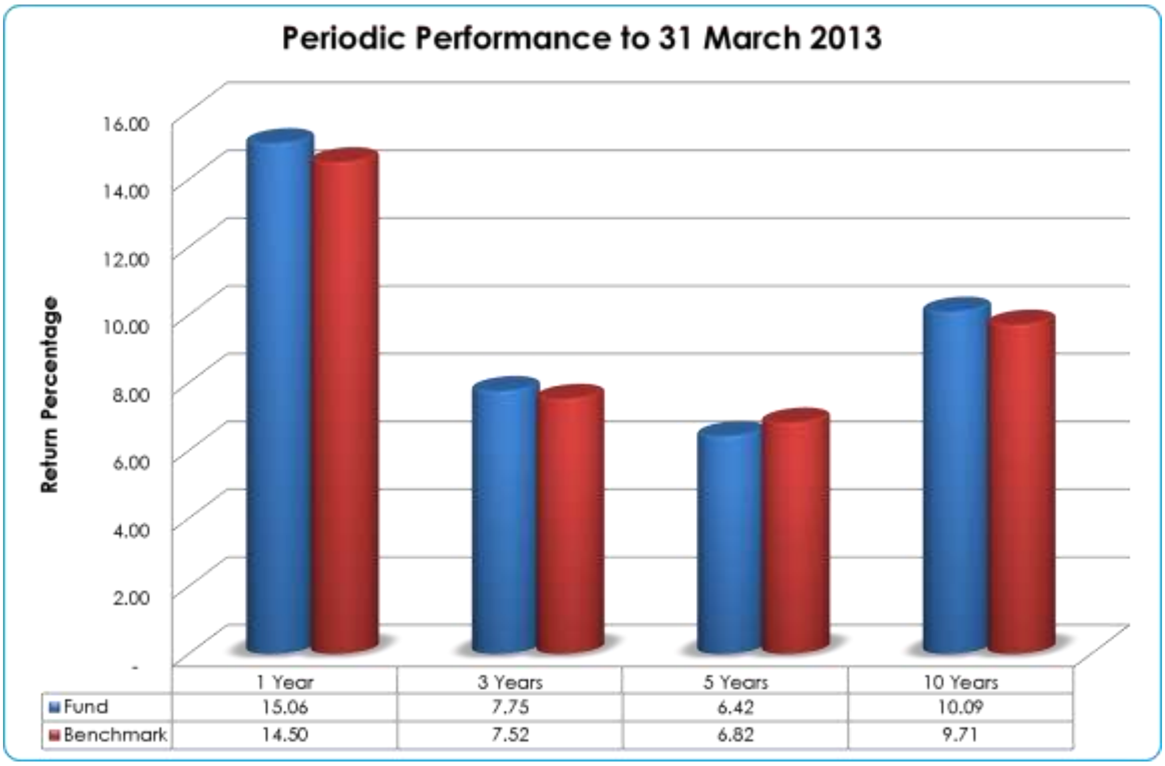
OVERVIEW

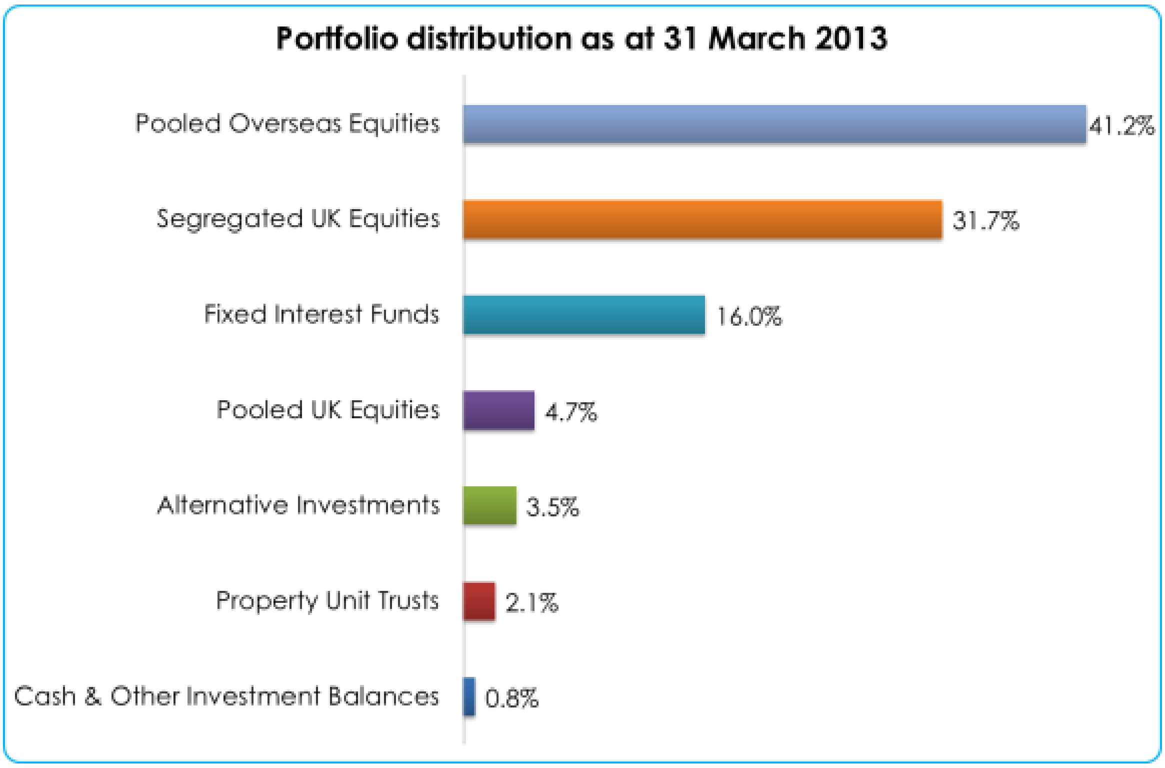
1. 2012/2013 In Summary

Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
48,058	£1.924bn	£88.856m	£101.028m



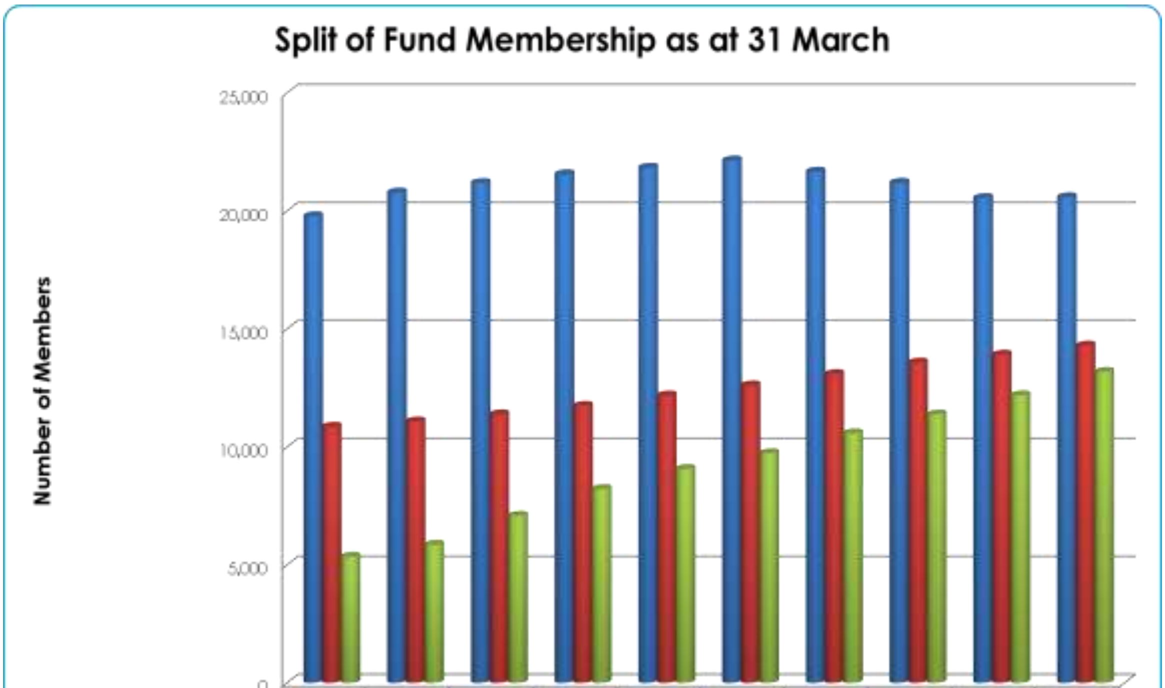
2. Investments





3. Membership

Contributing Members	Members in Receipt of Pension	Members with Preserved Benefits
20,582	14,296	13,180



	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Contributors	19,780	20,785	21,187	21,559	21,834	22,143	21,667	21,196	20,550	20,582
Pensioners	10,858	11,081	11,383	11,740	12,183	12,610	13,091	13,576	13,910	14,296
Number of Preserved Benefits	5,347	5,856	7,080	8,216	9,067	9,735	10,577	11,378	12,189	13,180

MANAGEMENT STRUCTURE

1.1 The Greater Gwent (Torfaen) Pension Scheme is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (The Benefit Regulations), the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (The Administration Regulations) and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended) (The Transitional Regulations). It is the appropriate occupational pension scheme for employees of local authorities in the Greater Gwent area with the exception of teachers and lecturers, who have a separate scheme which applies to them. In addition, the employees of certain bodies providing public services are admitted to the Fund. Details of the authorities covered by the scheme are given on page 40.

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 2013 the structure of the Pensions Committee was as follows:-

Chair

County Borough Councillor - John Marshall

Committee Members

County Borough Councillor - Huw Bevan
County Borough Councillor - Stephen Brooks KSS JP
County Borough Councillor - Veronica Crick JP
County Borough Councillor - Stuart Evans
County Borough Councillor - Brian Mawby

Chair
County Borough Councillor
John Marshall

Assistant Chief Executive Resources
Nigel Aurelius

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

Assistant Chief Executive Resources
Nigel Aurelius, CPFA

Head of Pensions and Employee Services
Graeme Russell, B Com (Hons.), CPFA

External Independent Investment Advisor
Mike Lewis

Consulting Actuary
Mercer Limited

Independent Investment Consultant
Mercer Limited

Investment Fund Managers
Aberdeen Asset Management
Baring Asset Management
BlackRock
Lazard Asset Management
Nomura Asset Management
Standard Life Investments

Global Custodian
BNY Mellon Asset Servicing

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

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

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

1.7 When the Pensions Committee was formed by the Council in early 2009, Committee members commenced 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. With a new Pensions Committee in place from May 2012, 2012/13 has been predominantly a year of "refresh" of previous fundamental training now made available to the new Committee membership. The training programme will continue, as with the previous Committee membership, to develop to reflect suitable and necessary areas of advancement in knowledge and skills identified in conjunction with individual members and the Committee as a whole.

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

FINANCIAL REPORT

1.1 The annual financial statements of the Fund have been influenced by a number of factors over the last year including healthy investment growth; a changing national pensions and LGPS landscape; the introduction of automatic enrolment; and continuing downward public sector employment trends. The number of Fund pensioner and deferred members has continued to rise within a further small move towards a more mature membership profile. It has however been encouraging to see the number of active contributors to the Fund rise for the first time in five years.

1.2 The Fund Account (page 32) indicates a considerable net increase in the net assets of the scheme available to fund benefits during the year of £257.636 million for 2012/13, compared to the £5.386 million increase in the Fund in 2011/12. The summarised figures are shown in the table below.

Fund Account 31 March 2013	
	£000
Employees/employers contributions	101,028
Payments and Refunds	(88,861)
Net transfer values	(1,361)
Returns on Investments	253,472
Other income/expenses	(6,642)
Net Increase/(decrease) in the Fund	**257,636**

1.3 Contributions to the Fund from members and employers have decreased by £0.624 million from £101.652 million in 2011/12 to £101.028 million in 2012/13.

1.4 Transfer values received have decreased from £7.824 million to £4.942 million and those paid out have decreased from £22.965 million to £6.303 million. These figures include accruals for agreed group transfers (note 7, page 39 and note 9, page 41).

1.5 Payments to beneficiaries in respect of pensions have increased by £4.318 million from £84.538 million in 2011/12 to £88.856 million in 2012/13.

1.6 The net assets of the Fund are represented primarily by investments (see below and page 42). Appendix 1 (page 62) illustrates the movement in the market value of investments since March 2003 and the tactical asset allocation.

Net Assets 31 March 2013		
	£000	**£000**
Fixed interest	305,442	
UK equities	697,254	
Overseas equities	790,779	
Property unit trusts	40,400	
Alternative investments	66,156	
Cash	10,760	
Other investment balances	4,004	1,914,795
Investment liabilities		(7)
Current assets		14,867
Current liabilities		(5,855)
Net Assets of the Fund		**1,923,800**

INVESTMENT REPORT

1. Investment Objectives

1.1 The last 12 months have seen periods when global factors similar to those experienced during 2011/12 have impacted global investment markets. Therefore concerns around global growth and the European sovereign debt crisis in particular have caused some periods of uncertainty. Despite the uncertainty however the year has also seen investment opportunities reflected in predominantly strong overall performance across world markets and asset classes.

1.2 The objective in investing Fund monies is the maximisation of the return on the money entrusted to the Fund, consistent with acceptable levels of risk (the portfolio's performance directly influences the contribution employers need to make to the Fund to pay for the statutory benefits payable from it). However, two special factors need to be borne in mind. Firstly, the Fund's liabilities are very long term and secondly, those liabilities will increase with inflation and the rising level of employee's salaries and wages to the time of retirement.

1.3 At present income is exceeding expenditure and so the Fund has not been faced with the prospect of enforced realisation of investment. Sales have been made only to improve the eventual return, either by way of capitalising profit (and so creating additional future income) or by employing the money invested to better advantage. On the other hand, the Fund is vulnerable to the ravages of inflation and these can be mitigated only by the purchase of real assets such as ordinary stocks and shares and property.

1.4 The Pensions Committee attempts to meet its objectives by securing, in the light of the economic climate, the most advantageous mixture of cash, fixed interest investments, equity, property and alternative investments. More details are contained in the Funding Strategy Statement (see page 25).

1.5 There have been no significant changes in the Fund's investment management arrangements during the year and, as at the reporting date, the Fund's assets were primarily held with six external fund managers. The investment managers primarily managing the Fund's assets were Aberdeen Asset Managers, Baring Asset Management, BlackRock, Lazard Asset Management, Nomura Asset Management and Standard Life Investments.

1.6 The principal powers to invest were most recently consolidated within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1st January 2010.

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

Greater Gwent (Torfaen) Pension Fund Strategic Asset Allocation as at 31 March 2013			
Mandate	**Approach**	**Manager**	**%**
UK Equities			
UK Equities	Passive	BlackRock	13.8
UK Equities	Active	Lazard	19.6
UK Equities	Active	Standard Life	4.6
Overseas Equities			
US Equities	Passive	BlackRock	7.0
European Equities	Active	BlackRock	14.0
Japanese Equities	Active	Nomura	3.0
Far East Equities	Active	Barings	4.0
Emerging Markets	Active	Barings	2.0
Global Equities	Active	Aberdeen	9.0
Fixed Interest			
Government Bonds	Active	BlackRock	7.0
Corporate Bonds	Active	BlackRock	7.0
Alternative Investments			
Diversified Alternatives	Active	Standard Life	3.0
Other	Active	M&G	1.0
Other (via TCBC)			
Cash	Active	TCBC	3.0
Property Unit Trusts	Active	TCBC	2.0
Total			100

1.8 At 31 March 2013 the investment assets of the Fund (measured at bid-price market value) were administered as follows:-

Investments at Market Value	**£000**	**%**	**Cash & Other Balances £000**	**%**	**Total £000**	**%**
BlackRock	941,538	49.2	2,163	0.2	943,701	49.4
Lazard	364,378	19.0	3,685	0.2	368,063	19.2
Aberdeen	183,654	9.6	-	-	183,654	9.6
Baring AM	157,213	8.2	-	-	157,213	8.2
Standard Life	143,268	7.5	-	-	143,268	7.5
Nomura	59,852	3.1	-	-	59,852	3.1
TCBC	50,128	2.6	8,916	0.4	59,044	3.0
Total	1,900,031	99.2	14,764	0.8	1,914,795	100

To comply with reporting requirements, investment liabilities such as pending purchase costs are shown separately within the net assets statement, rather than reducing cash balances (please see page 32).

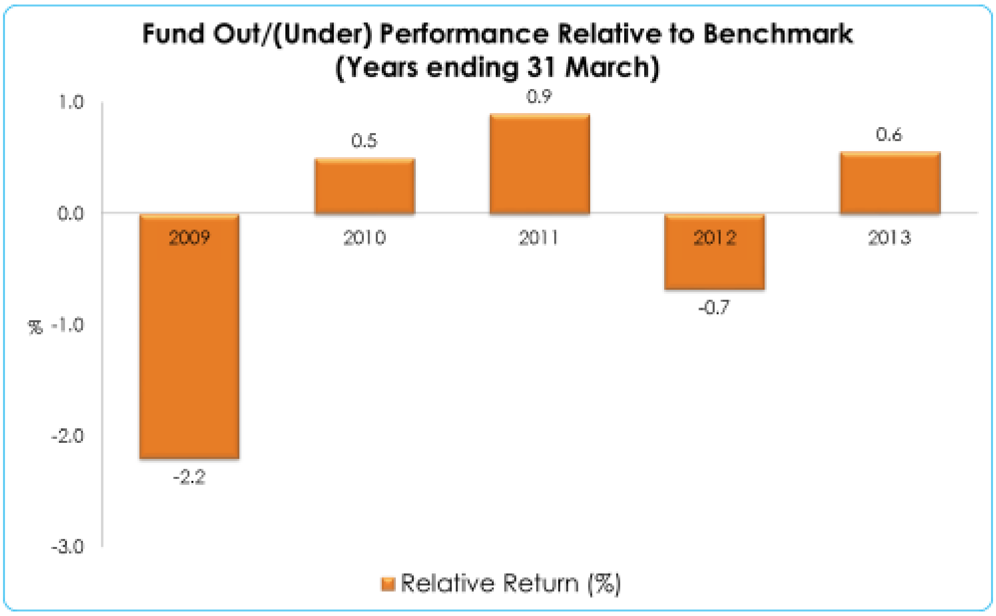
2. Performance

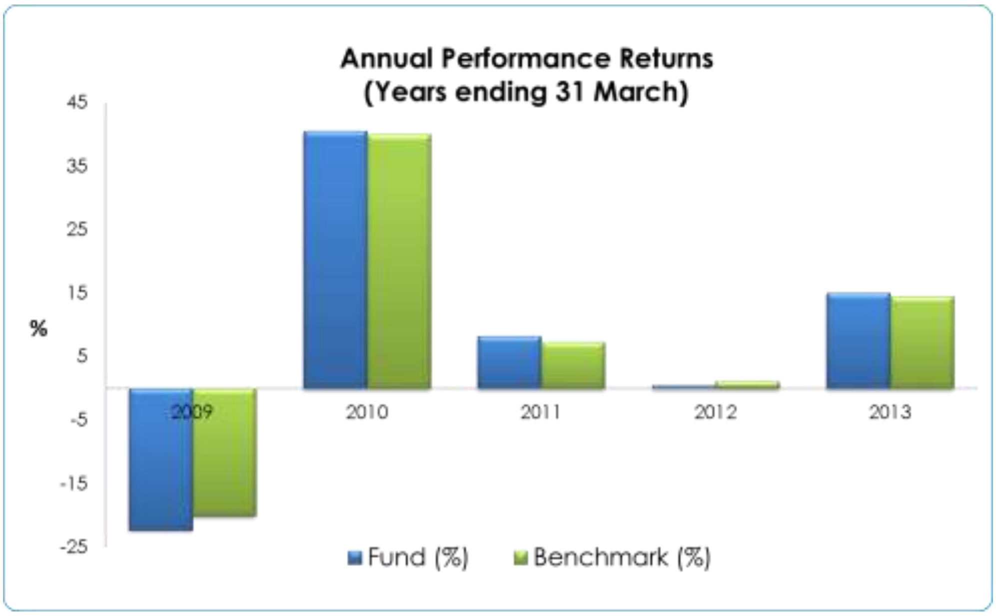
2.1 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2013 the Greater Gwent Fund is shown to have made a rate of return of 15.06% compared with 14.50% for the benchmark return.

2.2 The benchmark is rebalanced annually (December) and uses comparison indices based on a weighting of 38% UK Equities, 30% Overseas Equities, 14% Fixed Interest, 9% Global Equities, 2% UK Property Unit Trusts, 4% Alternative Investments and 3% Cash.

2.3 The 0.56% out-performance for 2013 means that the Greater Gwent Fund has achieved an above average performance in 3 out of the last 5 years.

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





3. Market Background

3.1 Global Overview

The previous reported period was dominated by concerns around global growth and the European sovereign debt crisis and their impact on markets. The past twelve months have, once more, seen similar economic and political themes dominating but, despite this and periods of associated further volatility, the year has been one of predominantly strong performance across world markets. The following global economic and political "themes" have been especially evident throughout 2012 and into early 2013:-

a. European Sovereign Debt issues have continued to impact markets to varying degrees.

b. The importance of global economic growth continued to reflect in market movements notably:-
   i. the level of economic growth in China and the impact on this of governmental measures to curb inflation.
   ii. the continued importance of the economic recovery in the US versus the policy difficulties in keeping economic stimuli in place – notable the political issues surrounding the so called "fiscal cliff".
   iii. the growth lag in Europe including, in the UK, the fears over a "triple dip" recession.

c. The efforts of the global central banks to keep the "wheels of the financial system turning" with the US Federal Reserve announcing its Quantitative Easing 3 (QE3) programme; the European Central Bank's bond buying (OMT-outright monetary transactions) programme; a further Fed pledge to keep interest rates near zero until 2014; and further quantitative easing from the Bank of England and the Bank of Japan.

d. Political change was again a feature with the period of uncertainty around the outcome of the US presidential election and also the election in Greece. However the leadership changes in Japan and China seem to have been particularly welcomed by investors as was the emergence of credible governments in both Spain and Italy.

The following provides a brief commentary on how the above global economic and political factors have impacted global markets over the reporting period:-

- 2012 had started on an optimistic note with the concerted action of central banks to support the global financial system buoying markets and this, together with encouraging economic data, inspiring investors to be less risk averse during the first quarter of the year.

- The start of the 2012/13 reporting period, however, saw world markets turn downwards in Quarter 2 of 2012 (**2012 Q2**) with global equities buffeted by concerns over growth and the ability of sovereign nations to repay their debts. Risk assets sold off as investors prepared for the possibility of a disorderly Greek exit form the Eurozone. Economic growth data disappointed throughout the period with the UK economy still in decline; Europe deteriorating; and clear signs from China of a slowing in their economy. Even the previously more upbeat economic data and signals emanating from the US waned during Q2. There was some better news as the quarter ended with positive outcomes of the G20 and EU summits leading to a rescue package for Spanish banks. A narrow victory for conservatives in the Greek election also provided some further Eurozone comfort for global markets.

- Growing expectations of further global economic policy stimulus lifted markets in **2012 Q3** as the US Federal Reserve and the European Central Bank announced further monetary easing measures. Economic growth data however disappointed in the US with signs of company earnings weakening and increasing uncertainty due to both the impending US presidential election and the US "fiscal cliff" (the potential overnight implementation of tax increases and budget cuts) looming at the end of 2012. Despite this risk assets rallied in response to what was an overall more upbeat global "mood" with positive equity markets across all regions.

- Markets continued to rise as 2012 ended with the more positive global economic backdrop in **2012 Q4** leading to a more "risk on" environment. Markets were generally encouraged by improving US economic data. Political change in Japan and China was welcomed by investors and the Chinese economy showed signs of stabilising. There remained, however, some lingering concerns around global growth and sovereign debt but there seemed a consensus that the levels of risk in respect of both these was subsiding somewhat. Against the largely positive backdrop equity markets again posted steady gains and the solid quarter meant a good overall 2012 for markets generally and equities in particular.

- The reporting period ended with a range of asset classes delivering strong positive returns during **2013 Q1**. Markets seemed a great deal more "settled" with levels of volatility in performance notably reduced. Economic data remained mixed, however, with the UK and Europe continuing to disappoint while trends in the US and China were more positive with a last minute deal on the US "fiscal cliff" allowing US markets to participate in the generally strong start to 2013. Throughout the period all the major central banks remained committed to keeping the "wheels of the financial system turning". Most key global equity markets made double-digit gains on the back of the revival in risk appetite thus generated. During March however European concerns re-emerged from an unexpected front as Cyprus took centre stage in requesting a €10 billion bailout form the EU and IMF. Despite this further "twist", some of the more extreme scenarios (such as outright Eurozone collapse) that had been blighting investor confidence over recent periods appeared to have receded, resulting in greater optimism as the period ended regarding the prospects for global growth and for risk assets.

3.2 Market Performance

Against the above predominantly positive backdrop almost all of the Equity Markets in which the Fund invests produced double digit positive returns over the reporting period. The United States led the way with the index returning just over 20% in the year, buoyed by improving economic data. The Far East and a recovering Europe saw returns of around 18%. The UK shrugged off its domestic economic woes and returned almost 17%, demonstrating the current global focus of the UK Market. Japan returned around 14%, benefitting especially towards the end of the period from expectations of a more supportive policy backdrop under its new administration. It was only Emerging Market Equities that lagged significantly over the period returning around 7.5% over the twelve months with markets in that region being especially volatile at times during the year.

Fixed Interest investments performed generally well over the period, despite many occasions during the year when risk assets, such as equities, rallied strongly in an environment of predominantly improving investor "risk appetite".

With investors generally less risk adverse most equity regions out-performed Gilts over the period. However Government bonds performed well in the periods of investor risk aversion such as when Eurozone concerns heightened during the inconclusive Italian election result and the controversial EU bailout deal for Cyprus. These periods allowed the Fund's Gilt index to return a very respectable 5.25% over the year.

Corporate Bonds had a strong 12 months with the Fund's benchmark returning 12% during the period under review. Eurozone tensions in the early part of the period impacted investor risk appetite and thus returns. However the persistence of ultra-low core government bond yields; generally healthy corporate balance sheets and accommodative central bank policy did much to create the conditions for the consistent month-on month returns enjoyed by corporate credit during the second half of 2012. Credit continued to make progress in the first quarter of 2013, proving surprisingly resilient in the face of events in Italy and Cyprus towards the end of the review period.

3.3 Fund Managers

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

4. Fund Manager Investment Reports

a) BlackRock (49.4% of total investment assets)

BLACKROCK

Investment Performance 1 April 2012 to 31 March 2013					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
UK Equities	16.8	16.8	16.7	-0.1	-0.1
US Equities	20.1	20.1	20.1	+0.0	+0.0
European Equities	17.4	18.9	18.0	+0.6	-0.9
UK Gilts*	5.2	6.7	7.9	+2.7	+1.2
Corporate Bonds*	12.0	13.5	14.2	+2.2	+0.7

* Combined performance target of 1.5% above benchmark

Portfolio Performance and Activity

UK/US Index Equities

BlackRock believes the most reliable approach to indexing is full replication, where a basket of securities is held in the same proportion as they are represented in the relevant index. This has enabled these portfolios to effectively track (within tolerances) the respective indices during the period.

European Equities

The European fund outperformed its benchmark over the reporting period. The majority of the outperformance came from "Sentiment indicators" within the fund's quantitative process and model, particularly from analyst insights. In an environment that has been characterised by a trend of continuous company earnings downgrades, analysts were able to identify companies that met or missed earnings expectations. Signals designed to track the behaviour of other investors contributed positively. Faster moving insights also added value such as recommendations from brokers and signals designed to exploit short term pricing anomalies. Brokers demonstrated an ability to navigate periods of changing market sentiment and helped position the portfolio away from a more defensive stance in periods when risk appetite increased.

Over the 12 months "Value insights" had a muted impact on performance. Traditional measures of share value, such as book to price, remained an indicator of risk appetite with cheap stocks underperforming during periods of risk aversion. This only started to change towards the end of the year as investors became more confident about a solution to the fiscal cliff in the US and risk aversion started to ease.

"Quality insights" detracted over the period. While companies that exhibit strong Return on Assets (a classic measure of Quality) have been attractive to investors over the year, this has been confined to companies with high margins rather than companies that make effective use of their assets. We see asset efficiency as a better predictor for earnings sustainability, hence we were overweight names that scored well on that measure. The indiscriminate rotation towards "quality" continued over the first quarter of this year, leaving some stocks trading at very high valuations. For example some of our long term Quality picks such as Burberry or H&M were trading at Price/Earnings ratios of over 20. These high valuations put a cap on any potential overweight position.

Gilts and Corporate Bonds

Both Funds outperformed their respective benchmark over the period, with most active returns coming from the credit and fixed income asset allocation (FIAAM) strategies. The FIAAM strategy was well positioned for the "risk-on" rally towards the second half of the year as it held long positions in emerging market currencies versus domestic market currencies. In March, the FIAAM strategy was positioned to benefit from widening credit spreads in the US and Europe, and out-performing high-yield bonds. Within Corporate Bonds, performance was driven by long positions in certain Retail names, short positions in certain Steel and Energy names, and short positions in Paper names. Towards the end of the quarter, the fears from the Cypriot crisis caused long positions in European financials to detract slightly, however, this was partially offset by long position in US Financials as investors sought higher quality names in the sector.

b) Lazard Asset Management (19.2% of total investment assets)

LAZARD
ASSET MANAGEMENT

Investment Performance 1 April 2012 to 31 March 2013					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
UK Equities	16.8	18.8	17.3	+0.5	-1.5

Portfolio Performance and Activity

Performance Review

UK equities made considerable gains over the year. Share price appreciation was more prominent in the last six months of the reporting period after the European Central Bank (ECB) stepped in to calm markets. The UK Equity Diversified Strategy made strong absolute gains and out-performed the FTSE All-Share Index.

Stock selection and an overweight versus benchmark position in industrials helped returns during the period. Equipment hire business Ashtead was our strongest holding, both in the sector and the Fund, performing well throughout the period. Kitchen manufacturer Howden Joinery was another strong performer in the sector, in part on the back of positive preliminary results for 2012. Wolseley and Northgate within the support services segment of the sector were also strong performers over the year.

Our underweight versus benchmark position in financials hurt returns, as the sector performed very well following the ECB's announcement of plans to buy the bonds of struggling governments. In particular, being marginally underweight Lloyds across the period when it significantly outperformed the market weighed on relative returns. Our underweight in HSBC also detracted from performance.

Stock selection and an overweight position in consumer services was additive to returns during the year. Within this sector, easyJet was a significant contributor to performance, as a result of strong revenue growth and pricing strength. Other positive contributors to returns in the sector included TUI Travel, Signet Jewellers and ITV.

Lastly, stock selection in the basic materials sector weighed on relative returns, as concerns over the strength of the Chinese economy held back mining stocks. London Mining was the single largest detractor to performance during the period.

Current Strategy

In terms of outlook and strategy, although some profit taking is possible in the short term, we do expect UK equities to continue to make progress throughout the rest of 2013. Although macro issues have returned at times to haunt the euro zone and UK growth remains stubbornly anaemic, US data for the most part continues to surprise on the upside, while China has certainly avoided the hard landing many had predicted for its economy through much of last year. Given the global reach of UK companies, this should provide a boost for UK equities, especially the beleaguered mining sector, which is likely to benefit from robust economic growth in China. With regards to valuations, the aggregate price of the market still appears cheap, though significant weakness amongst a number of oil and mining stocks is making the market appear optically more attractively priced than may actually be the case.

We believe that stock fundamentals will play a greater role as we move through 2013 and will continue to focus on such stock specifics, particularly where we see stocks with sustainable dividends and valuations that do not reflect the business reality.

c) Aberdeen Asset Management (9.6% of total investment assets)

Aberdeen

Investment Performance 1 April 2012 to 31 March 2013					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Global Equities	18.4	21.4	18.7	+0.3	-2.7

Portfolio Performance and Activity

Although rather different economic experiences for developed and developing countries continued through the period, when this was translated to market performance investors seem to be relatively unfazed, with equity markets generally achieving strong returns, the benchmark index climbing 18.4%. In broad global terms, Asia fared best, whilst Europe was slightly more pedestrian, but few countries were significantly adrift other than peripheral European states. At a sector level, Materials, Energy and IT were the most notable laggards, whilst Financials, Pharmaceuticals and a number of Consumer sectors were buoyant.

Over the 12 months, the fund out-performed its benchmark, but was behind the target. We have continued with a more defensive, cautious strategy, which has meant that the portfolio has had less exposure to the more cyclical stocks, which have been driven higher by investor risk appetite, and pushing the valuations of some segments of the market to levels which we believe to be unsustainable. The relative strength of the US dollar also undermined returns when compared to the index, given its significant weighting to US stocks. Performance for the three years to March 2013 is ahead of benchmark, but behind the +3% per annum outperformance target, as earlier returns have been diluted by the less strong most recent period.

Stock selection has been mixed. Positive themes included strong returns across Europe; stock selection in Switzerland and Sweden stood out. Roche and Novartis, the Swiss pharmaceuticals giants; and Nestle, the food multinational, were material positive performers, whilst strong returns from Nordea, a domestic Scandinavian bank; Ericsson, the mobile telephony network business; and Atlas Copco, which produces compressors and generators that are used in construction and mining.

In the US, we saw good returns from a range of companies, including healthcare products firm Johnson & Johnson; pharmacy and drug retailer CVS Caremark; drinks and snacks producer Pepsico. The portfolio also benefited from having no exposure to Apple, which has struggled to sustain its exceptional market image, and very high valuation.

On the other side of the list, Brazilian iron ore miner Vale was weak, reflecting concerns that a slowdown in Asia and China would affect the demand for basic materials; and Petrobras, the state-owned energy firm, amid concerns over the capex required. Stock selection in Japan was also a drag on performance, notably Canon, the reproduction equipment firm and Fanuc, a robotics firm. QBE, an Australian insurer, rallied late in the period, but remained a laggard; they have encountered a number of natural and operational problems.

The portfolio shape has changed marginally, although the broadly defensive shape has been maintained. We switched three holdings out, including Rio Tinto, as we built up Vale. We sold both parts of Kraft Foods, which had split into a snacks and confectionery business called Mondelez International, and their North American grocery business under the Kraft name, as we cooled on managements' ability to add value; and we introduced Praxair, an industrial gases business.

Looking ahead, we still see headwinds that the global economic recovery faces, and anticipate a pause in the performance of risk assets, especially given the powerful returns in early 2013. The public sector debt crises of Europe and the US will take years to resolve and as a result growth is likely to remain muted for some time. Investment opportunities do remain, but we will continue to be patient in our pursuit of them at appropriate prices.

d) Baring Asset Management (8.2% of total investment assets)

BARINGS

Investment Performance 1 April 2012 to 31 March 2013					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Far East Equities	18.1	20.1	16.0	-2.1	-4.1
Emerging Market Equities	7.7	9.7	3.8	-3.9	-5.9

Portfolio Performance and Activity

Far Eastern Equities

Over the reporting period the Asia Pacific index had a strong year returning over 18%. The Far East mandate, however, under-performed this benchmark. The rise of the middle income class in countries such as China and Indonesia will benefit companies in sectors such as the food & beverage, personal care products, medical & healthcare and hospitality sectors. The portfolio is constructed around attractively valued companies which we believe have the ability to deliver long-term earnings growth. We also favour stocks which offer sustainable dividend growth in a low yield global environment. We believe this strategy enables us to benefit from growth in Asia, but also offers some protection in what remains a relatively uncertain macro environment. Over the reporting period stock selection in Australia and Korea detracted value, caused by a number of specific stock holdings which underperformed. This was offset to some extent by positive stock selection in Hong Kong and Thailand, with our exposure to consumer stocks adding the most value. With regard to country allocation, increased exposure to Hong Kong Indonesia and the Philippines added value, while our cautious stance on Singapore detracted.

The Fund's performance has improved markedly from the second half of 2012 and thus far into 2013. In terms of portfolio moves, we have increased our exposure to Hong Kong/China over the course of the year mainly via the addition of quality Financial stocks and funding these by reducing exposure to Australian Basic Materials and Oil & Gas, thus moving to moderate underweight in Australia. Changes were also made to holdings in the Technology sector mainly through reducing Taiwanese Apple suppliers and increasing exposure to Korean giant Samsung and Chinese PC maker Lenovo.

Emerging Market Equities

Over the reporting period the MSCI Emerging Markets index appreciated by 7.7% in GBP terms. The Emerging Markets mandate however under-performed this benchmark. At a country level, the Philippines was the best performing market followed closely behind by Turkey while the Czech Republic and Morocco were the worst performing markets. During this period we were overweight in China and increased our allocation during the middle of 2012, content with the Chinese mix of fiscal and monetary policy implemented to support economic growth. We were also overweight in Korea due to the combination of valuation and un-recognised earnings growth, in particular Samsung Electronics was our largest holding in this market. We increased our exposure to India towards the end of 2012 based on our expectations of an improvement in the government's fiscal management and focus on economic reforms to induce an investment led recovery. Russia is our final key overweight position with a favourable combination of very attractive valuations, a relatively robust domestic economy and a new administration which has the potential to deliver some economic and political reform over the medium term. Our preference is for domestic demand exposure via banks, retail and telecoms. During the period we became increasingly concerned about Brazil on policy, valuation and inflation concerns. We also reduced exposure in South Africa for similar reasons. Markets where we hold a neutral view include Mexico, Hungary, Poland and Turkey. We are underweight what we consider expensively valued markets such as Malaysia, Indonesia, Thailand, the Philippines and Colombia.

e) Standard Life Investments (7.5% of total investment assets)

STANDARD LIFE INVESTMENTS

Investment Performance 1 April 2012 to 31 March 2013					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
UK Equities	16.8	19.8	18.4	+1.6	-1.4
Global Absolute Return Strategies (GARS)	1.0	6.0	6.9	+5.9	+0.9

Portfolio Performance and Activity

UK Equities

UK equities enjoyed positive returns despite the state of the UK economy remaining precarious throughout the period. Dixons Retail made the largest positive contribution towards performance benefitting as Comet's collapse removed a significant competitor from the market. Positions in the airline industry were also notable contributors. IAG performed well on the resolution of a protracted industrial dispute, while its British Airways brand reported strong North Atlantic traffic. Budget airline easyJet continued to benefit because of capacity discipline across the European industry. Further strong performance came from Lloyds Banking Group and Barclays, which performed well in response to further infusions of liquidity into global markets.

On the downside, mining stocks fell as growth concerns prompted weakness in a number of commodities. The portfolio's underweight positions in BHP Billiton and Anglo American helped but overweight holdings in Rio Tinto and Vedanta Resources hurt performance. A general rally among defensive stocks during the period also led to underweight positions in household products company Reckitt Benckiser, consumer goods business Unilever and drinks firm Diageo detracting from returns. The global economy continues to recover and we expect the transition to a more 'normal' environment to persist as investors increasingly turn their attention away from macroeconomic event risk to corporate fundamentals.

Improved sentiment has led to a significant re-rating in UK equities and many of the valuation dislocations prevalent 12 months ago have been removed. While this warrants a more selective approach, we continue to find ample investment ideas. Within a more normal trading environment we believe the conditions are in place for bottom-up stock-pickers to exploit UK equities' capital growth and income potential as 2013 progresses.

Global Absolute Return Strategies (GARS)

The GARS portfolio delivered positive returns over the 12 months under review. At the start of the period, financial markets lost ground on resurgent Euro-zone concerns. As a result, our core equity positions lost value, although credit markets continued to have a small positive impact. This environment also proved challenging for our equity volatility strategies, with both long volatility and relative value strategies detracting from returns.

Following central bank stimulus efforts, markets rallied into the second half of 2012. Our core equity positions contributed positively, as did corporate bonds. Our interest rate and duration strategies generally added value, including the Australian interest rates and Germany versus France duration strategies. A further rally among equities towards the end of 2012 generated strong returns from European and Russian equities. Within the US market, small-cap stocks outperformed large caps, which was negative for the Fund. However, a new position in global listed real estate proved beneficial.

The upbeat market tone persisted into 2013, although a controversial Cypriot bank rescue plan caused a sell-off in European financial markets in March. Developed equity markets elsewhere remained buoyant, enhancing returns. Credit exposure was also supportive, as quantitative easing continued to push traded yields lower. A notable feature was the strengthening of the US dollar in February and March, which rewarded our relative value currency positions favouring the dollar versus the yen, the Canadian dollar and the euro. Detracting from performance was our position preferring large cap US equities versus small cap. Our volatility strategies were broadly flat, as equity market trading remained steady.

Market sentiment has now clearly shifted towards a greater tolerance of risk, with less emphasis on 'safe haven' assets. This is attributable partly to global quantitative easing reducing the available returns in some markets, and because of more bullish sentiment. We continue to expect a scenario of continuing gradual global recovery, albeit possibly interspersed with periods of volatility. We anticipate further strong rhetoric action from global central banks, with the potential for sizeable moves in global currencies. We remain wary of the market's apparent complacency over political risks – favourable newsflow will be needed to support equities at current levels. Credit and duration markets offer mixed signals. While yields are near record lows, they could conceivably decline further. Over the longer term, our strategies express our view that interest rates will rise as economies recover.

f) Nomura (3.1% of total investment assets)

NOMURA

Investment Performance 1 April 2012 to 31 March 2013					
Asset Category	Benchmark Return %	Target Return %	Actual Return %	Variance from Benchmark	Variance from Target
Japan Equities	14.3	17.3	11.2	-3.1	-6.1

Portfolio Performance and Activity

It was a testing period for investors in Japan as the equity market ground lower for around seven months before rebounding strongly to close the period over 14% higher. The turnaround came in November with the long-awaited announcement of a general election. On expectations of a victory by the opposition LDP party led by Shinzo Abe, a proponent of an aggressive pro-growth programme, the yen fell sharply and investor sentiment improved sharply. The LDP duly won the December election and investors were not disappointed. January saw a $105 billion fiscal package and the announcement of an increase in the Bank of Japan's (BOJ) inflation target from 1% to 2%, with the promise of further monetary initiatives from the BOJ's new governor Haruhiko Kuroda. With nervous investors focusing on 'big picture' issues such as global growth and the future of the Eurozone rather than corporate fundamentals, 'value' as an investment style was out of favour for the first half of the period and the portfolio struggled. However, the improvement in sentiment in the latter part of the period allowed investors to refocus on fundamentals and the fund began to outperform, although not by enough to produce a positive relative number for the year as a whole.

Against this backdrop, our stock selection results proved disappointing as for much of the period investors ignored long-term corporate fundamentals in favour of short-term news flow and near-term dividend prospects. The biggest positive stock contributors were overweights in tyre-maker Bridgestone, heavy machinery company Mitsubishi Heavy Industries and major bank Mitsubishi UFJ Financial as well as an underweight in underperforming camera and printer manufacturer Canon. Stock positions dragging significantly on performance included overweights in wire and cable maker Sumitomo Electric Industries, chemical company Showa Denko and consumer electronics company Panasonic. An underweight in outperforming mobile phone company Softbank was also a significant negative.

The fund focuses on stock picking and sector positioning is purely a function of our stock choices, but that having been said, on an attribution basis, sector selection was negative by a small margin. The most positive sector exposures over the period were overweights in the Rubber Products and Banking sectors along with underweights in the Electric Power & Gas and Precision Instrument sectors. The sector positions detracting most from performance were underweights in the Real Estate, Pharmaceutical and Securities & Commodity Futures sectors as well as an overweight in Nonferrous Metals.

Looking ahead present sentiment remains bullish, although at some stage investors will start to look for evidence that the government's initiatives are having an effect. In this regard inflation numbers will likely be keenly watched. Over and above this, the performance of the Japanese market remains dependent on wider global events. Whilst we expect steady if unspectacular growth in the global economy, its underlying fragility means that markets remain susceptible to shocks. In terms of strategy, we continue to focus on the powerful investment theme of long-term corporate restructuring. This promises significant improvements in corporate performance largely independent of a cyclical recovery, delivering positive returns to investors as latent value at a stock is unlocked. We remain highly selective stock-pickers, aiming to identify a combination of undervaluation and strong potential. We look for companies which have strong competitive advantages, that are developing new markets and that are well-placed to exploit change and industry realignments. We prize management which sees the key business opportunities and also embraces the concept of shareholder value.

ADMINISTRATION REPORT

1. The Pension Administration Team

1.1 The Pension Team which administers the Greater Gwent (Torfaen) Pension Scheme currently consists of 20 members of staff administering benefits for over 48,000 members (active, deferred and pensioners) and almost 60 employers (49 active). Following a recent restructuring exercise the number of staff will increase in June 2013 to 24 (including 2 temporary staff). The additional staff, in conjunction with the existing compliment who have an important blend of experience ranging from three years to almost 25 years, will enable the Pension Team to face the increased workloads and the many and varied challenges ahead.

1.2 During the year, the Pension Section invested in an electronic interface which will facilitate the transfer of membership data from each of the employer's payroll systems to the pension administration system. This is a necessary development given the introduction of Automatic Enrolment, the complexities surrounding the proposals for the 2014 Scheme and the desire to move away from paper forms. This facility will enable information to be transferred to the pension administration system on a monthly basis thereby eliminating the year end submission and cleansing of data. A number of employers have engaged with the software providers to implement the electronic interface and we are actively encouraging other 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.

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

2. Administration Service and Current Developments

2.1 **Core Work**

The work undertaken by the pension section in relation to the main 'core service' statistics is illustrated on the following table. The table illustrates the work outstanding as at 1st April 2012, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2013. Work completed has risen by some 12% during the year.

	Work outstanding 1 April 2012	New	Total	Completed	Work in progress 31 March 2013
Retirements processed	290	1,108	1,398	1,045	353
Deferred processed	115	1,618	1,733	1,318	415
Retirement estimates	348	2,240	2,588	2,188	400
Deaths processed	148	565	713	526	187
Transfers in/out	598	1,016	1,614	900	714
New Starters	820	1,730	2,550	1,886	664
Total	**2,319**	**8,277**	**10,596**	**7,863**	**2,733**

The Pension Section has continued to review our working practises 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 work to be reallocated within the section to manage workload priorities and developments effectively.

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

2.2 **Other Activity**

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

- Participation in Club Vita to provide a bespoke analysis of the longevity of the members of the Greater Gwent (Torfaen) Pension Fund.
- Providing employers with guidance in relation to the Restriction of Pension Tax Relief, including carrying out individual assessments for members who are at risk of incurring a tax charge.
- Providing employers with guidance in relation to the interaction of Automatic Enrolment Regulations and the Local Government Pension Scheme.
- Participation in the National Fraud Initiative (NFI) and utilising the services of a tracing agency.
- Continuing collaboration with the other seven Local Government Pension Funds within Wales to improve communication and administration systems.
- Participation in the All Wales Collaboration Project Working Groups looking at future efficiency of LGPS provision in Wales.
- Participation at a National level with regard to the reform of the Local Government Pension Scheme and the establishment of a new scheme with effect from 1st April 2014.
- Establishing a partnership with Affinity, who provide Pre-Retirement Courses for members of the Pension Scheme as they approach their retirement. This service is provided free of charge and provides important information to retirees relating to financial issues as well as health, wellbeing and life style changes.

2.3 **Current Challenges**

The Triennial Actuarial Valuation of the Pension Fund is due to be carried out as at 31st March 2013. The purpose of the Valuation is to review the funding level of the Pension Fund and to set the employer's contribution rate for the three year period commencing on 1st April 2014.

2.4 A major Consultation exercise is on-going in relation to the new Local Government Pension Scheme which is due to be introduced with effect from 1st April 2014. The Regulations for the new scheme were expected to have been enacted by 31st March 2013 to enable the proposed changes to be taken into account in the Triennial Actuarial Valuation and to enable the software to be updated to reflect the changes in the benefit structure. It is regrettable that at the time of writing the regulations relating to the Benefit Structure have not been finalised and the regulations relating to the administration and governance arrangements have not as yet been issued for consultation. This delay presents particular difficulties in relation to communicating the changes to scheme employers and scheme members.

3. Future Challenges

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

3.2 The proposals for the 2014 scheme will impact on the work of the Pension Fund up to the implementation date and beyond. A Major communications exercise will be undertaken to ensure that scheme members and scheme employers understand the changes. Work is on-going through the representative "CLASS Group" to ensure that the pension administration software is upgraded to reflect the changes.

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

3.4 The Department for Communities and Local Government commenced a period of statutory consultation at the end of the year on access by councillors and other elected local office holders in England to the Local Government Pension Scheme. The government has identified three options for consultation whereby councillors and local elected office holders may, or may not, access the new Scheme from 2014. Police and crime commissioners would remain eligible for Scheme membership under each option.

- Option 1 - No access to the Local Government Pension Scheme from 1st April 2014
- Option 2 - Two Tier membership i.e. continued access for 'front bench' councillors only
- Option 3 - No change

Whichever option is pursued, those already in the Scheme would have their accrued rights up to April 2014 fully protected.

The position in Wales is subject to separate arrangements. While the Local Government Pension Scheme is not a devolved matter, the pensionability of councillors' allowances is devolved to Welsh Ministers. Therefore Wales is not covered by this consultation. Within Wales, there has therefore not been any such consultation on councillor pensions but the Remuneration Board of the National Assembly for Wales has undertaken a consultation on Assembly Member pensions, and although the outcome of the consultation is not yet known, any developments might be seen as providing context for the position of councillor pensions in Wales.

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 six external managers who manage the Fund's assets and who make day to day investment decisions. These are Aberdeen Asset Managers, Baring Asset Management, BlackRock, Lazard Asset Management, Nomura Asset Management and Standard Life Investments. Management agreements are maintained with each of the investment managers which set out the benchmark asset allocation ranges, performance target and any restrictions placed on the manager. The investment managers' actions and performance are monitored 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 Barings. 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 a limited partnership investment in the M&G UK Companies Financing Funds which provide FTSE listed companies with an alternative to the banks in sourcing their financing requirements. The Fund has invested its full commitment of £9.8 million in the original M&G fund but has further committed £8m to a further M&G fund, The Companies Financing Fund II, but no payments had been made into that fund by the end of the reporting period.

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 27 of this document.

1.7 Compliance

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

1.8 Feedback and Review

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

2. Socially Responsible Investing & Corporate Governance

2.1 Socially Responsible Investment

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

2.2 **Myners Compliance**

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

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

As part of its 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 is contained within the full Statement of Investment Principles in respect of the Fund's degree of compliance with the revised set of principles.

3. Funding Strategy Statement

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

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

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

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

Further details are contained in the Fund's full Funding Strategy Statement, which reflects the results of the Fund's 2010 triennial actuarial valuation, and is available via the link on Page 27 of this document.

4. Communications Strategy

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

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

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

- The Fund aims to:-

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

- The Strategy will help to:-

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

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

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

5. Pension Fund Annual Report

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

5.2 The Fund has therefore included in the annual report a summary of the following required key documents which are available in full via the hyperlinks on the Pension Funds web site shown below. These documents are also contained in full as Appendices to the full version of the Annual Report and Accounts 2012/13, which is also to be found on the Pension Fund's website:-

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

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

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

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

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

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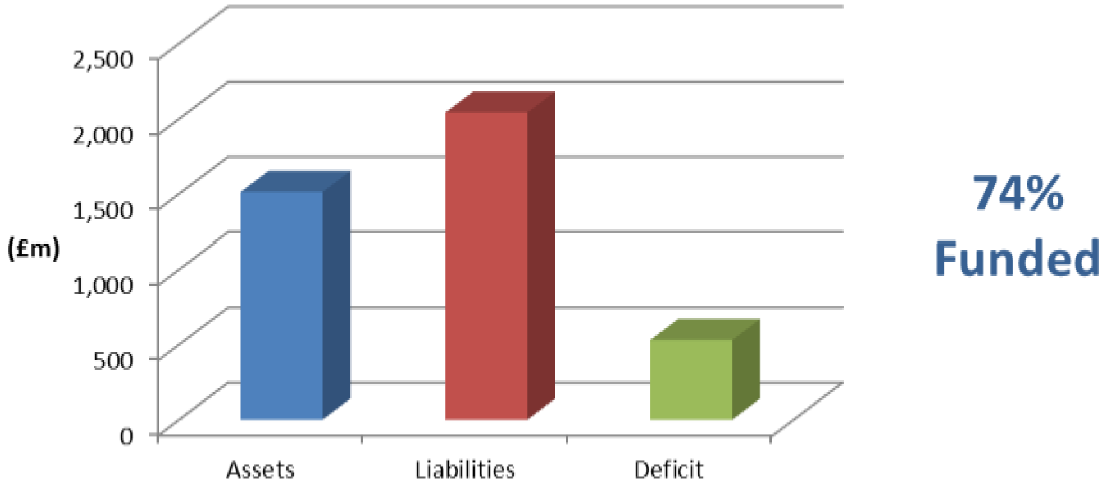
GREATER GWENT (TORFAEN) PENSION FUND

Accounts for the year ended 31 March 2013 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Greater Gwent (Torfaen) Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

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



The valuation also showed that a common rate of contribution of 11.1% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 7.9% of pensionable pay for 20 years. This would imply an average employer contribution rate of 19.0% of pensionable pay in total.

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

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate) - pre retirement - post retirement	7.0% per annum 5.5% per annum	6.75% per annum 6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.0% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £2,611 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£344 million. Adding interest over the year increases the liabilities by a further c£128 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£2 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 2013 is therefore £3,085 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2013

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

I have examined the pension fund accounts and related notes contained in the 2012/13 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 2013 which were authorised for issue on 24 September 2013. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Independent Auditor

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

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

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Greater Gwent (Torfaen) Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Torfaen County Borough Council for the year ended 31 March 2013 which were authorised for issue on 24 September 2013 on which I issued an unqualified opinion.

Signed:

Name: **Anthony Barrett**
Position: **Appointed Auditor**
Date: **25 September 2013**

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

Electronic publication of financial statements

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

Pension Fund Accounts

Contents

Fund Account for the Year Ended 31 March 2013

	Note	2011/2012 £000	2012/2013 £000
Contributions and benefits			
Contributions receivable	6	(101,652)	(101,028)
Transfers in	7	(7,824)	(4,942)
		(109,476)	(105,970)
Benefits payable	8	84,538	88,856
Payments to and on account of leavers	9	22,967	6,308
Other payments	10	1	3
Administrative expenses	11	1,674	1,582
		109,180	96,749
Net additions from dealing with members		**(296)**	**(9,221)**
Returns on investments			
Investment income	12	(21,448)	(20,659)
Profit and losses on disposal of investments and changes in value of investments	14	12,001	(232,813)
Investment management expenses	13	4,357	5,057
Net returns on investments		**(5,090)**	**(248,415)**
Net increase in the net assets available for benefits during the year		**(5,386)**	**(257,636)**
Net assets of the Scheme			
At 1st April		1,660,778	1,666,164
Net increase in the net assets available for benefits during the year		5,386	257,636
Closing net assets of the Scheme at 31st March		**1,666,164**	**1,923,800**

Net Assets Statement for the Year Ended 31 March 2013

	Note	As at 31 March 2012 Bid Price basis £000	As at 31 March 2013 Bid Price basis £000
Investment assets	14	1,673,634	1,914,795
Investment liabilities	14	(122)	(7)
Current assets	19	16,145	14,867
Current liabilities	20	(23,493)	(5,855)
Net assets of the Scheme available to fund benefits at 31st March		**1,666,164**	**1,923,800**

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

NOTES TO THE ACCOUNTS

1. Description of Fund

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

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

1.1 General

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

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

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

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

1.2 Membership

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

There are 49 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table in appendix 3 (page 64) provides some further details in terms of membership.

1.3 Benefits

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

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x 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.

1.4 **Funding**

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

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

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

2. Basis of Preparation

2.1 The Fund Account summarises the Fund's transactions for the 2012/13 financial year and its position at year end as at 31 March 2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

2.3 The accounts have been prepared in accordance with IAS26 (Accounting and Reporting by Retirement Benefit Plans) except where interpretations or adaptations to fit the public sector are detailed in the 'Code of Practice on Local Authority Accounting in the United Kingdom 2012/13'.

3. Summary of Significant Accounting Policies

3.1 **Fund Account – Revenue Recognition**

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

i) Contribution Income

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

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

ii) Transfers To and From Other Schemes

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

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

iii) Investment Income

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

3.2 **Fund Account – Expense Items**

i) Benefits Payable

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

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

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

ii) Administrative Expenses

This includes two types of expenses:-

- Administration and processing

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

- Actuarial & investment fees and performance service

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

iii) Investment Management Expenses

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

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

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

iv) Taxation

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

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

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

3.3 **Net Assets Statement**

i) Financial Instruments

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

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

- Financial instruments at fair value through profit or loss

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

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

- Loans and receivables

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

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

- Financial liabilities at amortised cost

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

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

ii) Valuation of Investment Assets

The fair values of investments included in the Net Assets Statement as at 31 March 2013 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 2013. 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 2013.

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

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

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

- In 2012/13 cash was held partly by fund managers and partly by the administering authority. The administering authority has the option of investing fixed term in specified investments or alternatively in instant access money market fund accounts, in accordance with the Fund's Cash Management Strategy which is reviewed and approved annually by the Pensions Committee. (The lending party is the Pension Fund rather than Torfaen County Borough Council as administering authority).

iii) Investment Liabilities

Any pending purchase costs are shown separately within the Net Assets Statement as an investment liability, rather than reducing the cash at fund manager figure within the investment assets.

3.4 **Actuarial Present Value of Promised Retirement Benefits**

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

3.5 **Additional Voluntary Contributions**

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

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

4. Critical Judgement in Applying Accounting Policies

4.1 **Pension Fund Liability**

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

The Pension Fund Valuation is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 17, page 56. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

5. Events after the Balance Sheet Date

The 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 2013 and the date that the accounting statements are authorised for issue. This is known as a non-adjusting post balance sheet event.

During 2012/13 Welsh Government plans led to an announcement that there would be a merger between University Wales Newport (UWN) and Glamorgan University. This took place on 11th April 2013 with the creation of the University of South Wales. Discussions have taken place between the Rhondda Cynon Taff (RCT) Pension Fund and ourselves in respect of the transfer of assets and liabilities for the new organisation and there is currently an application with the Department of Communities and Local Government (DCLG) that will allow the members from within our fund to join the RCT fund. No action can take place until this application is determined. The anticipated transfer date for the current employees will be 1st July 2013 with the group transfer also due. As at the 31st July 2012 the FRS17 assets for UWN were £32.2m; the final value of the Group Transfer will be determined by agreement between the Actuaries to each Fund.

6. Contributions Receivable

The assessed rate for the Fund as a whole for 2012/13 was 11.1% of pensionable pay with individual adjustments applicable to individual Authorities (as shown on Appendix 2 on page 63). The 'rates paid' percentages reflect the fact that during the year some employers have paid additional contributions over and above the rate set for them by the Actuary (as shown on Appendix 3 on page 64). The Deficit Funding contains employers' contributions paid over the 11.1%.

2011/12 £000		2012/13 £000
	From Employers	
(41,542)	Normal contributions	(41,510)
(31,524)	Deficit funding	(32,996)
(4,448)	Augmentation	(2,600)
	From Members	
(24,084)	Normal contributions	(23,905)
(54)	Additional Contributions	(17)
(101,652)	**Total**	**(101,028)**

2011/12 £000		2012/13 £000
(93,904)	Scheduled Bodies	(92,480)
(261)	Deemed Bodies	(237)
(7,487)	Admitted Bodies	(8,311)
(101,652)	**Total**	**(101,028)**

7. Transfers in from Other Pension Funds

2011/12 £000		2012/13 £000
(3,856)	Individual transfers in from other schemes	(4,942)
*(3,968)	Group transfers in from other schemes	-
(7,824)		**(4,942)**

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

8. Benefits Payable

2011/12 £000		2012/13 £000
46,124	Pensions - statutory	49,118
17,258	Pension increases	19,868
18,148	Commutation of pensions and lump sum retirement benefits	16,925
2,344	Lump sum death benefits	2,272
664	Additional allowances	673
84,538		**88,856**

2011/12 £000		2012/13 £000
80,654	Scheduled Bodies	83,211
1,116	Deemed Bodies	1,302
2,768	Admitted Bodies	4,343
84,538		**88,856**

Pension Fund Accounts 2012/2013

Analysis of Benefits Payable and Contributions Receivable by Employing Body in 2012/2013

Authorities		Benefits Payable £000	Contributions Receivable £000
Administering Authority	Torfaen CBC	11,601	14,112
Scheduled Bodies	Blaenau Gwent CBC	11,079	14,132
	Caerphilly CBC	17,924	25,821
	Monmouthshire CC	9,606	11,839
	Newport City Council	14,262	16,325
	Caldicot & Wentloog LDB	50	89
	Valuation Panel	44	38
	University of Wales, Newport	1,252	2,461
	Coleg Gwent	959	2,131
	Chepstow Town Council	5	16
	Brynmawr Town Council	-	8
	Gwent Police Authority	2,251	5,302
	Central Supplies	158	-
	Silent Valley Waste Disposal	9	32
	Caldicot Town Council	-	11
	Nantyglo & Blaina Town Council	7	4
	Monmouth Town Council	1	5
	Gwent Cremation Committee	101	43
	Cwmbran Community Council	12	37
	Pontypool Community Council	10	33
	Tredegar Town Council	-	7
	Rogerstone Community Council	2	17
	Bargoed Town Council	11	3
	Shirenewton Community Council	-	1
	Henllys Community Council	-	2
	Magor with Undy Community Council	-	4
	Former Rhymney Valley DC	1	-
	Welsh Water and Hartshead	24	-
Previously Scheduled Bodies	Gwent County Council	12,480	7
	Commission for New Towns	962	-
	DHSS	22	-
	Gwent Magistrates Courts	378	-
Deemed Bodies	Islwyn Transport	170	-
	Newport Transport	1,132	237
Admitted Bodies	Big Pit (Blaenafon) Trust	33	-
	Melin Homes	4	279
	Careers Wales Gwent	457	1,835
	Citizen Advice Bureau Caerphilly	1	69
	Mitie (formerly Ballast)	44	6
	CWVYS	19	3
	Capita Gwent Consultancy	1,383	529
	Hafod Care	176	68
	Monitor	3	71
	Archives	32	42
	OCS Ex Monmouth CC & Ex UWN	30	38
	United Response	32	-
	Monmouthshire HA	302	624
	Bron Afon	564	1,956
	Newport City Homes	437	926
	Tai Calon	647	1,149
	Manpower UK Ltd	4	-
	DRIVE	4	14
	Regent Ex Monmouth CC, Ex Newport CC & Ex Monmouth Cluster	19	15
	Vinci	1	3
	Compass Catering	57	205
	National Trust	-	27
	Barnardo's	94	49
	Just Perfect	-	17
	EAS	-	386
Total		**88,856**	**101,028**

9. Payments to and on Account of Leavers

2011/12 £000		2012/13 £000
5	Contributions returned to employees	5
(3)	Payments in lieu of graduated pension contributions	-
2,965	Individual transfers out to other schemes	4,303
*20,000	Group transfers out to other schemes	**2,000
22,967		**6,308**

* 2011/12 figure includes an accrual of £20.0m in respect of the Probation group transfer
** 2012/13 figure includes an accrual of £2.0m in respect of the Probation group transfer

10. Other Payments

2011/12 £000		2012/13 £000
1	Printing costs and review of Welsh LGPS	3
1		**3**

11. Administrative Expenses

2011/12 £000		2012/13 £000
1,460	Administration and processing	1,322
214	Actuarial & investment fees and performance service	260
1,674		**1,582**

12. Investment Income

2011/12 £000		2012/13 £000
(21,865)	Equity dividends	(20,633)
(215)	Pooled investments (M&G)	(432)
(1,216)	Pooled property investments	(1,351)
(273)	Interest on cash deposits	(150)
2,121	UK tax, irrecoverable	1,907
(21,448)		**(20,659)**

13. Investment Expenses

2011/12 £000		2012/13 £000
4,357	Fund management fees	5,057
4,357		**5,057**

14. Investments

Value at 31.03.12 bid price £000		Value at 31.03.13 bid price £000
	Investment assets	
514,552	Equities	607,181
1,089,807	Pooled investments	1,252,450
35,626	Pooled property investments	40,400
29,791	Cash deposits	10,760
3,858	Investment income due	3,770
-	Amounts receivable for sales	234
1,673,634	**Total investment assets**	**1,914,795**
	Investment liabilities	
(122)	Amounts payable for purchases	(7)
(122)	**Total investment liabilities**	**(7)**
1,673,512	**Net investment assets**	**1,914,788**

a) Reconciliation of movements in investments

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year total £0.987 million (£1.113 million in 2011/12). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

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

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

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

b) Analysis of investments - by asset class

Major Asset Class	31 March 2012 £000 Bid Price		%	31 March 2013 £000 Bid Price		%
Equities						
UK						
Quoted	514,552	**514,552**	**30.7**	607,181	**607,181**	**31.7**
Unquoted Pooled funds – additional analysis						
UK						
Unit Trusts						
Gilt Fund	145,465			110,113		
Corporate Bond Fund	87,251	**232,716**	**13.9**	51,172	**161,285**	**8.5**
Unitised Insurance Policies						
UK Equities Smaller Companies Fund	3,298			3,233		
UK Equities Fund	73,351	**76,649**	**4.6**	86,840	**90,073**	**4.7**
Other Managed Funds						
M&G Limited Partnership	8,317	**8,317**	**0.5**	9,728	**9,728**	**0.5**
Overseas						
Unit Trusts						
Gilt Fund	(2,651)			44,176		
Corporate Bond Fund	44,977	**42,326**	**2.5**	99,981	**144,157**	**7.5**
Unitised Insurance Policies						
European Equities Fund	198,275			234,550		
US Equities Fund	129,469			155,510		
Global Equities Fund	154,766			183,654		
GARS Fund	52,771	**535,281**	**31.9**	56,428	**630,142**	**32.9**
Other Managed Funds						
Far East Equities Fund	94,598			109,367		
Emerging Markets Equities Fund	46,081			47,846		
Japanese Equities Fund	53,839	**194,518**	**11.7**	59,852	**217,065**	**11.3**
Unquoted Pooled Property Investments						
UK Property Unit Trusts	35,626	**35,626**	**2.1**	40,400	**40,400**	**2.1**
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	5,230			2,296		
Cash on deposit with financial institutions	24,561	**29,791**	**1.9**	8,464	**10,760**	**0.6**
Other Investment Balances						
Accrued dividend entitlements and tax reclaims receivable	3,858	**3,858**	**0.2**	4,004	**4,004**	**0.2**
Total Investment Assets	**1,673,634**	**1,673,634**	**100**	**1,914,795**	**1,914,795**	**100**

c) Analysis of investments - by fund manager

Fund Manager	Proportion of Fund (%)	Value of Funds Held (£000)	Portfolios Held (actively managed unless otherwise stated)
BlackRock	12.7	242,803	UK Equities (Indexed)
	0.2	3,233	UK Equities Smaller Companies Fund (Indexed)
	8.1	155,510	US Equities Fund (Indexed)
	8.1	154,289	Gilt Fund
	7.9	151,153	Corporate Bond Fund
	12.2	234,550	European Equities Fund
	0.1	593	Cash
	0.1	1,570	Other Investment Balances
Total Assets held by BlackRock	**49.4**	**943,701**	
Lazard Asset Management	19.0	364,378	UK Equities
	0.1	1,703	Cash
	0.1	1,982	Other Investment Balances
Total Assets held by LAM	**19.2**	**368,063**	
Aberdeen Asset Managers	9.6	183,654	Global Equities Fund
Total Assets held by Aberdeen	**9.6**	**183,654**	
Baring Asset Management	5.7	109,367	Far East Equities Fund
	2.5	47,846	Emerging Markets Equities Fund
Total Assets held by BAM	**8.2**	**157,213**	
Standard Life Investments	4.5	86,840	UK Equities Fund
	3.0	56,428	GARS Fund
Total Assets held by SLI	**7.5**	**143,268**	
Nomura Asset Management	3.1	59,852	Japanese Equities Fund
Total Assets held by Nomura	**3.1**	**59,852**	
Total Assets held by Fund Managers	**97.0**	**1,855,751**	
Torfaen County Borough Council	2.1	40,400	UK Property Unit Trusts
	0.4	8,464	Cash on deposit with financial institutions
	0.5	9,728	M&G Limited Partnership
	0.0	452	Other Investment Balances
Total Assets held via Administering Authority	**3.0**	**59,044**	
Total Investment Assets	**100**	**1,914,795**	

d) Employer Related Investments

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

e) Investments Held in Pooled Investment Vehicles

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

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

15. Financial Instruments

a) Classification of financial instruments

Accounting policies (note 3, page 34) describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities by category as at 31 March 2013. 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 2012				31 March 2013		
£000	£000	£000		£000	£000	£000
			Financial Assets			
514,552			Equities	607,181		
1,089,807			Pooled investments	1,252,450		
35,626			Pooled property investments	40,400		
	29,791		Cash		10,760	
3,858			Other investment balances	4,004		
	16,145		Debtors		14,867	
1,643,843	**45,936**	**-**		**1,904,035**	**25,627**	**-**
			Financial liabilities			
(122)			Other investment balances	(7)		
		(23,493)	Creditors			(5,855)
(122)	**-**	**(23,493)**		**(7)**	**-**	**(5,855)**
1,643,721	**45,936**	**(23,493)**	**Total**	**1,904,028**	**25,627**	**(5,855)**

b) Net gains and losses on financial instruments

31 March 2012 £000		31 March 2013 £000
	Financial assets	
(13,568)	Fair value through profit and loss	230,927
1,567	Loans and receivables	1,886
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
-	Fair value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
(12,001)	**Total**	**232,813**

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 2012			31 March 2013	
Carrying value £000	Fair value £000		Carrying value £000	Fair value £000
		Financial assets		
1,250,167	1,643,843	Fair value through profit and loss	1,291,864	1,904,035
45,936	45,936	Loans and receivables	25,627	25,627
1,296,103	**1,689,779**	**Total financial assets**	**1,317,491**	**1,929,662**
		Financial liabilities		
(122)	(122)	Fair value through profit and loss	(7)	(7)
(23,493)	(23,493)	Financial liabilities measured at amortised cost	(5,855)	(5,855)
(23,615)	**(23,615)**	**Total financial liabilities**	**(5,862)**	**(5,862)**

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

d) Valuation of financial instruments carried at fair value

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

Level 1

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

Level 2

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

Level 3

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

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

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

	31 March 2012 £000	31 March 2013 £000
Opening balance	**4,013**	**8,317**
Contributions	4,216	1,426
Distribution of income	(215)	(432)
Net income and expenses	329	426
Net change in unrealised appreciation/(depreciation)	(26)	(9)
Closing balance	**8,317**	**9,728**

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 2013	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	611,185	1,283,122	9,728	1,904,035
Loans and receivables	25,627			25,627
Total financial assets	**636,812**	**1,283,122**	**9,728**	**1,929,662**
Financial liabilities				
Financial liabilities at fair value through profit and loss	(7)			(7)
Financial liabilities at amortised cost	(5,855)			(5,855)
Total financial liabilities	**(5,862)**	**-**	**-**	**(5,862)**
Net financial assets	**630,950**	**1,283,122**	**9,728**	**1,923,800**

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

16. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

Overall procedures for managing risk

The principle powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which require an Administering Authority to invest any pension fund money that is not immediately required to pay benefits or make other necessary payments from the Pension Fund. The unpredictability of financial markets (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 investment assets during the year was an increase of £241.2m.

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 2013/14 reporting period:

Asset Type	Potential market movement (+/-)
UK Equities	13.01%
Overseas Equities (as at 31 March 13)	14.64%
Fixed Interest (Gilts)	5.51%
Fixed Interest (Corporate Bonds)	4.64%
Pooled property investments	1.80%
Alternative Investments	4.50%

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

Asset Type	Long Term performance expectations p.a. (+)
Equities	7.0%
Fixed Interest (Gilts)	2.8%
Fixed Interest (Corporate Bonds)	3.9%
Property investments	5.7%

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 2012/13 volatility assumptions are also shown below):

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

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

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 2012 £000s	As at 31 March 2013 £000s
Cash on deposit with financial institutions	24,561	8,464
Cash held by Managers	5,230	2,296
Total	**29,791**	**10,760**

Interest rate risk sensitivity analysis

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

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

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

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

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 2012	Value as at 31 March 2013
	£000	£000
Overseas Equities	677,028	790,779
Overseas Fixed Income (Gilts)	(2,651)	44,176
Overseas Fixed Interest (Corporate)	44,977	99,981
Global Absolute Return Strategies Fund (GARS)	52,771	56,428
Total overseas assets	**772,125**	**991,364**

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 2013, to be 5.08%. 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 2013 £000	Potential change in Exchange Rates %	Value on Increase £000	Value on Decrease £000
Overseas Equities	790,779	4.93	829,776	751,782
Overseas Fixed Income (Gilts)	44,176	5.80	46,738	41,614
Overseas Fixed Interest (Corporate)	99,981	5.80	105,780	94,182
GARS Fund	56,428	5.32	59,430	53,426
Total change in assets available	**991,364**	**5.08**	**1,041,724**	**941,004**

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

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 2012/13 (and its forward looking strategy for 2013/14 which is now in place) sets out the type and minimum acceptable criteria for investments; the institutions with which they can be placed; the maximum value that can be placed with each institution and the maximum period for which money can be invested. The strategy references and details the Fund's processes and procedures in terms of its cash management and how specialist external advice is used within the process. In terms of this external advice then the Pension Fund utilises Sector Treasury services for formulating and monitoring the Fund's list of approved counterparties. Sector uses a comprehensive method of assessing counterparty's credit ratings which includes overlaying the three credit rating agencies' scores with additional data, relative to each institution, such as rating watches and CDS spreads to advise of a maximum suggested investment period with that counterparty. The Fund believes that it has, through a continuing difficult period for financial markets and institutions, adequately managed its exposure to credit risk. There have been no instances of default or uncollectible deposits over the past five financial years.

The Fund's cash holding under its treasury management arrangements at 31 March 2013 was £8.7 million (31 March 2012 was £25.2 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	Rating (Fitch Long Term) (at 31 March 2013)	Balances as at 31 March 2012 £000	Balances as at 31 March 2013 £000
Money Market Funds			
BlackRock	AAA	3	1
Deutsche Bank	AAA	6,038	-
Ignis	AAA	6,000	3,175
State Street	AAA	3,205	-
Bank Deposit Accounts			
Lloyds TSB	A	3,000	-
Royal Bank of Scotland – Nat West	A	7,000	5,505
Bank Current Accounts			
TCBC Pension Fund		(685)	(217)
Total		**24,561**	**8,464**

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 2013, all Pension Fund cash balances were spread across such immediate access accounts. The Fund still retains the option to invest within fixed term deposits but, in accordance with the cash management strategy, these must currently be of maximum 6 months duration and placed with UK banks. At any point in time the whole of the Fund's cash investments can therefore be deemed to be reasonably liquid in that they could be 100% redeemed within a maximum 6 month period if required. In practice however, the vast majority of cash deposits will be available to a much shorter timescale, as demonstrated at year end when all cash deposits were immediately available should this have been required. The Fund understands and manages the timing of its cash flows and this is helped by the current profile of the Fund in which contributions received continue to exceed the value of benefits paid out. The Fund's financial statements show that, during the 2012/13 financial year, it accumulated an excess of £24.823 million income received over expenditure paid out. This means that the Fund continues to be cash generative and, though the Fund's strategic asset allocation contains a 3% allocation to cash, the Fund has been comfortable (documented via its cash management strategy) to allow cash levels to float at or around the 1% level during the 2012/13 financial year. Where surplus cash is accumulated in excess of the desired level, these funds are re-allocated to investments in accordance with the Fund's overall investment strategy.

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

Refinancing risk

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

17. Funding Arrangements

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

The Fund's statement includes:-

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

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

The Strategy is geared to:-

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

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

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

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

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

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

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

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

17.5 The Actuary used the Projected Unit method at this and the previous valuation. For the majority of employers the contribution rates which apply are based upon recovery of the deficit over a maximum period of 20 years. Another revaluation of the fund will take place as at 31 March 2013.

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

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

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

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

18. Actuarial Present Value of Promised Retirement Benefits

18.1 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 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% p.a.	4.2% p.a.
Rate of pay increases	4.0% p.a.	3.9% p.a.
Rate of increase in pensions (in excess of Guaranteed Minimum Pension)	2.5% p.a.	2.4% p.a.

18.2 The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% p.a. The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% p.a.

18.3 During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% p.a. versus 4.9% p.a.). The impact of this was offset slightly by the 0.1% p.a. fall in assumed inflation.

18.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £2,611 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£344 million. Adding interest over the year increases the liabilities by a further c£128 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£2 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 2013 is therefore £3,085 million. The Fund, in parallel, also uses its Actuarial assumptions and methodology as referred to in paragraphs 17.4 and 17.5 to provide an interim funding position on an annual basis between valuations as an appropriate monitoring mechanism.

19. Current Assets

31 March 2012 £000		31 March 2013 £000
	Contributions due from employing bodies:-	
2,004	- Employees contributions	1,974
6,188	- Employers contributions	6,232
4,116	Early retirement costs	3,521
223	Baring fee rebate	316
39	Nomura fee rebate	40
4	Pension payroll	6
3,571	Group transfer receivable	2,778
16,145		**14,867**

Analysis of debtors

31 March 2012 £000		31 March 2013 £000
3,574	Central Government bodies	2,781
11,208	Other Local Authorities	10,664
1,363	Other entities and individuals	1,422
16,145		**14,867**

a) Funding of Early Retirement Costs

During 2012/13, the cost to the pension fund of early retirements arising in that year was £2,255,559.31 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 2012/13 and in future financial years for early retirements known as at 31 March 2013. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2012/13 in respect of:		
Prior Years	1,699	
Current Year	1,388	3,087
Balances b/f 1 April 2012	4,116	
Payments Received in 2012/13	(3,195)	
Reversal of previous instalments due	(3,809)	(2,888)
Instalments due for 2013/14	1,228	
Instalments due for 2014/15 & later years	2,094	3,322
2012/13 Debtor		**3,521**

The instalments due for 2013/14 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2012/13.

20. Current Liabilities

31 March 2012 £000		31 March 2013 £000
(1,302)	Unpaid benefits	(1,340)
(1)	Refund of contributions due to employing bodies	(39)
(639)	Pension Payroll	(672)
(1,504)	Investment and Administrative Expenses	(1,740)
(47)	AVC	(64)
(20,000)	Group transfer payable	(2,000)
(23,493)		**(5,855)**

Analysis of creditors

31 March 2012 £000		31 March 2013 £000
(633)	Central Government bodies	(667)
(1,216)	Other Local Authorities	(1,013)
(21,644)	Other entities and individuals	(4,175)
(23,493)		**(5,855)**

21. Additional Voluntary Contributions

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

Provider	Standard Life	Clerical and Medical	Equitable Life	TOTAL
	£000	£000	£000	£000
Contributions received 2012/13	547	186	9	742
Market value of AVC Investments 31st March 2013	4,248	1,862	1,376	7,486

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

22. Related Party Transactions

22.1 In the course of fulfilling its role as administering authority to the Fund, Torfaen CBC provided services to the Fund. Costs are normally in respect of those staff employed in ensuring the pension service is delivered and are included in the accounts within Administration Expenses (note 11, page 41) and Investment Management Expenses (note 13, page 41). Related parties to the Pension Fund include all Employers within the Fund and members of the Torfaen Pensions Committee. There have been no financial transactions between any of these parties and the Fund apart from the routine contributions and benefits payable that are defined by statutory regulation and are therefore not within the direct control of any party.

22.2 **Governance**

There are two members of the Pension Fund Committee who are in receipt of pension benefits from the Fund - Councillors John Marshall (Chair) and Brian Mawby. In addition, Councillors Huw Bevan, Stephen Brooks, Veronica Crick and Stuart Evans, are active members. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

22.3 **Key Management Personnel**

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

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

23. Contingent Assets

23.1 During the year the contract that enabled employees of Capita Gwent Consultancy to participate in the Pension Fund came to an end and, as a result, Capita Gwent Consultancy left the fund. Some services have transferred elsewhere and so discussions are currently taking place between the various parties on the distribution and settlement of the past service liabilities, which has been estimated by the Actuary as £7.9m. The timing of payments is not yet known.

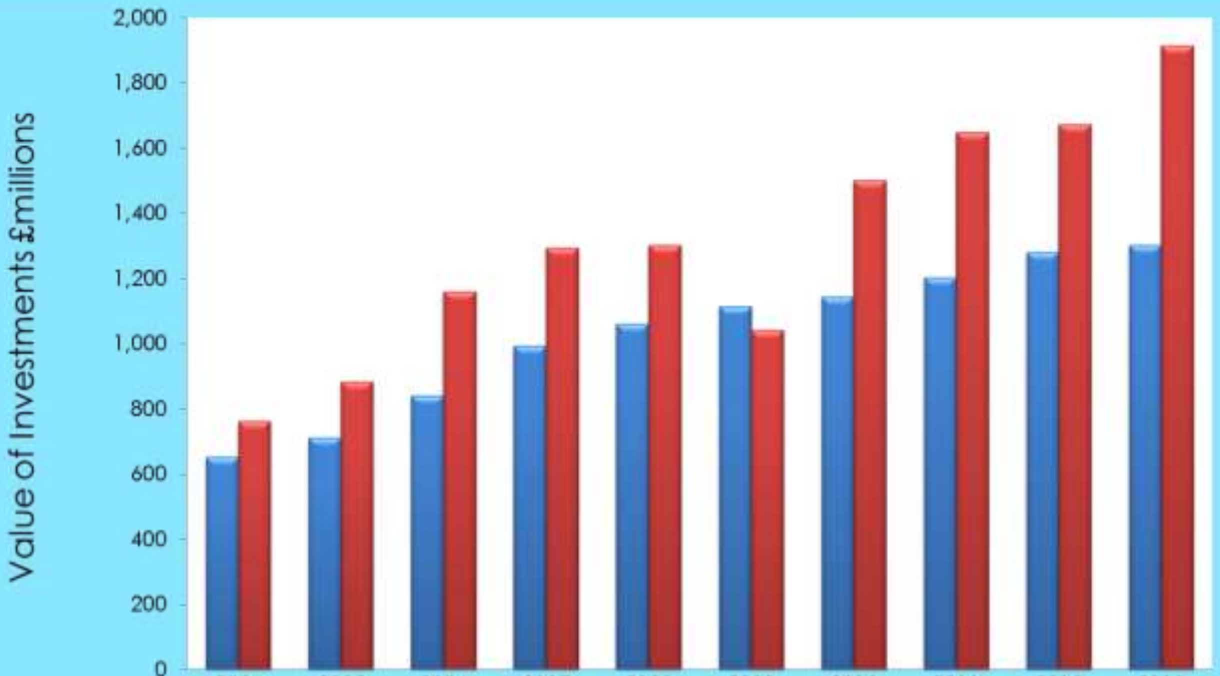
24. Contingent Liabilities and Contractual Commitment

24.1 The fund invests in M&G investment products; two of them had outstanding commitments as at 31st March 2013. The M&G Secured Property Income Fund had a total commitment of £10m with £9m outstanding at the year end. The balance was paid over to them on 30th April 2013 so no further liability remains. The M&G UK Companies Financing Fund II had a commitment of £8m as at 31st March 2013. In April a payment was made of £160,819.40, therefore a further liability exists of £7,839,180.60. During the year the final investment was made in the first M&G UK Companies Financing Fund.

Appendices

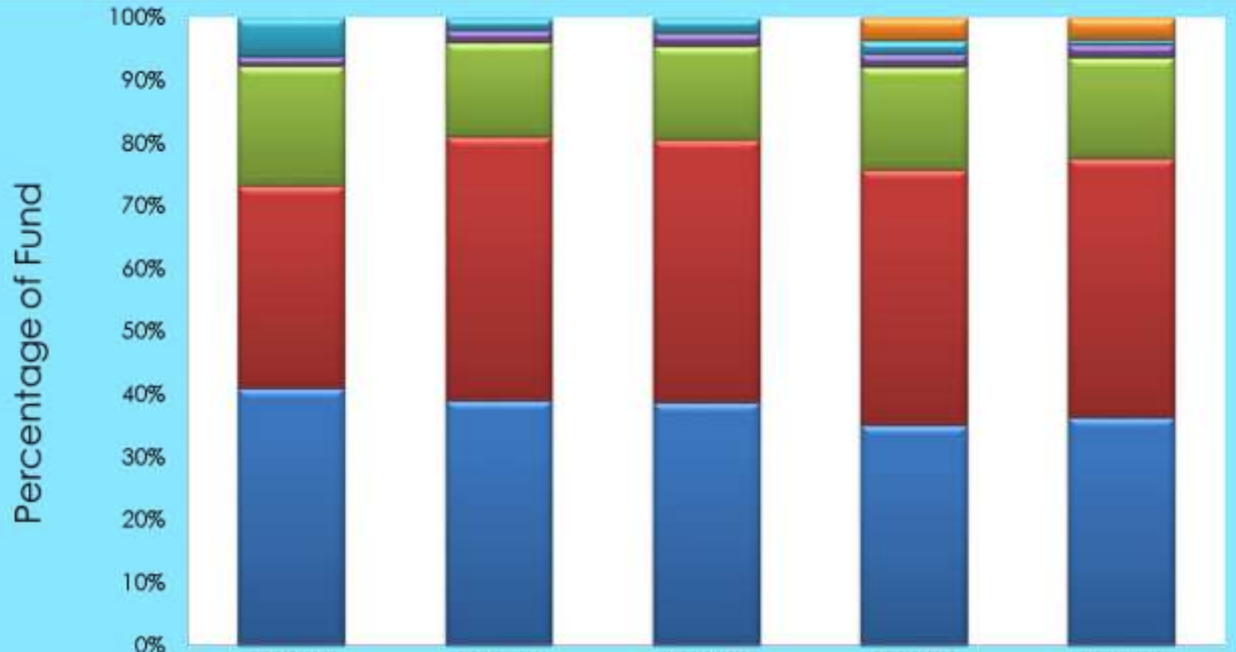
Appendix 1

Ten Year Valuation of Investments



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Book Cost	654	712	842	994	1,062	1,115	1,145	1,204	1,280	1,303
Market Value	762	885	1,160	1,294	1,303	1,042	1,502	1,650	1,673	1,915

Tactical Asset Allocation



	2008/09	2009/10	2010/11	2011/12	2012/13
Alternatives				4	4
Cash	6	2	2	2	1
Property Unit Trust	2	2	2	2	2
Fixed Interest	19	15	15	16	16
Overseas Equities	32	42	42	41	41
UK Equities	41	39	39	35	36

Appendix 2

Greater Gwent (Torfaen) Pension Fund Contribution Schedule

Actuarial Valuation as at 31 March 2010

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

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

Appendix 3

Fund Membership

Details of the bodies covered by the scheme and the number of employees contributing to the fund are shown in the following table:-

	Active Members		2012/13	
	31/03/12	31/03/13	Target Rate %	Rates Paid %
Administering Authority				
Torfaen CBC	2,695	2,844	21.2	21.2
Current Scheduled Bodies				
Blaenau Gwent CBC	2,676	2,630	21.5	21.5
Caerphilly CBC	5,605	5,536	19.5	20.8
Monmouthshire CC	2,275	2,324	21.1	21.1
Newport City Council	3,724	3,654	19.2	19.2
Caldicot & Wentloog LDB	18	14	13.8	13.8
Valuation Panel	4	4	19.7	25.0
University of Wales, Newport	489	552	14.8	14.8
Coleg Gwent	449	527	17.0	17.0
Chepstow Town Council	4	6	18.3	19.1
Brynmawr Town Council	1	1	34.8	34.8
Gwent Police Authority	928	935	13.9	15.8
Silent Valley Waste Disposal	3	3	21.6	21.6
Caldicot Town Council	2	2	18.4	18.4
Nantyglo & Blaina Town Council	1	1	28.0	28.0
Monmouth Town Council	2	2	11.9	11.9
Gwent Cremation Committee	11	9	13.5	13.5
Cwmbran Community Council	8	8	16.8	16.8
Pontypool Community Council	8	8	17.2	17.2
Tredegar Town Council	2	2	15.8	15.8
Rogerstone Community Council	4	4	15.8	22.3
Bargoed Town Council	1	1	19.5	19.5
Shirenewton Community Council	1	1	17.5	17.6
Henllys Community Council	1	1	14.3	20.0
Magor with Undy Community Council	1	1	-	12.5
Deemed Bodies				
Newport Transport	23	19	55.4	55.4
Admitted Bodies				
Melin Homes	45	43	13.0	13.9
Careers Wales Gwent	133	110	14.8	15.8 & £1m
Citizen Advice Bureau Caerphilly	9	9	17.0	17.0
Mitie (formerly Ballast)	2	2	15.2	15.2
Capita Gwent Consultancy	97	0	27.6	27.6
Hafod Care	36	31	4.9	4.9
Monitor	6	-	13.4	-
Archives	13	12	8.8	8.8
OCS (Ex Monmouthshire CC & Ex UWN)	19	18	20.4 & 7.4	20.4 & 7.4
Monmouthshire Housing	137	135	10.3	11.6
Bron Afon	472	458	10.7	10.7
Newport City Homes	229	212	8.5	11.2
Tai Calon	241	235	12.8	12.8
DRIVE	5	5	10.5	10.5
Regent Cleaning (Ex Monmouthshire CC, Ex Newport CC & Ex Monmouth Cluster)	6	9	12.7, 14.8 & 16.6	12.7, 14.8 & 16.6
ABM Catering	3	0	13.6	-
Vinci	1	1	13.9	13.9
Compass Catering	150	113	17.5	17.5
National Trust	10	8	14.5	14.5
Barnardo's	-	6	14.3	14.3
EAS	-	72	18.7	18.7
Compass St Albans	-	3	-	-
Caterlink	-	11	-	-
Total Membership	**20,550**	**20,582**		

Appendix 4

Top Ten UK Equity Segregated Holdings as at 31 March 2013

Company	Bid Market Value £
HSBC Holdings	39,988,927
Vodafone Group	25,674,527
Royal Dutch Shell B Shares	25,344,099
British American Tobacco	23,990,583
BP	22,755,066
Diageo	20,525,018
GlaxoSmithKline	19,548,289
Rio Tinto	16,973,392
AstraZeneca	16,381,584
Standard Chartered	14,880,038

Ten Year Summary of Statistics

Revenue Account	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Contributions	71,264	78,576	85,798	91,427	99,087	105,720	113,894	110,304	101,652	101,028
Transfer Values Received	9,750	8,771	10,590	10,755	11,378	6,672	12,603	7,265	7,824	4,942
Investment Income and Other	12,947	16,946	20,401	19,043	18,682	18,096	16,043	17,099	21,448	20,659
Total Income	**93,961**	**104,293**	**116,789**	**121,225**	**129,147**	**130,488**	**142,540**	**134,668**	**130,924**	**126,629**
Pensions and Other Benefits	46,392	48,423	52,743	56,102	62,146	69,411	76,190	81,491	84,538	88,856
Transfer Values Paid	7,803	6,399	8,480	6,421	5,901	3,499	8,875	8,512	22,965	6,303
Refunds of Contributions	306	356	184	33	37	13	15	5	2	5
Fees and Other	2,703	2,857	3,084	4,257	5,179	4,199	4,667	5,810	6,032	6,642
Total Expenditure	**57,204**	**58,035**	**64,491**	**66,813**	**73,263**	**77,122**	**89,747**	**95,818**	**113,537**	**101,806**
Net Surplus for Year	36,757	46,258	52,298	54,412	55,884	53,366	52,793	38,850	17,387	24,823
Net Profit/(Loss) on Sale of Investments	13,140	12,781	76,604	96,856	12,152	(936)	(20,183)	20,631	40,620	14,317
Unrealised Change in Market Value	117,327	65,175	145,332	(17,694)	(64,259)	(310,662)	430,997	89,520	(52,621)	218,496
Increase/(Decrease) in the Fund	**167,224**	**124,214**	**274,234**	**133,574**	**3,777**	**(258,232)**	**463,607**	**149,001**	**5,386**	**257,636**

Investment Assets	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Book Cost at 31 March	653,767	711,865	841,761	993,537	1,061,990	1,114,650	1,144,901	1,203,604	1,279,958	1,302,624
Market Value at 31 March	761,653	884,927	1,160,168	1,294,237	1,302,616	1,042,438	1,501,677	1,649,900	1,673,634	1,914,795

Membership										
Contributors	19,780	20,785	21,187	21,559	21,834	22,143	21,667	21,196	20,550	20,582
Pensioners	10,858	11,081	11,383	11,740	12,183	12,610	13,091	13,576	13,910	14,296
Number of Preserved Benefits	5,347	5,856	7,080	8,216	9,067	9,735	10,577	11,378	12,189	13,180
Total	**35,985**	**37,722**	**39,650**	**41,515**	**43,084**	**44,488**	**45,335**	**46,150**	**46,649**	**48,058**

Appendix 6

Glossary of Terms

Actuary

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

Actuarial Valuation

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

Active Investment Management

This is a system of investment that involves buying and selling particular investments to try and get better growth.

Benefits

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

Contributions

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

Market Value

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

Passive (Indexed) Investment Management

This is a method of investment that tries to limit risk by following a market. As an example, it might involve buying a number of shares in the 100 biggest companies on the stock exchange, rather than buying and selling particular shares. This could involve using a tracker fund.

Preserved Benefits

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

'Risk on - Risk off'

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

Appendix 6

Rate of Return

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

Transfer Value

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

Unit Trust

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

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