Greater Gwent (Torfaen) Pension Fund

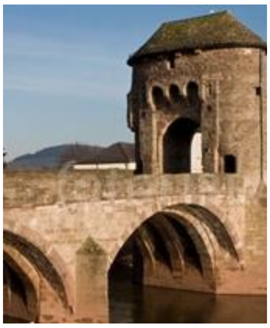
Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)

Adroddiad Blynyddol a Chyfrifon

2015/2016

Nigel Aurelius, CPFA
Assistant Chief Executive Resources


lgps look forward with confidence

TORFAEN COUNTY BOROUGH BWRDEISTREF SIROL TORFAEN

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INTRODUCTION

1.1 There is no escaping the fact that the last 12 months has been a particularly difficult one for the Pension Fund brought about by the macro economic backdrop combined with both national and local influences. The result has been a reduction in the market value of the Fund for the first time in 7 years, a negative investment performance in absolute terms and a relative underperformance against the Funds benchmark. All of this at a time when the membership of the Fund has increased by 4% whilst the value of the Fund has declined by 3%. This is a far from ideal combination but one which continues to be monitored and addressed to provide appropriate protections in such a challenging environment of economic, regulatory and geo-political headwinds.

1.2 At a national level, there has continued to be much debate about the costs, affordability and sustainability of the Local Government Pension Scheme. The National Board has recently published its third Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales and set out some important messages and context in respect of the LGPS which is one of the largest defined benefit (DB) schemes in the world and is the largest DB scheme in England and Wales, with over 11,000 employers. The report aggregates information supplied in the fund annual reports, as at 31st March 2015. Continually improving key information and consistency of data presentation about the Scheme as a whole is seen as one of the top priorities in enabling continuing improvements in governance standards across the scheme.

1.3 The report highlighted that:

- The total membership of the LGPS grew by 144,000 (2.8%) to 5.1m members in 2015 from 5.0m in 2014 and number of LGPS employers increased by 1,130 (11%) to 11,801.
- The total assets of the LGPS increased by £25.1bn (13.1%) from £192.1bn to £217.2bn. These assets were invested in pooled investment vehicles (42.8%), public equities (36.8%), fixed interest/index linked (7.7%), property (7.0%), as well as other asset classes (0.5%).
- The Local Authority return over 2014/2015 was +13.2%. This was 2.8% lower than a corporate pension fund peer group, which is based on 98 Funds (covering 60% of UK corporate funds) with a total market value of £346bn.
- The scheme continued to remain cash-flow positive. Scheme income exceeded scheme outgoings by £3.0bn.
- The funds all received unqualified external financial audit certificates from the Schemes' external statutory auditors.
- Over 1.5m pensioners were paid over the year. Fewer than 230 formal complaints about scheme benefit administration were determined and less than 8% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.
- As at the 31st March 2013, the LGPS liabilities were estimated at £227bn indicating an overall funding level of 79%. The next triennial valuation of the LGPS will be as at 31st March 2016.

1.4 During 2014 the Board developed a suite of LGPS pension fund 'health' indicators. These were piloted in 2015 with the aim of rolling them out to coincide with the LGPS 2016 triennial valuation to enable assessment and benchmarking of the overall health of the scheme relative to other schemes, as well as between individual LGPS funds.

1.5 This national context for the Scheme is however only part of the story. The Government continues to have a focus on the costs of the public sector and wider pensions policy. The impact of tax relief changes, the end of contracting out, state pension changes and pensions "freedom and choice" have all influenced the profile of the Pension Fund membership and increased workloads so that there is no such thing now as a "simple pensions question!"

All these factors in turn influence the Scheme's prospects for the future. However during the year, the Government also announced its requirements that LGPS Funds must "pool" their investments to gain economies of scale and hence reduce investment management costs. The Government invited funds and the formative pools to provide responses in relation to how new pooling arrangements would be constituted and operated and how they would meet each of the following criteria:

a) Asset pools that achieve the benefits of scale
b) Strong governance and decision making
c) Reduced costs and excellent value for money
d) An improved capacity to invest in infrastructure

1.6 The essence of this is clear and groups of LGPS Funds are now required to "pool" their investment arrangements in accordance with the above criteria. Prior to this announcement, the eight Pension Funds in Wales had already extended their long standing collaborative work to the proposed formulation of a Wales Pool for investing both in respect of passive and active investments. Work is ongoing in accordance with Government timescales and over the next 12 months, whilst investment strategy will remain at local level, the implementation of that strategy will begin to move to a pool level.

1.7 During 2015/16, the Fund has achieved a negative annual investment return of -2.38% with a reduction in its market value from £2,276 million to £2,210 million. Our investment performance return for the year was also an under-performance against our benchmark (-1.79%) that we set ourselves of 0.59%. This has adversely impacted on longer term performance as shown within the report.

1.8 In a global economic sense, the views of our investment managers show a remarkable degree of consistency and help to explain this adverse performance. Financial markets have suffered periods of pronounced volatility during the last year caused by a divergence in monetary policy across developed markets, concerns about the global economy (primarily emanating from China), a strong US dollar and a slump in commodity prices and geo-political tensions in various markets. The Funds active stance in the UK, Japan and in Global equity markets failed to protect in these tricky market conditions. The Pensions Committee have however kept a close eye on investments and particularly in respect of any underperformance. One mandate has been terminated and some strategic refinements are under consideration but will be viewed within the context of the 2016 Actuarial valuation.

1.9 The combined effect of Public Sector Pensions reform and wider Central Government policy currently provide for an extremely challenging and difficult time. In this context I would like to thank the staff of the Pension Fund for their hard work, commitment and contribution towards delivering an excellent service throughout the year. They continue to place the scheme members first and I know how much this is valued by our members and those charged with the governance of the Scheme.

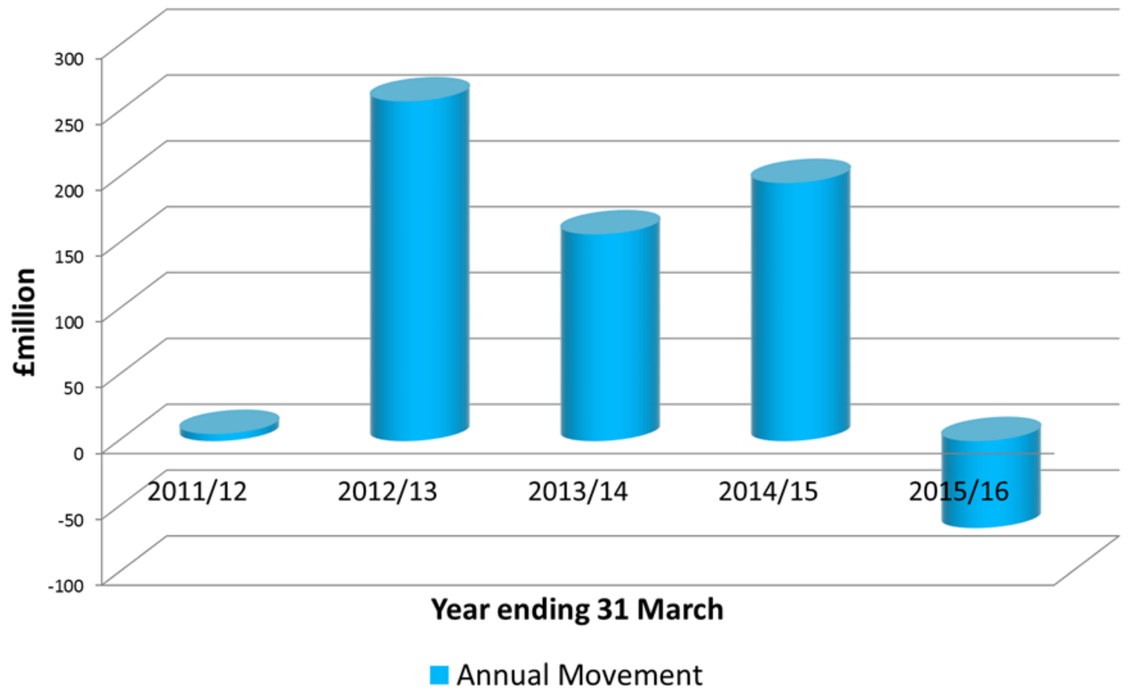
NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES
TORFAEN COUNTY BOROUGH COUNCIL
MAY 2016

OVERVIEW

1. 2015/2016 in summary

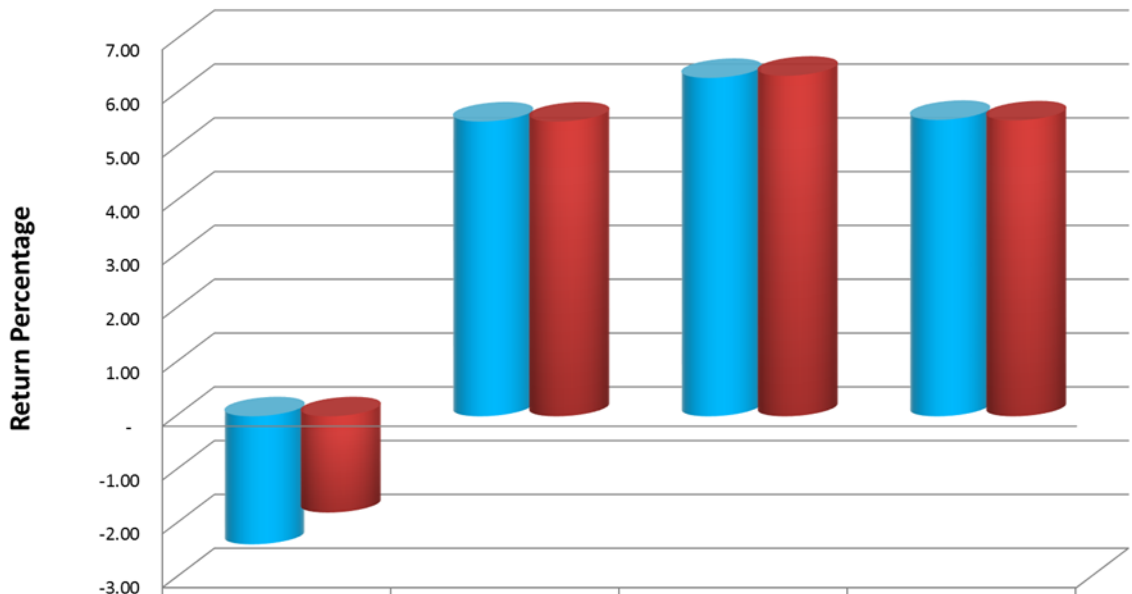
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
55,481	£2.210bn	£109.229m	£103.450m

Annual Movement in the Net Assets of the Fund



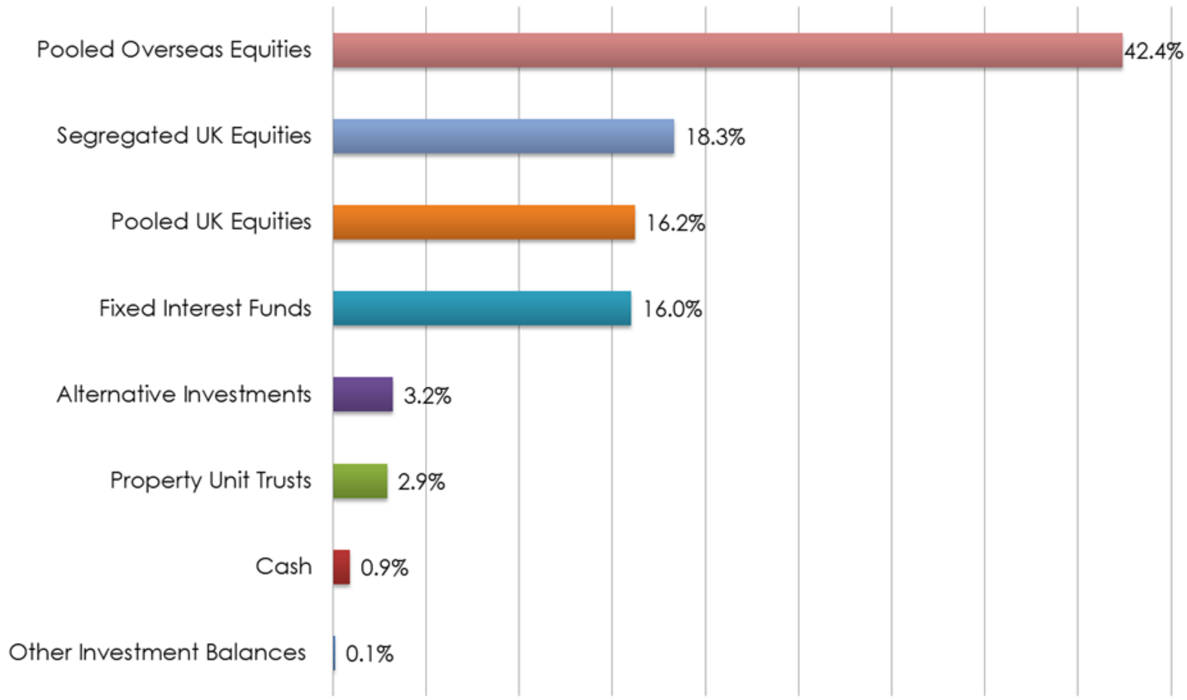
2. Investments

Periodic Performance to 31 March 2016



	1 Year	3 Years	5 Years	10 Years
Fund	-2.38	5.48	6.29	5.51
Benchmark	-1.79	5.48	6.33	5.50

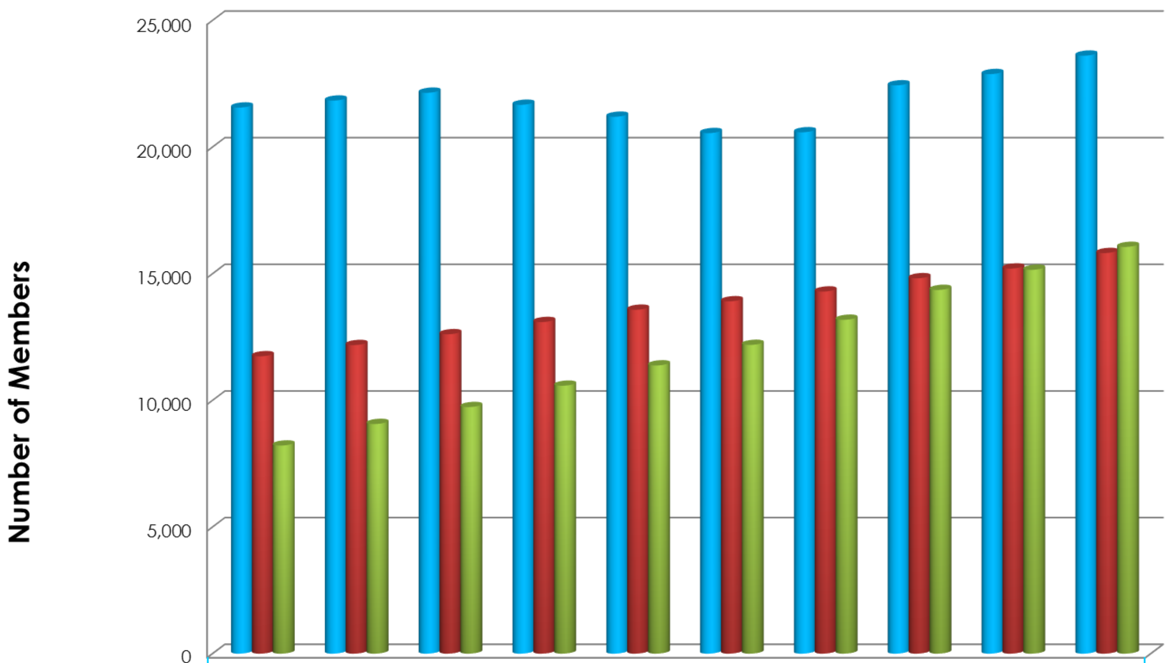
Portfolio distribution as at 31 March 2016



3. Membership

Contributing Members	Members in Receipt of Pension	Members with Preserved Benefits
23,607	15,816	16,058

Split of Fund Membership as at 31 March



	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Contributors	21,559	21,834	22,143	21,667	21,196	20,550	20,582	22,435	22,880	23,607
Pensioners	11,740	12,183	12,610	13,091	13,576	13,910	14,296	14,820	15,204	15,816
Number of Preserved Benefits	8,216	9,067	9,735	10,577	11,378	12,189	13,180	14,359	15,153	16,058

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

1. Scheme management and advisors

1.1 The Greater Gwent (Torfaen) Pension Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) (The 2013 Regulations), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) (The Transitional Regulations). It is the appropriate occupational pension scheme for employees of local authorities in the Greater Gwent area with the exception of teachers and lecturers, who have a separate scheme which applies to them. In addition, the employees of certain bodies providing public services are admitted to the Fund. Details of the authorities covered by the scheme are given on page 83.

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 2016 the membership of the Pensions Committee, together with advisors and dedicated internal officers for the Fund are as follows:-

Chair

County Borough Councillor - Mary Barnett

Committee Members

County Borough Councillor - Huw Bevan
County Borough Councillor - Stephen Brooks KSS JP
County Borough Councillor - Pamela Cameron
County Borough Councillor - Nigel Davies
County Borough Councillor - Stuart Evans

Chair
County Borough Councillor
Mary Barnett

Assistant Chief Executive Resources
Nigel Aurelius

Administrator

Nigel Aurelius, Assistant Chief Executive Resources

External Investment Advisor
Ms. Aoifinn Devitt (with effect from 1 December 2015)

Head of Service
Graeme Russell, Head of Human Resources and Pensions

Consulting Actuary
Hymans Robertson (Douglas Green) (with effect from 1 June 2015)

Investment Consultant
Mercer Investment Consulting (Joanne Holden)

Solicitor and Legal Advisor to the Fund
Lynda Willis, Chief Legal Officer & Monitoring Officer

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

Custodians
Bank of New York Mellon

Bankers to the Fund as at 31 March 2016
Lloyds Bank
1 Gwent Square
New Town Centre
Cwmbran, South Wales
NP44 1XN

1.4 There has been a change during the year in the Fund's governance arrangements with the Fund's previous stakeholder representative body, the Pension Fund Management Group, being replaced by a Local Pension Board. The Public Service Pensions Act 2013, and subsequently the LGPS (Amendment) (Governance) Regulations 2015, required all LGPS Funds to form such a Board. As with the Pensions Committee, the Local Pension Board has been formally established within the Council's constitution. The Board has a statutory role to assist the Council in its role as the Scheme Manager of the Pension Fund.

The Pension Board must have an equal number of scheme member representatives and employer representatives. An officer or councillor of the Administering Authority who is responsible for the discharge of any function under the Regulations cannot be a member of the Pension Board. Representatives must have the "capacity" to represent the employers and members (as appropriate) of the fund as well as meeting an ongoing legal requirement in relation to knowledge and understanding of pension matters.

The Pension Board for the Greater Gwent (Torfaen) Pension Fund was established within the Council's constitution in March 2015. It was subsequently constituted with an independent Chair, 5 employer nominations and 5 employee nominations and, like the Pensions Committee, now meets on a quarterly basis. The Chair was appointed following an advertised recruitment process and, following requests for expressions of interest, the following nominations (5 employer and 5 employee representatives) are currently serving on the Board:

Independent Chair
Ian Coleman

Employee Representatives

Bob Campbell
Jan Davies
Cheryl Morgan
Anthea Wellington
John Wright

Employer Representatives

Steve Harford
Rhian Hayden
Meirion Rushworth
Ruth Tucker
Jane Waters

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

1.6 When the Pensions Committee was formed by the Council in early 2009, Committee members commenced a programme of training aimed to provide them with the necessary knowledge and skills to undertake the fundamental requirements of their role and to help equip them to take effective decisions. Since this time member training has been developed, monitored and reviewed on an individual member basis via regular inclusion on Committee meeting agendas, allowing members to discuss training received and identify further training required. The year under review has seen one change in Committee membership, with the annual Council meeting leading to Cllr Nigel Davies joining the Committee replacing the out-going Cllr Maria Graham.

A programme of bespoke initial training was set up to allow for this change but, beyond that, the programme of individual training assessment, monitoring and reporting to each meeting of the Pensions Committee has continued. The relative stability of Committee membership has allowed the members to build on the considerable practical knowledge and skill acquisition achieved to date, with varied items considered on the agenda at each meeting and also taking opportunities to receive relevant presentations from Fund investment managers. The training programme will continue to develop to reflect suitable and necessary areas of advancement in knowledge and skills identified in conjunction with individual members and the Committee as a whole.

1.7 The Local Pension Board was established in accordance with the Public Service Pension Act 2013 which includes a statutory requirement for Pension Board members to have an appropriate degree of knowledge and understanding to enable the proper exercise of their role. The approach taken to meet this requirement is similar to that operated for the Pensions Committee above with an appropriate programme of training being developed and training undertaken reported back to each meeting for consideration by Board members and identification of future training needs.

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

1.9 The Pension Fund is supported more generally by the professional advisors shown above. The updated listing reflects some changes made during the year following competitive tenders for Consulting Actuary (Hymans appointed to replace Mercer in June 2015) and Independent Investment Advisor (Ms Aoifinn Devitt) appointed to replace the late Mr Mike Lewis in December 2015.

2. Risk management

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

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

In line with emerging best practice, the Pension Fund will also add to the above during 2016 by publishing a bespoke Pension Fund Risk Register. This identifies and brings together all the risk areas faced by the fund across its operations and "rates" these according to their likelihood and impact, in a way that will allow identification of mitigation measures appropriate to the various risk levels determined. The Pensions Committee and Pension Board have already considered an initial version of the register but, in advance of its publication, the table below provides a high level summary of the detailed risk information published within the above documents, together with risk mitigation measures in place:-

Risk Area / Type	**Risk Detail**	**Risk Mitigation Measures**
Governance and Operational Risks		
Decision making	Accountability and documentation of decisions	The Fund's primary decision making body, the Pensions Committee, operates within the Council's constitutional processes.
	Scrutiny and review	Additional layer of scrutiny and review via the Pension Fund Management Group and now the newly established Pension Board.
Management	Process clarity	Clear accountability and reporting lines.
	Processes	Officers of the Council's internal audit section review the internal procedures maintained across all Pensions Fund related activities/processes including governance, administration, payroll, and investments.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
	Accounting	Officers of the Fund's investment team and accountancy section independently maintaining complete accounting records relating to the investment activity of external managers and to the income flows arising from Fund assets.
Knowledge and Skills	Training and Development	Member and officer training plans are in place with appropriate attendance at training and development events to aid education and keep abreast of current thinking and developments.
	Review of training undertaken and future requirements.	Formal review of member training needs and training attended at each Pensions Committee meeting.
Third Party	External Investment Management	The appointment directly by the Council of a number of regulated external investment managers with control and risk issues addressed within individual Investment Management Agreements and their individual Statement of Internal Control documentation.
	Security of assets	The appointment directly by the Council of a regulated Global Custodian with control and liability issues addressed in a custody agreement.
	Appropriate advice	The appointment of external actuary, Investment Consultant and an independent investment advisor and the engagement with internal and external legal advisors as appropriate.
Compliance	Adherence to the 1997 LGPS Governance Regulations and the 2008 additional requirement to produce a Governance Compliance Statement	Traffic light system included within Governance Policy to allow detailed monitoring against the nine principles of good governance practice.
Investment Risk		
Investment Strategy	Decisions	The Pensions Committee recognises that there will be investment risk but also the need to keep this to a minimum without compromising the investment returns required to meet funding objectives.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Diversification	Investment Type	Appropriate spread across different investment assets in accordance with strategic asset allocation policy.
	Investment Management arrangements	Six primary external managers in place together with a spread of funds and counterparties across internally managed Property and Cash investments.
Compliance	Operating within legal and procedural requirements	Restricting external investment manager activity in accordance with prevailing LGPS investment regulations via their investment management Agreements.
Performance and Risk control	Benchmarks	The selection of appropriate investment benchmarks; performance targets and variance parameters to monitor and control the blend of risk and return deployed.
	Monitoring	The use of third parties to independently measure and report on investment performance and investment risk.
	Review	Regular review of investment performance by Fund officers including formal minuted quarterly reviews. Formal quarterly review of performance by both Pensions Committee and Local Pension Board.
Specific areas of investment risk	Market risk (asset price/interest rate/currency)	Diversification by asset type/regions/characteristics and investment managers. Extensive and risk aware appointment and monitoring procedures in place.
Specific areas of investment risk	Credit Risk (the use of investment counterparties)	Ensuring appropriate selection, diversification and monitoring of fund counterparties.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
		Review of exposure to investment manager, credit and counterparty risk by the review of the Managers' annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund, such as in the selection and use of brokers. Managing the risk of cash investments via a formally approved annual Cash Management Strategy and using an external Treasury Management advisor to aid officers in the monitoring of the associated counterparty risk.
	Liquidity Risk (ensuring that member benefits can be met as required)	Fund officers monitor cash flow to ensure cash is available as required to meet benefit payments. Maintaining a large proportion of cash investments within money market funds or call accounts allowing same day access to cash deposited without penalty. Though low available cash interest rates mean that the Fund will look to keep cash levels to a minimum and invest in higher returning assets, these assets are predominantly held in liquid, marketable pooled fund investment vehicles or readily tradable shares.
	Investment Risk Sensitivity Analysis and Reporting	Detailed sensitivity analysis, taking account of investment strategy and third party analysis, is updated and published within each Pension Fund Annual Report.
Compliance	Adherence to the requirement of the 2009 LGPS Investment Regulations and the requirement to demonstrate compliance with a revised set of sound investment practice (Myners) Principles.	Traffic light system included within Statement of Investment Principles to allow detailed monitoring against the six principles of good investment practice.

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

3. Financial performance

3.1 The Fund Account (page 52) indicates a net decrease in the net assets of the scheme available to fund benefits during the year of £66.344 million for 2015/16, following a £196.112 million increase in the Fund in 2014/15. The summarised figures are shown in the table below.

Fund Account 31 March 2016	£000
Employees/employers contributions	103,450
Payments and refunds	(109,468)
Net transfer values	(100)
Net return on investments	(51,022)
Other income/expenses	(9,204)
Net increase/(decrease) in the Fund	**(66,344)**

3.2 Contributions to the Fund from members and employers have decreased by £1.205 million from £104.655 million in 2014/15 to £103.450 million in 2015/16.

3.3 Transfer values received have increased from £5.318 million to £9.277 million whilst those paid out have reduced from £49.692 million to £9.377 million. The transfers out in both years include a provision for agreed group transfers (note 10 for details, page 61).

3.4 Payments to beneficiaries in respect of pensions have increased by £7.05 million from £102.179 million in 2014/15 to £109.229 million in 2015/16.

3.5 The net assets of the Fund are represented primarily by investments (see below and page 62). Appendix 1 (page 82) illustrates the movement in the market value of investments since March 2006 and the tactical asset allocation.

Net Assets 31 March 2016	£000	£000
Fixed interest	353,574	
UK equities	760,952	
Overseas equities	934,334	
Property unit trusts	64,888	
Alternative investments	70,884	
Cash	17,870	
Other investment balances	3,094	2,205,596
Investment liabilities		-
Current assets		15,395
Current liabilities		(11,433)
Net Assets of the Fund		**2,209,558**

3.6 **Timeliness of receipt of contributions**

The table below sets out the percentage of contributions received from employers on or before the due date during 2015/2016. The Pensions Regulator requires that contributions deducted from pay must be paid to the Fund no later than the 22nd day (19th if paying by cheque) of the next month.

	2015/2016
Percentage of contributions received on or before the due date	99.7%

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

3.7 Forecasts

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

Fund Account	**2014/2015**		**2015/2016**		**2016/2017**
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Income					
Contributions receivable	(100,000)	(104,655)	(102,462)	(103,450)	(105,090)
Transfers in	(4,900)	(5,318)	(5,605)	(9,277)	(5,600)
Other income		(7)		(1)	
Investment income	(21,200)	(20,793)	(14,131)	(17,771)	(16,768)
Total income to the Fund	**(126,100)**	**(130,773)**	**(122,198)**	**(130,499)**	**(127,458)**
Spending					
Benefits payable	98,700	102,179	105,741	109,229	109,557
Transfers out and refunds	4,900	49,841	4,720	9,616	5,752
Management expenses	9,215	9,403	9,786	9,205	9,811
Total spending for the Fund	**112,815**	**161,423**	**120,247**	**128,050**	**125,120**
Profit and losses on disposal of investments and changes in the market value of investments	**(127,712)**	**(226,762)**	**(141,908)**	**68,793**	**(134,663)**
Net (increase)/decrease in the Fund	**(140,997)**	**(196,112)**	**(143,859)**	**66,344**	**(137,001)**

Net Asset Statement	**2014/2015**		**2015/2016**		**2016/2017**
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Equities	1,728,980	1,805,231	1,931,597	1,695,286	1,813,956
Government Bonds	155,613	172,456	177,285	177,627	182,601
Other Bonds	160,504	175,504	182,349	175,947	182,809
Property	56,869	59,987	63,406	64,888	68,587
Cash and Other	87,393	89,895	90,344	91,848	92,307
Net Investment Assets	**2,189,359**	**2,303,073**	**2,444,981**	**2,205,596**	**2,340,260**

The 2016/2017 forecasts for total investment assets are based on the actual figures for 31st March 2016, multiplied by the forecast long term returns for each asset class as provided by the Fund's Actuary. These long term forecasts are revised every 3 years in line with the actuarial valuation exercise.

Expected return on assets	**Assumptions as at 31 March 2013**
Equities	7.0% pa
Government Bonds	2.8% pa
Other Bonds	3.9% pa
Property investments	5.7% pa
Cash	0.5% pa
Discount rate	**5.6% pa**

3.8 **Operational expenses**

	2014/2015		**2015/2016**		**2016/2017**
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Administrative costs	1,060	995	1,125	1,131	1,170
Investment management expenses	7,491	7,753	7,916	7,466	7,919
Oversight and governance costs	664	655	745	608	722
Total	**9,215**	**9,403**	**9,786**	**9,205**	**9,811**

3.9 **Analysis of pension overpayments**

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

4. Administrative management performance

4.1 Key administration performance indicators

The table below shows the key administration related performance Indicators for 2015/2016.

Performance Indicator	Target for Completion (days)*	% Processed within Target	Average Number of Days
Transfer	10	95.67	1.54
Death	5	100	0.44
Retirement Estimate	10	78.62	4.36
Deferred	10	94.67	8.4
Retirement	5	81.84	3.12

***From receipt of clean and complete data**

4.2 Financial indicators of administrative efficiency

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

	Number of Members 31 March	2015/2016 Costs £000	Cost per Member £
Membership as at 31 March 2016			
Contributors	23,607		
Pensioners	15,816		
Deferred benefits	16,058		
Total scheme members	**55,481**		
Administrative costs		1,131	**20.38**
Investment management expenses		7,466	**134.57**
Oversight and governance costs		608	**10.96**
Total management expenses		**9,205**	
Total Cost Per Scheme Member			**165.91**

4.3 Key staffing indicators

There are 22.2 full time equivalent members of staff in the Pension Administration Section, including the Pension Manager. There are an additional 2 members of staff in the Pension Investments Team.

- **The Payroll Team**

The Payroll team comprises of 3.4 members of staff who are responsible for calculating and checking pensions into payment, processing the monthly payment of pension, and ensuring the correct pensions are paid to the correct pensioners.

- **The Benefits Team**

The Benefits team comprises 9 members of staff who are responsible for processing and checking a full range of benefit calculations including retirements, early leaver deferred benefits, transfers in and out of the pension fund, refunds, estimated calculations for unpaid leave, annual allowance and AVCs. They are also responsible for providing advice and guidance to Scheme employers and members in relation to LGPS Regulations and related legislation.

Based on the total fund membership of 55,481 as at 31 March 2016, the Payroll and Benefits staff to fund member ratio is 1 full time staff member to 4,474 members.

Average cases per member of staff

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

Team	Number of Staff	*Number of Cases	Average Number of Cases
Payroll Team	3.4	1,553	457
Benefits Team	9	10,518	1,169
Total	**12.4**	**12,071**	**973**

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

- **The Systems Team**

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

- **The Communications Team**

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

4.4 **Analysis of employers in the Fund**

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

	Active	Ceased	Total
Scheduled body	28	7	35
Deemed body	1	1	2
Admitted body	27	13	40
Total	**56**	**21**	**77**

4.5 **Contributions received in 2015/2016 split by employers and employees**

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Administering Authority				
Torfaen CBC	3,439	11,758	15,197	13,681
Scheduled Bodies				
Blaenau Gwent CBC	2,655	9,372	12,027	14,325
Caerphilly CBC	6,544	22,074	28,618	24,992
Monmouthshire CC	2,755	9,502	12,257	11,308
Newport City Council	3,911	12,578	16,489	18,145
Caldicot & Wentloog LDB	0	1	1	21
Valuation Panel	9	28	37	31
Coleg Gwent	618	2,142	2,760	2,159
Chepstow Town Council	5	20	25	36
Brynmawr Town Council	0	3	3	8
Gwent Police Authority	0	0	0	1,731
Chief Constable (Gwent)	1,294	3,396	4,690	1,386
Police & Crime Comm (Gwent)	95	323	418	126
Gwent Magistrates	0	0	0	402
Silent Valley Waste Disposal	7	29	36	26
Caldicot Town Council	3	10	13	0
Nantyglo & Blaina Town Council	2	5	7	8
Monmouth Town Council	2	7	9	1
Gwent Cremation Committee	12	32	44	57
Cwmbran Community Council	9	37	46	16
Pontypool Community Council	10	31	41	11
Tredegar Town Council	2	6	8	0
Rhymney Valley	0	0	0	1
Welsh Water	0	0	0	4
Rogerstone Community Council	4	10	14	2
Bargoed Town Council	1	2	3	11
Portskewett Community Council	0	1	1	0
Shirenewton Community Council	1	1	2	0
Henllys Community Council	1	1	2	0
Magor with Undy Com Council	3	9	12	0
Caerwent Community Council	0	2	2	0
Langstone Community Council	0	2	2	0
Llanfoist Fawr Community Council	0	2	2	0
Former Scheduled Bodies				
Gwent County Council	0	0	0	11,516
Commission for New Towns	0	0	0	840
DHSS	0	0	0	5
Deemed Bodies				
Islwyn Transport	0	0	0	165
Newport Transport	12	200	212	1,140
Admitted Bodies				
Big Pit	0	0	0	35
Melin Homes (formerly EVHA)	144	288	432	180
Careers Wales Gwent	142	630	772	511
Citizen Advice Bureau Caerphilly	13	39	52	1
Mitie (formerly Ballast)	2	8	10	7
CWVYS	0	3	3	20

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Canllaw	0	0	0	28
Capita Gwent Consultancy	0	0	0	1,311
Hafod Care	30	58	88	194
Archives	20	51	71	35
Monitor	0	0	0	5
OCS Ex Monmouth CC	0	0	0	9
OCS Ex UWN	0	0	0	12
United Response	0	0	0	17
Monmouthshire HA	266	527	793	442
Bron Afon	851	1,625	2,476	1112
Newport City Homes	376	751	1,127	822
Tai Calon	425	990	1,415	1,019
Manpower UK Ltd	0	0	0	3
DRIVE	6	14	20	4
Regent Ex Mon CC	1	4	5	2
Regent Ex Monmouth Cluster	1	6	7	3
Regent Ex Chepstow Cluster	0	1	1	7
Vinci	2	6	8	1
Compass Catering Newport	28	98	126	81
Compass Catering St Albans	0	3	3	0
National Trust	8	26	34	0
Barnardo's	3	8	11	55
Education Achievement Service	268	619	887	392
Caterlink NCC Caerleon	0	0	0	2
Caterlink NCC Newport High	2	8	10	21
Churchill	3	13	16	21
Monwell Ltd	3	3	6	163
Torfaen Leisure Trust	104	177	281	18
Borough Theatre	8	30	38	34
NCS - Norse	108	334	442	169
NPS - Newport	32	115	147	176
Life Leisure	217	539	756	163
Newport Live	155	280	435	0
Totals	**24,612**	**78,838**	**103,450**	**109,229**

INVESTMENT POLICY AND PERFORMANCE REPORT

1. Investment objectives

1.1 From an investment perspective this report reflects on a year that has seen some significant periods of market uncertainty and volatility. This has resulted, in distinct contrast to last year, in a predominantly negative year across many global investment markets, most notably equities. Against this generally negative and volatile backdrop, the Fund has again seen varying levels of return (both positive and negative) across the asset classes and regions in which it invests. This again demonstrates the need for a diversified investment strategy to spread investment risk as far as is possible within the constraints of return required by the Fund to help meet its long term funding target of 100% cover for member benefits payable into the future.

1.2 The objective in investing Fund monies is thus the maximisation of the return on the money entrusted to the Fund, consistent with acceptable levels of risk. The portfolio's investment performance directly influences the contribution employers need to make to the Fund to pay for the statutory benefits payable from it. However, two particular factors need to be borne in mind. Firstly, the Fund's liabilities are very long term and secondly, those liabilities will increase with inflation and the rising level of employees' salaries and wages to the time of retirement. The need to ensure liquidity to pay benefits as they fall due is also a consideration in determining investment strategy. At present Fund income is exceeding expenditure and so the Fund has not been faced with the prospect of enforced realisation of investment. This requires regular monitoring however as the surplus of income over expenditure is decreasing year on year as the profile of its membership and liabilities changes over time.

1.3 The objectives of the Fund's investment strategy can therefore be summarised as to:-

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

The Pensions Committee attempts to meet its objectives by securing, in the light of the economic climate, the most advantageous mixture of cash, fixed interest investments, equity, property and alternative investments. More details are contained in the Funding Strategy Statement (see page 44). The principal powers to invest, and the regulations governing fund investments, were most recently consolidated within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which came into force on 1st January 2010.

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

Though the reporting period has seen no fundamental change in investment strategy, there was one investment management change made during the year. The Fund's Global Equity mandate had been managed by Aberdeen Asset Management for over 5 years with an excellent working relationship enjoyed during that time. The Fund regularly reviews its manager performance but also believes that stability is important over the long term. Occasionally however the Fund will choose to "review and refresh" its arrangements to improve investment return and in the case of Aberdeen the review resulted in a decision to change. The Fund's global equity assets are currently being "warehoused" with BlackRock following their carrying out the Fund's transition away from Aberdeen in July 2015.

These arrangements are pending a longer term decision around management arrangements for the asset class that will potentially link to future Fund decisions around the implementation (and timescale) of the government's LGPS asset pooling requirements.

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

2. Asset allocation

2.1 The following table shows the Fund's investment management arrangements reflecting the Fund's strategy and summarising the Fund's strategic asset Allocation compared to the actual tactical asset allocation at 31 March 2016 (i.e. how the Fund's actual investments at the end of the reporting period related to its investment strategy and policy):

Asset Class / Mandate	Approach	Manager	Strategic Allocation (%)	Tactical Allocation 31 March 2016 (%)
UK Equities				
UK Equities	Passive	BlackRock	13.8	11.8
UK Equities	Active	Lazard	19.6	18.3
UK Equities	Active	Standard Life	4.6	4.4
Overseas Equities				
US Equities	Passive	BlackRock	7.0	10.4
European Equities	Active	BlackRock	14.0	14.0
Japanese Equities	Active	Nomura	3.0	3.2
Far East Equities	Active	Invesco	4.0	5.3
Emerging Markets	Active	Fidelity	2.0	2.6
Global Equities	Active	BlackRock	9.0	6.9
Fixed Interest				
Government Bonds	Active	BlackRock	7.0	8.0
Corporate Bonds	Active	BlackRock	7.0	8.0
Alternative Investments				
Diversified Alternatives	Active	Standard Life	3.0	2.8
Other	Active	M&G	1.0	0.4
Other				
Cash/Other	Active	TCBC/Lazard	3.0	1.0
Property Unit Trusts	Active	TCBC	2.0	2.9
Total			**100**	**100**

2.2 The table shows that variances to strategy and actual allocations are not extensive but the following provides some detail on year-end tactical allocations that vary by more than 1% versus strategic allocations:-

- Cash - the Fund's Cash Management Strategy currently requires cash to be held at considerably lower levels than the 3% strategic allocation. This is due to the continuing exceptionally low interest rate environment. Despite a gradual year on year reduction in its level of income above expenditure, the Fund continues to be cash generative, so cash flow is managed to meet operational requirements only. There is no current desire to hold excess cash achieving sub 1% interest rates when more attractive returns can potentially be achieved by tactically allocating the excess cash across a number of other Fund investments. The 2% underweight to cash at year end does therefore partly explain the marginal over-weight positions across a number of other areas of the asset allocation as this cash is tactically invested elsewhere.

- Looking at variances across equities then year-end variances, and the reasons for those, are pretty consistent to those reported last year. In terms of the 3.4% overweight to US Equities then, as noted elsewhere in this report, these investments have continued to perform very strongly relative to most others during the year. This has naturally led to the allocation moving marginally further upward during the year relative to other weaker performing asset classes. The continuing strong US performance means the Fund remains comfortable with the overweight position which generally fits with a momentum started in 2009 to slightly lower domestic equity exposure versus overseas equities. This is also demonstrated within the net 1.3% overweight to Far Eastern Equities and especially the 3.5% underweight across UK Equities evident at the year end. The 2.1% under-weight to Global Equities results from the transition of assets from Aberdeen to BlackRock during the year, and some opportunities taken within that transition process to pay some transfer value commitments out of the Fund in a way that minimised disruption and costs. The allocation will be reviewed when a long term decision is taken on management arrangements for global equities, which will need to take account of the outcome of the wider requirements of asset pooling across LGPS funds.

2.3 At 31 March 2016 the net investment assets of the Fund (measured at bid-price market value) were administered as follows:-

	Investments at Market Value £000	%	Cash & Other Balances £000	%	Net Investment Assets £000	%
BlackRock	1,304,202	59.1			1,304,202	59.1
Lazard	404,115	18.3	10,465	0.5	414,580	18.8
Standard Life	158,342	7.2			158,342	7.2
Invesco	116,664	5.3			116,664	5.3
Nomura	71,259	3.2			71,259	3.2
Fidelity	56,851	2.6			56,851	2.6
TCBC	73,199	3.3	10,499	0.5	83,698	3.8
Total	**2,184,632**	**99.0**	**20,964**	**1.00**	**2,205,596**	**100**

3. Investment performance

3.1 The table below shows, at a total fund level, the Fund's investment performance over historical periods, measured to 31 March 2016, versus both the Fund's bespoke investment benchmark and the Local Authority average performance, as provided by WM Performance Services:-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
Greater Gwent (Torfaen)	-2.38	+5.48	+6.29	+5.51
Strategic Benchmark	-1.79	+5.48	+6.33	+5.50
Out/(Under) Performance	**-0.59**	**+0.00**	**-0.04**	**+0.01**
Greater Gwent (Torfaen)	-2.4	+5.5	+6.3	+5.5
WM Local Authority Average	+0.2	+6.4	+7.1	+5.5
Out/(Under) Performance	**-2.6**	**-0.9**	**-0.8**	**=**

3.2 The table below shows, at an asset class level, the Fund's Investment performance over the same historical periods, measured to 31 March 2016:-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
UK Equities	-5.3	3.9	6.0	4.5
US Equities	4.3	13.7	13.9	9.2
European Equities	-1.1	9.7	5.6	5.9
Asia (ex-Japan) Equities	-5.9	1.2	1.7	7.9
Emerging Market Equities	-7.7	-0.6	-2.8	5.7
Japanese Equities	-5.0	5.7	5.6	-0.6
Global Equities	-5.6	2.0	5.8	N/A
Government Bonds	3.0	4.8	7.5	6.4
Corporate Bonds	0.3	5.2	8.0	6.3
Property	11.4	12.3	8.8	1.4
Alternatives	-2.9	3.7	4.8	N/A
Cash and Other	0.4	0.3	0.6	N/A
Total	**-2.4**	**5.5**	**6.3**	**5.5**

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

3.3 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2016 the Fund made an overall investment return of -2.38% compared with -1.79% for the benchmark return.

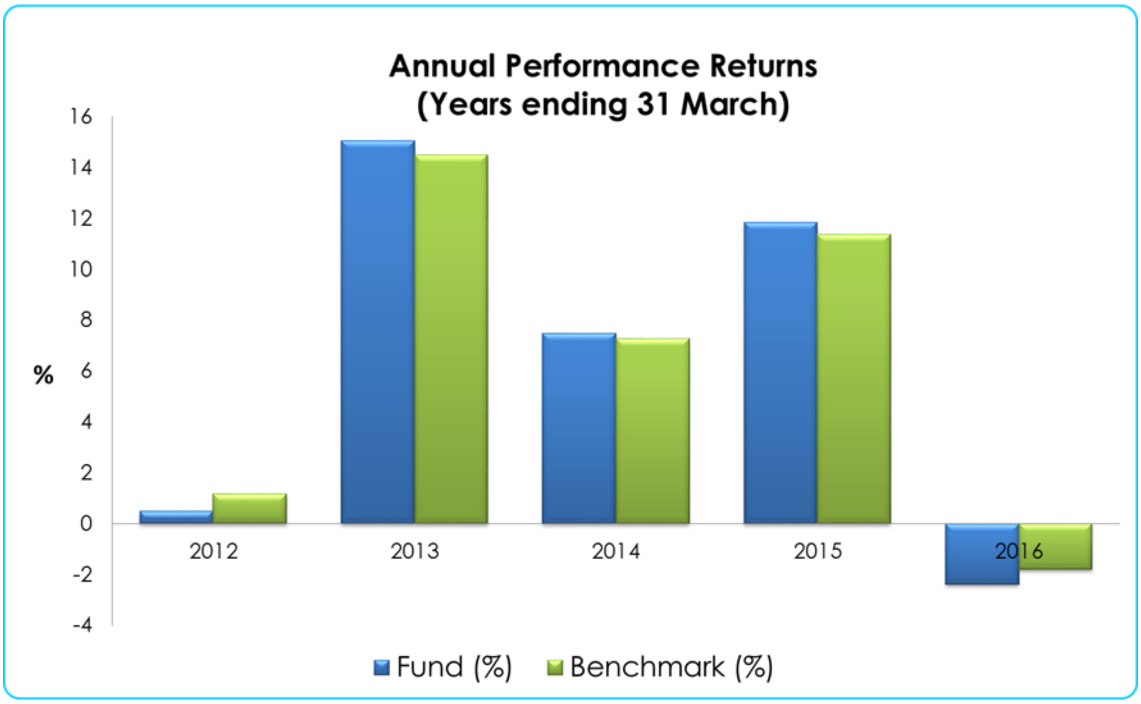
3.4 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's strategic asset allocation weightings of 38% UK Equities, 30% Overseas Equities, 9% Global Equities, 14% Fixed Interest, 2% UK Property Unit Trusts, 4% Alternative Investments and 3% Cash.

3.5 The -0.59% under-performance for 2015/16 means that the Greater Gwent (Torfaen) Pension Fund has achieved above benchmark performance in 3 out of the last 5 years.

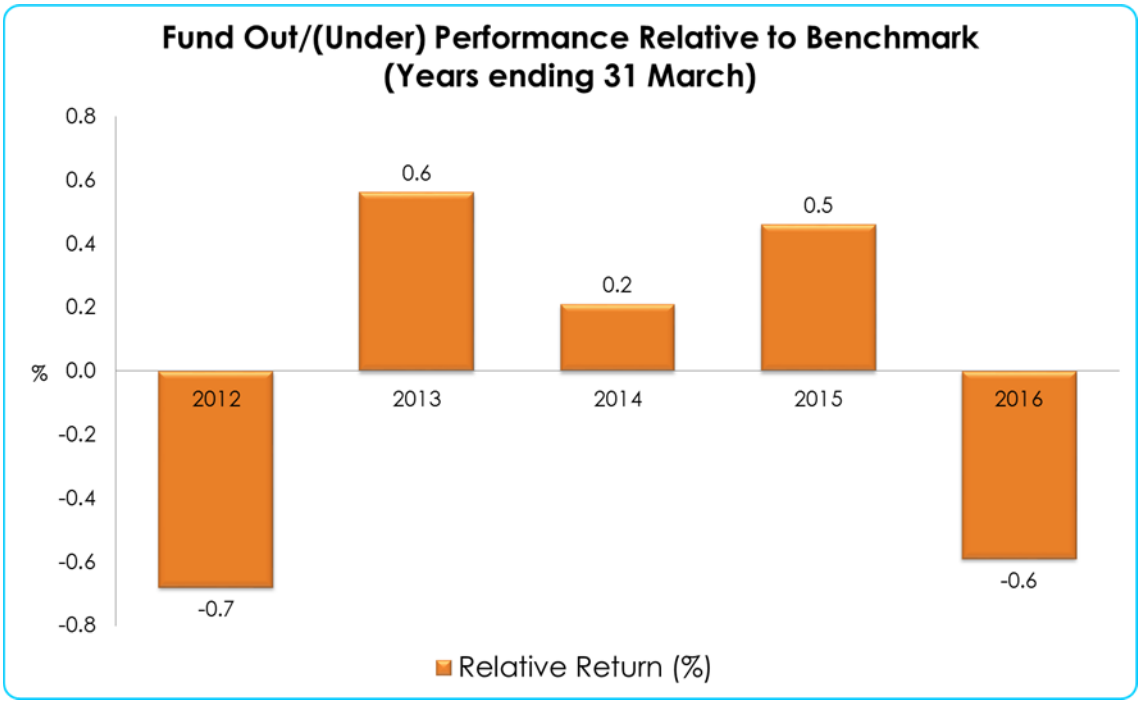
3.6 The Fund also subscribes to the WM State Street Local Authority performance service, which shows that the return for the average Local Authority fund for the year ending 31 March 2016 was +0.2%. The Fund therefore under-performed the 1 year average by -2.6% in the year under review, and the negative year has also influenced the 3 Year and 5 Year comparisons. The Fund has however performed in line with the average over the longest reported 10 Year timeframe.

3.7 The following graphs illustrate the Greater Gwent (Torfaen) Pension Fund annual performance returns as compared to the BNY Mellon benchmark return over the last five financial years. The absolute return is simply whatever an asset or portfolio returned over a certain period. Relative return is the difference between the absolute return and the performance of the market, which is gauged by a benchmark, or index. Longer term returns can be seen in the graph on page 3.

a) Absolute performance returns



b) Relative performance returns



4. Economic background and how the markets performed

4.1 Global overview

In an economic and investment sense, last year's Annual Report reflected on a year that had seen a general continuation of the global economic recovery and healing process following the global financial crisis. The recovery in the year had generally supported global investment markets and performance across the asset classes in which the Fund invests was generally strong despite varying speeds of regional economic recovery and central bank policy intervention. The current year has been somewhat similar in terms of varying degrees of economic growth recovery and divergent central bank policy across the globe. The similarity between years seems to end there however, in terms of the performance of many of the world's investment markets, most notably across equity markets where most regions saw negative returns over the review period.

This section of last year's report noted that the continuing economic recovery meant that momentum has shifted somewhat during the year from monetary easing towards the prospects of interest rate rises, especially in the United States. Whilst the year did indeed see the first (quite momentous) rate rise in the US for seven years, there were a number of global continuing and emerging influences during the year that seem to apply the brakes to any significant further momentum in monetary policy easing.

The period started with further concerns over Europe as the Greek Debt crisis escalated once more causing considerable market volatility and some steep declines. It was China then that grabbed global headlines and investors' attention as the prospects of economic growth expectations not being met became very real as the Chinese Government intervened unexpectedly to try to combat that. Commodity prices, especially oil, fell significantly over the period and were a major (mainly negative) influence on many aspects of market performance. There was some respite for markets towards the end of the review period however as central bank intervention again bolstered sentiment temporarily but the period ended as it started with Europe again in the spotlight amidst the uncertainty of the UK's EU referendum and the prospect of a 'Brexit'.

The above influences all combined to create what was an especially volatile, and predominantly negative, year across global markets and the following provides more of a flavour of the year's economic and political events and the impact on markets as the year developed.

The start of 2015 had seen some familiar themes dictating sentiment. Despite some continued concerns about global growth; tensions in the Eurozone and uncertainty around the timing of potential interest rate increases in the US, markets had however maintained upward momentum, albeit with some periods of volatility.

The start of the 2015/16 reporting period (**2015 Q2**), however, bucked the recent trend and saw negative returns across most investment markets. Though there were some pockets of "good news" across global markets during the quarter, a worsening of the Greek Debt crisis dictated sentiment especially to the end of the quarter causing considerable market volatility and some sharp declines in investment sentiment and market performance. There were some pockets of positivity such as in Japan where the corporate earnings season was better than expected and US markets proved resilient buoyed by Merger and Acquisition activity. Events in Europe however dominated as the Greek debt crisis seemed to lurch from one missed deadline to the next as the quarter came to a close. The result for equity markets was negativity right across the board and bond markets were also strongly negative with values falling as US and UK bond yields climbed on seemingly closer rate-hike expectations.

This negative sentiment continued into **(2015 Q3)** especially impacting equity markets. Though Europe seemed to put aside the Greek related issues and the region's recovery seemed to be back on track, markets became increasingly nervous that anticipated levels of economic growth in China would not be achieved. The Chinese authorities' surprise decision to devalue its currency and a very sharp decline in the Chinese stock market further spread concern. Emerging Markets were particularly hit given the level of dependence on China of especially commodity led developing countries. The market turbulence also meant that the US Federal Reserve refrained from raising interest rates in September as had been largely expected. With such negative sentiment dominant global equity markets suffered bouts of extreme volatility and all major equity market indices finished the quarter in negative territory. The equity market turbulence led to "safe haven" trading so did mean a much better, positive quarter generally for global bond markets.

There was some relief for markets however in **(2015 Q4)** as global markets finished 2015 on a positive note. They were buoyed especially as fears over the Chinese economy eased somewhat as data showed the services sector holding up well and also seeing policy easing from the central bank. Europe also saw better than forecast economic data and the European Central Bank launching further stimulus measures aimed to maintain economic momentum. The US Federal Reserve increased interest rates for the first time in seven years, interpreted by many as a sign of the economy's strength. The negativity in commodity prices, however, continued with prices falling (especially oil) leading to concerns about possible deflation. The quarter did however see a recovery in global equity markets after the Q3 falls but bonds fell back following the gains from safe haven trading seen in Q3.

Approaching the end of the reporting period, then volatility remained a continued feature of **(2016 Q1).** Negative sentiment dominated at the start of the quarter due to renewed fears about the health of the global economy, and especially again form China. Commodity prices (again especially oil) continued to fall. These concerns eased somewhat in March however, helped by further stimulus measures from central banks in Japan and Europe. The US Federal Reserve also lifted spirits with its decision to lower its projected expectations on the speed of interest rate rises, citing uncertainty around global growth as a key factor in that. Closer to home, the potential of a UK ''Brexit'' from the European Union weighed on sentiment, with investors, both at home and abroad, reluctant to buy UK equities.

Sterling also came under pressure. Though worries about the state of the global economy continued, markets were generally able to recover their poise over the latter part of the reporting period and indeed to such a degree that many equity regions ultimately delivered a good positive quarter's performance.

The market recovery was however not enough to bring the vast majority of equity markets back near positive territory for 2015/16 overall, and the below provides some further detail on that and how other asset classes in which the Fund invests have performed.

4.2 Market performance summary

Against the above, predominantly negative but certainly volatile global backdrop, **Equity Markets** performed generally poorly overall. As last year, there was however some notable divergence in performance over the reporting period across the world's regions. Looking at the regions in which the Fund invests, then US equities once more led the way with the index returning (an albeit modest) +4% over the year. There were however no other individual equity regions that managed to produce positive overall returns for the year. Japan was next best with returns approaching -2%, followed by the UK and Europe with returns around -4% each. It was Asian and Emerging Market equities that experienced the largest negative returns however. Hit especially by negativity around China, these markets saw returns of around -9% each over the period. A difficult year overall therefore across global equity markets which, with the Fund's relatively high weighting to equities (albeit well diversified) has effected the Fund's overall investment return considerably over the year.

Last year's performance summary noted a good year for **Fixed Interest investments** and this has largely continued over this reporting period. In the predominantly ''risk off' environment, fixed interest assets, especially government bonds, have served as ''safe haven'' assets at times of market uncertainty. With this backdrop, and despite the first signs of monetary tightening in the US seen during the period, the market return for the Fund's UK Gilt benchmark has been a positive one, returning over 3% during the year and so, like last year, significantly out-performing UK equities over the period. The UK Corporate Bond index also saw positive market returns, but only marginally so, with the asset class feeling the effect of the pressure on many commodity and financial related companies during the year. The Fund's index returned around +0.5% over the year.

Within other asset classes in which the Fund invests, then **UK Commercial Property** had another very strong period. Benchmark returns from the sector were, like last year, positive in each of the quarters of 2015 and this carried on into the start of 2016, with the market recording an overall return for the period of approaching +9%.

The consolidated performance of all the above asset classes and regions in which the Fund invests, including the difficult year experienced within most equity regions, has produced a disappointing overall market (benchmark) return for the Fund during the period of -2.38%.

5. How did our managers perform?

In addition to this market (benchmark) performance, the Fund looks to generate additional returns across the majority (almost 80%) of its asset allocation via active management, where the Fund's investment managers look to out-perform the respective market returns. In last year's report, we noted that this active management had enabled the fund to out-perform the market by almost 0.5% over the period. The report also informed that this level of excess return had been the average level over the last 10 years, generating a significant level of additional cash for the Fund to pay its administration costs and support the payment of member benefits each year. Unfortunately however, in the difficult market environment that has been the backdrop to this year's report, the Fund's active managers have struggled collectively to add excess return and **in aggregate, the Fund has under-performed the negative market return of -1.79% by -0.59% over the period and thus generated the year's overall -2.38% investment return for the Fund.**

Though the year's investment performance has been disappointing in overall terms, there are significant levels of diversification employed across the Fund, and we would not therefore expect all our managers to perform identically. The year has therefore seen some strong out-performance from some of our managers and the mandates they manage for us, protecting the Fund in the predominantly negative market conditions. This protection has been especially evident in European equities (BlackRock); Asian equities (Invesco) and Emerging Market equities (Fidelity). The Fund's property investments have also out-performed the market in achieving the strong positive returns shown. Investments in Japanese equities (Nomura); UK Equities (Lazard and especially Standard Life) and multi-asset alternatives (also Standard Life) have however struggled over the year. Global equities have also been negative in the transitional period away from Aberdeen. All of the Fund's investment manager provide their own views on the factors that have contributed to the year's performance, both positive and negative, within the manager sections later in this report. It is worthy of note however that the majority of the Fund's current investment managers and mandates have demonstrated positive out-performance over the longer term and thus results for any single year should be viewed with caution and within this long term context.

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

Asset Class / Region	Manager	Share of Fund at Year end %	Fund Performance for Year %	Benchmark Performance for Year %	Relative Performance for Year %
Equities					
UK (Passive)	BlackRock	11.8	-3.94	-3.92	**-0.02**
UK (Active)	Lazard	18.3	-5.55	-3.92	**-1.63**
UK (Active)	Standard Life	4.4	-7.82	-3.92	**-3.90**
US (Passive)	BlackRock	10.4	4.26	4.17	**+0.09**
European (Active)	BlackRock	14.0	-1.11	-4.26	**+3.15**
Japanese (Active)	Nomura	3.2	-5.01	-1.72	**-3.29**
Asia (ex-Japan)	Invesco	5.3	-5.89	-8.68	**+2.79**
Emerging Markets	Fidelity	2.6	-7.65	-8.80	**+1.15**
Global (Active)	Aberdeen/ BlackRock	6.9	-5.63	+0.42	**-6.05**
Fixed Interest					
Gilts	BlackRock	8.0	3.00	3.25	**-0.25**
Corporate Bonds	BlackRock	8.0	0.25	0.45	**-0.20**
Other					
Alternatives	Standard Life GARS / In house	3.2	-2.89	0.73	**-3.62**
Property	Various	2.9	11.37	8.50	**+2.87**
Cash and other investment balances	Various	1.0	0.38	0.36	**+0.02**
CONSOLIDATED		**100**	**-2.38**	**-1.79**	**-0.59**

Performance data supplied by BNY Mellon Asset Servicing

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

BlackRock

Passive UK and United States Equities

Both BlackRock passive funds achieved their aim in the year by performing very close to the index returns. The respective markets themselves saw strongly contrasting returns for the period however, with the UK index returns approaching a negative -4% whilst returns of the US index were in excess of a positive +4%.

European Equities

As with most equity regions, European Equities saw negative market returns over the period. The BlackRock European fund, however, protected well in the volatile environment, out-performing the Fund's benchmark over the year which saw negative returns of over 4%. In doing this the fund, as last year, demonstrated out-performance in 3 out of the 4 quarters.

"The period started well as the Fund outperformed its benchmark in Q2. Against the backdrop of macro rotations, our macro signals struggled in the absence of persistent trends. However, our factor timing model provided valuable diversification helping to offset weakness in signals that were aligned with the trends that broke down. At the same time text-based analysis of company conference calls was a significant contributor to performance, as companies who struck a relatively negative tone during Q1 earnings season, saw their stocks underperform when markets tumbled in Q2."

The Fund again outperformed its benchmark in Q3 "amidst a reversal in signal performance compared with the first half of the year. As Emerging Market concerns dragged global growth expectations down in Q3, previously struggling macro insights were well positioned. Also a negative view on European firms that generate a significant portion of revenues in emerging markets made a strong contribution. In September, when value signals struggled, the factor timing model held a negative view on cheap stocks, which was another example of macro insights providing some welcome diversification. However, while more traditional fundamental signals struggled in Q3, the more innovative ways of evaluating individuals firms, for example the text analysis of company conference call sentiment, again added significant value."

The Fund again outperformed its benchmark in Q4. "A change in market momentum was a headwind for our models in October however, our exposure to the momentum change was somewhat limited due to tighter risk controls on underweight positions in resources stocks. At the same time, fast moving reversal signals made a very strong contribution, capitalising on the rotation in investor positioning, as did a signal that analyses the impact of Exchange Traded Funds on underlying stocks as ECB monetary policy prompted a reversal in sentiment towards European markets."

Q1 of 2016 was the only quarter of fund under-performance in the period. "It was characterised by factor rotations and signals focused on timing industries, where trending behaviour is usually strong, maybe understandably contributed to the underperformance. Economic growth-related insights also detracted. A positive view on the Italian economy was expressed via the country's banks, which fell on concerns around non-performing loans. However, our factor timing models were more successful as a number of risk factors performed in line with previous seasonal patterns. Fast-moving flow insights also capitalised on the liquidity demands of investors repositioning their portfolios."

Gilt Bond Fund

In a year very much of two halves, the Gilt Fund struggled versus its benchmark in the first half of the review period but then out-performed in the second half. This was not enough to prevent overall marginal under-performance during the year however within a market that saw gilt index returns of just over +3%.

The period started with "the gilt fund underperforming its benchmark over Q2 in an environment which proved challenging for fixed income. The main drivers of the portfolio underperformance were credit positioning, asset allocation, and foreign exchange. Within this, the fund's underweight to government related debt, and overweight to gilts, generated some excess returns, however this was largely outweighed by the underperformance in corporates." The underperformance continued into Q3, "in an environment which proved challenging for global markets. The main drivers of the portfolio underperformance were interest rate positioning amidst some interest rate volatility and the fund's asset allocation strategies."

The second half of the period under review however started with "the fund outperforming its benchmark amidst a further period of challenging financial market conditions, as a combination of commodity price volatility and geopolitical risks merged with a US rate hike weighed in on market sentiment. The Macro Rates strategies added value whereas the asset allocation and currency strategies detracted from performance. Security selection decisions within credit added alpha throughout the quarter as credit markets generally enjoyed a positive quarter, following some sustained periods of weakness earlier in the year." The review period ended with another quarter of benchmark out-performance in 2016 Q1. "The Asset Allocation and Currency strategies added alpha whereas the Macro Rates strategy detracted from performance. Off-benchmark positions in the credit sectors also struggled amid noise and choppy price action. The strategy's long duration position also performed well over Q1."

Corporate Bond Fund

In similar vein to the Gilt Fund, also a year of two halves for the Corporate Bond Fund which also struggled versus its benchmark in the first half of the review period but then out-performed in the second half. Again the out-performance was not enough to prevent overall marginal under-performance during the year however within a market that saw muted corporate bond index returns of just under +0.5%.

The period started with "the corporate bond fund underperforming its benchmark over Q2 in an environment which proved challenging for fixed income." Like gilts, the main drivers of the portfolio underperformance were credit positioning, asset allocation, and foreign exchange. Within credit, sector overweights in industrials and financials, underperformed the benchmark as investment grade credit spreads widened through the quarter. The underperformance continued into Q3, "in an environment which proved challenging for global markets. The credit security selection strategy was a strong performer over the quarter, despite the difficult backdrop. An underweight to companies in the metals and mining sector was a standout performer, however the main drivers of the portfolio underperformance were interest rate positioning amidst some interest rate volatility and the fund's asset allocation strategies."

The second half of the period under review started with "the corporate bond fund outperforming its benchmark. Security selection decisions within credit added alpha throughout the quarter as credit markets generally enjoyed a positive quarter, following some sustained periods of weakness earlier in the year.

The continued decline in commodity prices in Q4 benefited the Fund's underweight to metals & mining and energy names in the credit security selection model. Elsewhere the Macro Rates strategies added value whereas the asset allocation and currency strategies detracted from performance."

The review period also ended in the corporate bond fund with another quarter of benchmark out-performance in 2016 Q1. "Security selection decisions within credit struggled amid noise and choppy price action but ended the quarter on a positive note as markets started to normalise. Elsewhere the Asset Allocation and Currency strategies added alpha whereas the Macro Rates strategy detracted from performance. The strategy's long duration position also performed well over Q1."

Global Equities

BlackRock have only been managing global equities on an active basis for the Fund during the second half of the year under review. That period has seen considerable market volatility and the following provides a summary of performance over that period.

The Fund was marginally negative over the final quarter of 2015, underperforming its benchmark, which was up by over 8% in the quarter. "Following dire performance in the third quarter, global equity markets recovered their poise towards the end of the year. Sentiment-based insights were the largest detractor and struggled most across energy and materials names, where the most unloved stocks rebounded hardest during the market rotation in October. At a regional level, the US was the strongest contributor to negative performance, especially in the industrials sector. Elsewhere, overweights in Brazil, Poland and South Africa led to emerging markets also being a large regional driver of negative performance. Losses from the US and emerging markets were partially offset by an overweight in Japan, where there was strong earnings growth."

The Fund was also marginally negative over the first quarter of 2016, underperforming its benchmark, which was again positive at around +3% for the quarter. "After one of the worst starts to a calendar year on record, global equity markets recovered most of their losses over the second half of February and March. Markets were initially led lower by a weakness across energy and material stocks March however marked a turning point, with markets rallying as, once again, the world's Central Banks provided some stability to the market. Within stock selection, defensive quality signals were the strongest performers during the market turbulence. Macro positioning within the fund detracted in the first two months, and rebounded in March. At a country level then an overweight position in the Italian economy added to early losses. Our overweight position was driven by improving macro data and internet search trends. January however saw renewed concerns about non-performing loans at the country's banks, resulting in losses in the overweight in these names, such as Intesa SanPaolo. These losses extended into February, as concerns about growth and the impact of negative interest rate policy escalated."

LAZARD
ASSET MANAGEMENT

UK Equities

The UK equity market "lost ground over the past 12 months in a year of considerable volatility in global financial markets." In contrast to the last annual report, however, the Lazard portfolio was not able to offer protection and under-performed the Fund's benchmark, the FTSE All Share Index, which saw negative returns approaching -4% over the year.

"During this period stock selection in the consumer services and oil & gas sectors added value, but an overweight position in basic materials and an underweight position in consumer goods detracted.

The basic materials sector was the weakest in the FTSE All-Share as weakening commodity prices hurt mining stocks until the rally in February and March. An overweight position in Anglo American hurt performance, and while we benefited from avoiding Glencore, not holding BHP Billiton as the sector's performance improved also weighed on relative returns. Also in this sector, we benefited from an overweight position in chemicals business Synthomer, which announced the acquisition of an adhesives and coatings business from Hexion.

In the consumer goods sector, while we benefited from an overweight position in British American Tobacco, reflecting the market's preference for defensive stocks and sectors during much of the year, an overall underweight exposure to the sector as a whole hurt the portfolio. In particular, not holding Imperial Brands or consumer and household goods producer Reckitt Benckiser, both of which performed well, detracted from relative performance. An underweight position in the financials sector and, in particular, in HSBC, contributed to relative returns but overall our performance in the sector was in line with the index.

Equity markets globally continue to grapple with questions surrounding global growth, commodity prices, the timing and direction of interest rate increases, and the future of stimulus programmes. But for UK equity investors, the key event of the second quarter will be the referendum on EU membership on 23 June. This will undoubtedly dominate headlines over the coming months, and we can expect greater market volatility due to the uncertainty stemming from this situation. Brexit would have a greater impact on some stocks and sectors, such as housebuilders, financial services and travel & leisure businesses, and this is a risk we are factoring into our bottom-up stock selection. However, short-term concerns will provide investment opportunities across the whole market, both domestic and international, as valuations move away from fundamentals, and we expect to find attractive companies for UK equity portfolios whatever the outcome of the vote."

STANDARD LIFE INVESTMENTS

UK Equities

"UK equities registered losses over the 12-month period. Concerns about global growth, particularly the outlook for China and emerging markets, grew through 2015 and into 2016. US interest rate policy also preoccupied investors and exacerbated global market volatility." Against this backdrop, the Standard Life UK fund had a difficult period overall, underperforming its benchmark over the year.

"Our positions in RBS and Barclays held back performance, as the cost of regulatory compliance, internal restructuring and lower-for-longer interest rates hindered growth and profitability. Overweight positions in mining stocks, such as Anglo American, Lonmin, Glencore, and First Quantum, also weighed on relative performance because of weak commodity prices. However, these stocks did recover somewhat late in the period as commodity prices staged a revival. Finally, underweight positions in companies perceived as defensive were detrimental. For example, SABMiller detracted from performance after AB InBev made a takeover approach. British American Tobacco also outperformed despite facing earnings risk from its exposure to emerging market economies and currencies.

On the upside, holdings in companies that were subject to merger and acquisition (M&A) activity added to performance. These included electronics retailer Darty, Bwin.Party Digital Entertainment, electronic cable supplier HellermannTyton and Premier Foods.

In terms of outlook then investors are nervous of recessionary risks, and while these risks have generally risen, our view is that global growth will continue to remain positive, albeit somewhat dampened and relatively modest compared with longer-term trends. A growth environment will be supportive for UK equities, and we continue to identify attractive stock-specific opportunities. Uncertainty and concern around the outlook for the Chinese economy, monetary policy in the US, and geopolitical tensions as well as Brexit will act to increase volatility."

Global Absolute Return Strategies (GARS)

"Financial markets suffered periods of pronounced volatility during the last year. A divergence in monetary policy, concerns about the global economy (primarily emanating from China), a strong US dollar and a slump in commodity prices dictated sentiment. Emerging markets had a particularly torrid time." Against this backdrop, the Standard Life GARS fund also had a difficult overall period, under-performing its benchmark over the Year.

''Early in the review period, increased growth and inflation expectations fuelled a rise in bond yields, supporting our short US duration strategy. Thereafter, volatility increased, fuelled by Greece's debt crisis, slowing Chinese growth and conjecture over US interest rates. Subsequently, China's surprise devaluation of the yuan stoked fears about global growth. The resultant market sell-off led to losses from our European and Japanese equity exposures, although elevated volatility buoyed our market variance strategies. Meanwhile, persistent commodity market weakness took its toll on our global equity miners position.

Sentiment then improved in anticipation of further ECB (European Central Bank) support and a US rate hike. When a rate rise materialised, markets initially rose, then declined on disappointing ECB stimulus and renewed commodity weakness. US equity losses were more pronounced among small-cap stocks, boosting our US equity technology versus small-cap and US equity large-cap versus small-cap strategies. Investors remained nervous in early 2016 and government bonds rallied as demand for defensive assets increased. This hurt our short US duration position but supported our Australian interest rates strategy. Central bank action subsequently lifted confidence, driving gains from our equity and credit exposures. However, the US dollar depreciated, and our positions favouring the US currency versus the euro, Korean won and Singapore dollar all lost value.

In terms of outlook then our central expectation is still for modest global growth, albeit with regional variations. A growing divergence in central bank monetary policy will remain an important driver of asset returns. The US has finally embarked on monetary tightening, albeit on a gradual incline, whereas economies in Europe and Asia maintain a looser monetary path. Geopolitical tensions remain high and on many metrics asset prices appear expensive. We seek to exploit the opportunities that these conditions present by implementing a diversified range of strategies using multiple asset classes''.

Invesco Perpetual

Asia (ex Japan) Equities

''The last twelve months have been challenging for Asian equity markets which have declined due to concerns about: lower earnings growth; the extent of China's economic slowdown; falling commodity prices; intervention by the Chinese authorities in equity and foreign exchange markets; and uncertainty about the outlook for US interest rates."

The Invesco portfolio however continued a run of strong out-performance and was able to provide some protection by out-performing the strongly negative index returns across Asian Equity Markets, as the Fund's benchmark saw negative returns approaching -9% over the year.

"The fund outperformed its benchmark, thanks largely to strong stock selection, particularly in the IT sector with strong contributions from holdings in Chinese internet companies. NetEase was the standout contributor as it continued to achieve attractive earnings growth, proving itself as a leader in online game development. Baidu also made strong gains, with both these US-listed companies benefiting from their inclusion in MSCI's China indices as well as their strong fundamentals. Samsung Electronics preference shares added value, with the company announcing a capital returns policy that greatly exceeded the market's expectations.

Other positive contributors were found across a variety of sectors. Korea Electric Power maintained its strong earnings momentum on the back of a drop in fuel costs; while Minth Group saw its share price rally strongly after the car parts manufacturer reported good quarterly earnings results with an improving gross margin. Some positive earnings results also helped highlight the underlying strength and quality of some of the fund's Australian mining services providers, such as Mineral Resources and UGL; while Newcrest Mining benefited from the gold price rally.

Conversely, Origin Energy was the biggest detractor, impacted by oil price weakness and the announcement of a rights issue. General commodity price weakness also impacted Noble Group, with additional concerns surrounding alleged accounting irregularities, although these have been largely rebutted by management. Finally, stock selection in financials detracted, particularly holdings in HSBC, Standard Chartered and ICICI Bank; which have found revenue generation tough in what has been a difficult operating environment, with lingering concerns over asset quality.

Many Asian economies continue to move towards a structurally lower growth rate, due to weak global demand for Asian exports and China's economy continuing to slow given its need to rebalance its economy. Asian equity markets have not only had to contend with policy uncertainty in China, but downward revisions to earnings forecasts, US interest rates starting to rise, lingering concerns over debt levels as well as excess capacity in the industrials and materials sectors. While many of Asia's challenges are unlikely to be solved in the short-term, there is little reason to expect a material deterioration. Asian economic growth remains relatively stable and continues to compare favourably to that of developed markets, with Asian central banks having some scope to ease monetary policy, which should lend support to growth and markets.

We seek to invest in companies from across the region whose share prices are substantially below our estimate of fair value. Currently this includes significant positions in leading Asian technology companies, Chinese internet companies and Hong Kong listed conglomerates.

We have selectively increased our exposure in commodity-related stocks, where sentiment had fallen to what we considered to be overly-pessimistic levels. We have also reduced our exposure to banks given the low inflation environment and scope for bad debt increases, with the fund now no longer holding any Australian or Chinese banks. However, we continue to hold banks across the region that we consider to be high quality and undervalued, with strong capital positions.

We have a large overweight position relative to index in the IT sector, which includes significant positions in Chinese internet companies and leading Asian technology companies that we believe are undervalued. Finally, we have an overweight position in India, where despite concerns over the progress of reform, we remain confident in the longer-term outlook for growth, given the government's determination to get inflation under control and rein in the fiscal deficit."

NOMURA

Japanese Equities

The review period proved to be a "testing period for Japanese equities with the market twisting and turning as investor sentiment was pulled in one direction after the other." Against this backdrop the Nomura portfolio was not able to offer protection and under-performed the Fund's benchmark, the TOPIX, which saw negative returns approaching -2% over the year.

"The period was dominated by investor fears around 'big picture' issues such as growth at home and overseas, China, interest rates, commodity prices and Emerging Markets to name but a few; alternating with periods of relative calm during which investors could refocus on corporate fundamentals. The period started with one of those calmer periods as Japanese corporate earnings came in ahead of expectations but the market began to falter again towards the end of June as big picture concerns gradually reasserted themselves. After the late summer pull-back, the market managed to regain its composure, ending the final quarter of the year on a more buoyant note despite the long awaited (and long feared) increase in the US Federal Funds rate. This relative calm was not to last as the opening weeks of 2016 saw sentiment deteriorate once more. The unexpected announcement at the end of January by the Bank of Japan (BoJ) of the introduction of negative interest rates on new deposits of commercial bank cash at the BoJ, provided some encouragement to the market but the celebrations soon faded in the face of continued worries over global growth, falling commodity prices and financial market stability. In addition to these wider fears, Japanese investors also had to factor in a strong upward move in the yen, reflecting Japan's perceived 'safe haven' status; an unwelcome development in that it puts downward pressure on corporate earnings. The latter half of the quarter saw the market stage something of a recovery spurred by signs of a stabilisation in the oil price, but by late March this was clearly losing momentum. Against this backdrop, a significant drag on stock prices came from selling by foreign investors, spurred at least in part by the fact that many had sizable profits to take.

With investor sentiment remaining nervous for much of the period growth stocks outperformed value and defensive areas of the market outperformed the more economically sensitive areas, which significantly impacted fund performance over the period. This left sectors such as Foods, Information & Communication and Pharmaceutical sectors as significant outperformers whilst, reflecting the weakness of the domestic economy, most cyclical sectors underperformed as did the exporters such as Electric Appliances and Transportation Equipment which crumbled in the face of the upward pressure on the yen. Unsurprisingly, commodity related sectors underperformed in the face of falling prices and financial sectors also performed poorly, being sold down particularly heavily in the final quarter as investors factored in the potential impact of the move to a negative interest rate regime.

The portfolio underperformed the benchmark over the period primarily due to disappointing stock selection results. The biggest positive stock contributors over the reporting period were overweight positions in telecommunications provider Nippon Telegraph & Telephone, Sohgo Security Services, automotive components maker Koito Manufacturing and IT service provider SCSK. The biggest detractors to performance were overweight positions in city bank Mitsubishi UFJ Financial, chemical company Asahi Kasei and engineer Mitsubishi Heavy Industries along with an underweight in Japan Tobacco.

Although equity markets around the world have staged something of a recovery in recent weeks underlying sentiment remains fragile against a backdrop of decidedly cloudy economic prospects and full valuations for many asset classes. World trade is likely to remain sluggish for the time being and domestically the strong yen continues to weigh on stock prices and this strength could persist. Although valuations for the overall market look reasonable compared to their historical ranges, for the moment investors are likely to remain nervous and the market volatile.

Taking a longer-term view, we believe that the outlook for Japanese equities remains broadly positive. A key support is the expectation that monetary conditions at home and across the world to remain accommodative with or without a further interest rate increase by the US Federal Reserve. On the other hand the corporate earnings outlook is looking rather less supportive than it was a few months ago. This is a particular concern in Japan where recent strength in the yen is likely to have made life less comfortable for the exporters. The Japanese equity market would however likely react extremely favourably if investors perceive a pick-up in the rate of progress of the structural reform programme of the Abe government. For the moment though, for purely political reasons, important initiatives are on hold in the run up to the Upper House elections in the summer.

Whilst the investment environment is challenging and could well remain so for some time, our investment approach remains consistent as we continue to focus on the powerful long-term investment theme of improving returns at a corporate level and the subsequent uplift in equity valuations. The pressure on Japanese companies to raise their returns towards international levels continues to grow; pressure from a number of quarters, including foreign and domestic investors and the government. However, we do not expect all Japanese companies to rise to this challenge and make the often painful, changes required to lift profitability and shareholders returns, and thus we remain highly selective in our attitude to stock picking. We endeavour to identify those companies that will embrace this challenge and we try to find opportunities in stocks that are undervalued in relation to their potential, and where there is a realistic prospect of management being able to realise that potential."

Fidelity™
WORLDWIDE INVESTMENT

Emerging Market Equities

"Emerging market equities fell over the year amidst concerns over economic growth in China and the possibility of earlier-than-anticipated interest rate hikes by the US Federal Reserve." The Fidelity portfolio however continued a run of strong out-performance and was able to provide some protection by out-performing the strongly negative returns across Emerging Markets, as the Fund's benchmark saw negative returns approaching -9% over the year.

"Though negative sentiment from China concerns seemed to dominate the period, markets reacted positively to the US Fed's rate hike in December, and to subsequent commitment to increase rates at a slower pace. Prices of commodities, including oil, declined however on worries that demand from China would be weak in light of slower economic growth. Latin American equities declined as weak commodity prices pressured export revenues, budget balances and local currencies and a deteriorating macroeconomic environment in Brazil amidst ongoing corruption scandal.

The fund's index out-performance in the falling market was driven by stock selection in the information technology (IT) and consumer discretionary sectors. However, selected consumer staples holdings detracted from performance. At a country level, Chinese and South African positions enhanced gains.

Within IT, the exposure to internet company NetEase advanced as it released robust results for multiple quarters. The allocation to Taiwan Semiconductor Manufacturing gained on account of its strong technological capabilities, which have helped the company perform well, even in subdued market conditions. The position in cyber security provider Check Point Software added value on expectations of increased security spending. Elsewhere, shares in India-based HDFC Bank rose on the back of its expansion plans.

In the consumer discretionary sector, shares in New Oriental Education & Technology advanced driven by expectations of rapid growth in student enrolments in China. However, the holding in India-based Tata Motors declined due to concerns over sluggish sales growth at its Chinese joint venture. The position in online retailer Vipshop Holdings weighed on performance owing to worries of weak economic environment in China and its impact on consumer spending. Within consumer staples, shares in China Mengniu Dairy were impacted by fears of subdued demand and high competition in the dairy sector".

In terms of outlook then "with emerging market equities appearing to be attractively valued, especially relative to their developed market counterparts, the removal of the uncertainty over US interest rate hikes may help to improve the appetite for these assets. Elsewhere, some of the recent volatility in China has stemmed from worries over a slowdown in economic growth. However, the country continues to gradually transition from being an economy driven by capital spending to one built on more sustainable domestic consumption and 'high-value' manufacturing. Another factor impacting emerging market equities is commodity pricing. With China now rebalancing its growth model, the stabilisation of commodity demand is likely to have an impact on prices. As a result, economies that are highly dependent on export revenues from commodities may witness heightened volatility.

While the broad emerging market boom of the last decade may be over, the case for strengthening long-term consumption in many developing economies remains intact. This is because favourable demographics, infrastructure spending, rising incomes, increased consumer spending and associated lifestyle changes will continue to drive these economies. Overall, in 2016, the emerging world will continue to exhibit the economic divergences of recent years. Countries that are prepared to reform their economies will be better prepared in light of tighter monetary conditions. However, economies that pursue populist agendas that are likely to prove unsustainable will suffer. Therefore, active management of emerging market equities will continue to play an important role in ensuring that investors receive attractive returns."

SCHEME REPORT

1. The Pension Team

1.1 The Pension Fund has a collective approach to continual improvement to meet the challenges we face. With direction from the Pension Committee and support from Senior Management we have put in place the resources and systems necessary to effectively manage the Pension Fund in a period of increased pressure on resources combined with increasing workloads and complexity.

1.2 During 2015 we further developed the requirements of the 2014 scheme changes, the Public Sector Pension Scheme Act, Government policy on freedom and choice, pension taxation, pooling arrangements and the Pension Regulator data requirements. We also considered the impact of changes on our employers facing budget restrictions and on our members with increased complexity of scheme regulations, the desire for more effective retirement planning and the impact of tax on pension build up.

1.3 The fund recognises the importance of embracing technology to enable "more for less" but also the importance of comprehensive advice from partners in actuarial, benefit consultancy, legal, and investment as well as improved IT systems, communications, and governance.

1.4 The Fund reviewed the provision of Actuarial and Benefit Consultancy services early in 2015. Utilising the National Framework enabled the Fund to work through the shortened procurement process and appoint a new fund actuary and benefit consultant in June 2015.

1.5 Following the need to make changes in Investment Management arrangements, we tendered for an independent investment advisor to provide further insight to the Pension Committee on investments and future strategy.

1.6 The Governments Policy on Freedom and Choice, which was introduced with effect from 1st April 2015, proved particularly challenging for the Pension Fund. Whilst the changes did not impact directly on the Pension Fund i.e. members could not exercise freedom and choice in respect of their LGPS benefits directly from the Fund, members could elect to transfer out of the LGPS to enable them to take advantage of Freedom and Choice. To ensure that the Pension Fund was complying with the Legislation and Guidance, protecting the members from potential scams and protection of the sustainability of the Pension Fund, as well as ensuring that members had all the relevant information to enable them to make an informed decision, the Fund took legal advice from Eversheds on the content of our literature, communications, forms and letters. A newsletter highlighting the issues was sent to all active and deferred members together with a copy of the Pension Regulator Scorpion leaflet on Scams.

1.7 The deadline for issuing Annual Benefit Statements to all active and deferred members in respect of the 31st March 2015 year end was 31st August 2015. This was a very tight deadline particularly given the increased complexity of the Pension scheme and the additional information required from employers. Despite these difficulties the Pension Fund issued Annual Benefit Statements to all active and deferred members within the deadline, one of only a handful of LGPS funds to achieve this.

1.8 As part of planned improvements, we reviewed our IT systems. The focus was on effectiveness, levels of accuracy, the staff levels required to maintain the systems and support employers, levels of employer resource required given their budget pressures, the Pension Regulator requirements and the impact of the 2014 scheme.

1.9 It was recognised that the Fund website, which was maintained in-house, was resource intensive and there was a risk of information not being updated sufficiently promptly. The Pension Fund set up a new website, hosted and maintained by Hymans Robertson, which enables the Pension Fund to add bespoke forms and guidance and Fund Statutory documents. This released time for our communications and systems teams.

1.10 It was further recognised that the current procedure for transferring data from employers was inefficient for the employers and the Fund and was limited in its use. The Fund invested in a secure electronic employer portal which facilitates the submission of data from employers. The 6 largest employers representing 91% of active membership are already live and will submit their 2016 year end data through the system. The portal serves as a communication, document exchange and storage facility. The fund has also invested in a Member Self Service facility to enhance the service to members, facilitate secure communication and reduce printing and postage costs.

1.11 The Pension Fund established a Pension Board made up of 5 employer and 5 member representatives. We felt it was important that there was a level of LGPS experience on the Board from day one and appointed an independent Chair to help and guide the Board. The Board meets quarterly. The Board members have undertaken formal training as well as informal training provided by fund officers.

1.12 Working on an All Wales basis a joint passive investment tender has been established which will reduce our investment management costs significantly. Work is also progressing in respect of an All Wales regulated investment pooling approach.

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

2. Administration service and current developments

2.1 **Core work**

The work undertaken by the Pension Team in relation to the main 'core service' statistics is illustrated on the following table. The table illustrates the work outstanding as at 1st April 2015, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2016.

	Work outstanding 1 April 2015	New	Total	Completed	Work in progress 31 March 2016
Retirements processed	315	1,282	1,597	1,262	335
Deferred processed	367	2,486	2,853	2,170	683
Retirement estimates	454	2,799	3,253	2,835	418
Deaths processed	127	575	702	518	184
Transfers in/out	1,370	1,191	2,561	946	1,615
New Starters	669	3,806	4,475	3,426	1,049
Total	**3,302**	**12,139**	**15,441**	**11,157**	**4,284**

The work in progress as at 31st March 2016 is higher than the work in progress at 1st April 2015. This is reflective of:

- Staffing changes which took place during the summer of 2015 which necessitated a period of overlap and training.
- Choices available to members with more than three months but less than two years membership due to transitional arrangements introduced in the 2014 Scheme.
- The additional administration requirements relating to Freedom and Choice which add to the time taken to provide transfer out information.
- The increase in the amount of core work coming into the Pension Fund as illustrated by comparing the average monthly new work and completed work in the year to 31st March 2015 with the average monthly new work and completed work in the year to 31st March 2016 as set out in the table below.

	Average Monthly New Work received in year to 31/03/2015	Average Monthly New Work received in year to 31/03/2016	Average Monthly work completed in year to 31/03/2015	Average Monthly work completed in year to 31/03/2016
Retirements processed	93.83	106.83	106.83	105.16
Deferred processed	194.67	207.16	192.92	180.83
Retirement estimates	201.00	233.25	215.83	236.25
Deaths processed	45.42	47.92	47.08	43.16
Transfers in/out	98.17	99.25	72.17	78.83
New Starters	223.50	317.17	241.67	285.55
Total	**856.59**	**1,011.58**	**876.50**	**929.78**

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

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

2.2 **Other activity**

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

- Facilitating training for employers, including the production of Newsletters and Bulletins, development of a new Pension Fund website and carrying out a review of all letters, documents and forms.
- Providing employers with guidance in relation to the interaction of Automatic Enrolment Regulations and the Local Government Pension Scheme.
- Providing employers with guidance in relation to the Restriction of Pension Tax Relief, including carrying out individual assessments for members who are at risk of incurring a tax charge. The reduction in the Annual Allowance to £40,000 per annum from 1st April 2014 has increased the number of members who are exceeding the allowance and increasingly the Pension Fund is receiving enquiries from members who have the opportunity for promotion.
- Providing guidance to members in relation to the reduction in the Lifetime Allowance to £1 million with effect from 6th April 2016 and the protections available.

- Commencing work on the GMP reconciliation project which is required following the announcement by DWP that they will not routinely provide funds with GMP details for scheme members after 2016.
- Participation in Club Vita to provide a bespoke analysis of the longevity of the members of the Greater Gwent (Torfaen) Pension Fund.
- Participation in the National Fraud Initiative (NFI) and utilising the services of a tracing agency.
- Continuing collaboration with the other seven Local Government Pension Funds within Wales to improve communication and administration systems.
- Participation at a national level with regard to further reform of the Local Government Pension Scheme including providing responses to the DCLG Consultation on Scheme Governance.
- Participation in the LGA Communications sub group to assist in developing LGPS Scheme wide communications.

2.3 Internal dispute resolution procedure

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

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

2.4 Current challenges

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

- The timescale within which the Pension Fund must provide each member with an Annual Benefit Statement is 31st August each year. Whilst the Pension Fund met this deadline in respect of the 2015 Annual Benefit Statements it is still a challenge to obtain the relevant data from Scheme Employers which is both timely and accurate. The Fund is committed to using the technologies available to assist employers with complying with their responsibilities to ensure that the Pension Fund can also meet its obligations under the Regulations and related legislation.

- The reduction in the Annual Allowance to £40,000 from 1st April 2014 has resulted in more members having a potential tax charge. We are receiving an increasing number of enquiries from members who are considering accepting a promotion and are concerned about how the increase in salary will affect their annual allowance position. The annual allowance regime may therefore be acting as a disincentive to career advancement.

- The Life Time Allowance which is the total amount that an individual can hold in total in pension savings will reduce from £1.25 million to £1 million with effect from 6th April 2016. We are therefore also receiving a higher number of enquiries from members regarding their potential lifetime allowance tax liability.

- With effect from 1st April 2015 the Pensions Regulator has a statutory role in respect of the LGPS. The Pension Fund is required to comply with the record keeping Regulations and the Pension Regulator's Code of Practice.

- The Government's Freedom and Choice initiative does not impact directly on the LGPS. However, whilst the Government has banned transfer from the unfunded Public Sector Pension Schemes (e.g. Civil Service, NHS, Teachers) to defined contribution schemes, this ban does not extend to the LGPS. Members of the LGPS can therefore elect, once they are no longer an active member, to transfer the value of their LGPS pension to an alternative pension arrangement to enable them to utilise Freedom and Choice. Whilst the Pension Fund cannot by law refuse to pay a transfer value the Pension Fund must carry out extensive checks to ensure that the member has taken appropriate independent financial advice, is aware of the disadvantages of transferring their secure, guaranteed pension benefits to an unsecure pension arrangement, and that the new scheme is a properly authorised pension arrangement.

- Failure to pay the transfer value within the required timescale and failure to carry out the proper checks before paying the transfer value could lead to fines being imposed on the Pension Fund by the Pensions Regulator. The Pension Fund therefore devised robust procedures which are applied to these cases in line with the guidance from LGA, the Pensions Regulator, DWP and the pensions industry. The implementation of this work impacts on the time resources of the Pension Fund Staff.

3. Future challenges

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

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

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

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

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

3.6 The increased Governance arrangements imposes more prescriptive reporting requirements on the Pension Fund.

3.7 The Pension Fund will continue to develop its policies and procedures to meet these challenges and will continue to work with Scheme Employers and our colleagues in other LGPS Funds and on a national basis to ensure compliance with the new requirements.

FUND POLICIES

1. Statement of Investment Principles

1.1 Background

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

1.2 Main objectives

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

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

1.3 Types of investments

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

1.4 Realisation of investments

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

1.5 Investment management arrangements

Investment managers have been appointed to manage virtually all assets of the Fund. There are currently six external managers who manage the Fund's assets and who make day to day investment decisions. These are, BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management, Nomura Asset Management and Standard Life Investments. Management agreements are maintained with each of the investment managers which set out the benchmark asset allocation ranges, performance target and any restrictions placed on the manager. The investment managers' actions and performance are monitored each quarter including either face to face or video conference meetings. The managers' fee structure is based on a percentage of the market value of the managed assets, with performance elements also included for Fidelity. Though investments are predominantly externally managed, around 3.8% of the Fund is currently managed internally.

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

1.6 Risk

The Pensions Committee recognises the need to reduce risk to a minimum where it is possible to do so without compromising returns and to limit risk to acceptable levels. This is achieved through a variety of actions and is detailed more fully in the complete version of the SIP available on the Pension Fund's website via the link on Page 46 of this document.

1.7 Compliance

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

1.8 Feedback and review

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

2. Socially Responsible Investing & Corporate Governance

2.1 Socially Responsible Investment

The Fund has considered how Social, Environmental and Ethical factors should be taken into account in the selection, retention and realisation of investments. This was initially considered under the Fund's previous governance arrangements by its Investment Panel when members considered that they should, in all circumstances, act in the best financial interests of the Beneficiaries. In view of the Investment Strategy adopted by the Fund, where this primary consideration is not prejudiced, Investment Managers are required to take account of Social, Environmental or Ethical factors to the extent that they consider it appropriate. Within the Fund's current governance arrangements, the Pensions Committee has also considered the approach to Socially Responsible Investment within its work plan. As a result of this the Committee decided that a separate working group, the Environmental Social and Corporate Governance (ESG) Working Group, should be set up to specifically consider the Fund's current approach to environmental, social and corporate governance matters within its investment decision making process.

The Group met regularly over a period of around 12 months and reported back to the Pensions Committee with its initial conclusions and recommendations The Group's report to Committee was a positive one and welcomed by the Pensions Committee as they were generally impressed with the extent of engagement, monitoring and reporting carried out by the Fund's investment managers and content with the Fund's approach to promoting wider representation across LGPS Funds. The Pensions Committee confirmed that they were content that the Group be "reconvened" and take forward the future potential work areas it had identified. The ESG Working Group had however been set up as a sub-group of the Pension Fund Management Group as the body that provided wider stakeholder representation at that time. However, the statutory change in the Fund's governance arrangements has led to this Group being superseded by the Local Pension Board. The possibility of re-convening an ESG Working Group for the Fund will therefore be considered further during 2016/17 as the Pension Board becomes further embedded in the Fund's amended governance arrangements.

Any subsequent ESG policy decisions made by the Pensions Committee will be incorporated in future versions of this Statement of Investment Principles.

2.2 **Myners Compliance**

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

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

As part of its on-going review of good practice and compliance with the principles, the Fund will be giving further consideration to these and related issues each year. A detailed position statement showing the extent of the Fund's compliance with the revised set of principles is contained within the full Statement of Investment Principles available via the link on page 46 of this document.

3. Funding Strategy Statement

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

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

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

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

Further details are contained in the Fund's full Funding Strategy Statement, which reflects the results of the Fund's most recent triennial actuarial valuation, and is available via the link on page 46 of this document.

4. Communications Policy Statement

4.1 The Fund's Communications policy has been reviewed during the year to address the points below that were noted within this report last year:-

- the increased complexity of the LGPS
- the increased demand from scheme employers for guidance in relation to the application of LGPS Regulations
- the increased demand from scheme employers for guidance in relation to budget restrictions and the impact on pension costs
- the increased demand from scheme members in relation to the application of the LGPS Regulations and wider pension and tax planning issues
- the increase in the level of reporting to DCLG, the Scheme Advisory Board, the Local Pension Board and the Pension Regulator
- the desire to make better use of the opportunities available in relation to electronic communication, including conference calls and webinars

The updated policy was published to the Fund's website in July 2015 and, in addressing the above points, reflected the recent significant focus of the Fund's approach to publicity and communications across all stakeholder groups. The updated policy builds upon the aims of the last document, including the aim to demystify pensions and deliver timely information in plain English; particularly as The Pensions Regulator's new Code of Practice now requires scheme members to be given information that is 'clear and simple to understand, as well as being accurate and easily accessible', so that they can make informed decisions about their pensions. The policy also builds on the aims of the last document to educate employers and introduce standard procedures across all employers. This includes requesting each employer to appoint a 'Lead Officer' for pensions, who is responsible for ensuring the timely exchange of information between their organisation and the Fund; the Fund providing officers of employer organisations with pensions administration guides and training workshops; and providing employers with standardised paper and electronic systems via which to exchange information with the Fund.

4.2 The strategic focus underlying the Communications Policy is to proactively target clear and timely communications to the Fund's various stakeholder audiences, which are tailored to meet their different needs and ensure equality of access, and also deliver feedback to the Fund. The focus on ensuring that clear key messages are received and understood by stakeholders includes making easily-accessible topic-based information available on the Fund's website, at different levels of complexity suitable for the needs of different stakeholder audiences. The policy also includes inviting scheme members to register their personal email addresses with the Fund which will assist with the development of electronic communications, giving us the option to send electronic newsletters and updates to scheme members more frequently than current printed and posted versions, without increasing our overall communications costs.

A key element of the Fund's communications approach is the Fund's website which, combined with the above regular newsletter communications, provides an extensive publicity and communication mechanism for the Pension Fund. Development of the Fund's website is continuing and new initiatives within this will provide opportunities for even greater interactivity between the Fund and its stakeholders via a wider suite of engagement mechanisms developed within the context of the revised Communications Policy Statement.

5. Pension Fund Annual Report

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

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

- **Actuarial Valuation**
  https://gwentpensionfund.co.uk/media/2461/valuation-report.pdf

- **Governance Policy & Compliance Statement**
  https://gwentpensionfund.co.uk/media/2462/governance-policy-and-compliance-statement.pdf

- **Funding Strategy Statement**
  https://gwentpensionfund.co.uk/media/2460/funding-strategy-statement.pdf

- **Statement of Investment Principles**
  https://gwentpensionfund.co.uk/media/2468/statement-of-investment-principles.pdf

- **Communications Policy Statement**
  https://gwentpensionfund.co.uk/media/2478/communications-policy.pdf

NATIONAL LGPS ANNUAL REPORT DATA

1.1 The Local Government Pension Scheme Advisory Board is a body set up under the Public Service Pensions Act 2013. The Board was originally set up in 'Shadow' or pilot form in order to test the format, terms of reference, membership and sub committees prior to the formalisation of these items in the LGPS Regulations. On 1st April 2015 the Board became a statutory body. The Board has recently published its third Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales with the aim of providing a single source of information about the status of the LGPS for its members, employers, and other stakeholders. This report aggregates information supplied in the 91 fund annual reports, as at 31st March 2015.

- The total membership of the LGPS grew by 144,000 (2.8%) to 5.1m members in 2015 from 5.0m in 2014 and number of LGPS employers increased by 1,130 (11%) to 11,801.
- The total assets of the LGPS increased by £25.1bn (13.1%) from £192.1bn to £217.2bn. These assets were invested in pooled investment vehicles (42.8%), public equities (36.8%), fixed interest/index linked (7.7%), property (7.0%), as well as other asset classes (0.5%).
- The scheme continued to remain cash-flow positive. Scheme income exceeded scheme outgoings by £3.0bn.
- The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.

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

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

1.3 **Analysis of net investment assets as at 31 March 2016**

31 March 2016	UK £m	Non-UK £m	Global £m	Total £m
Equities	761.0	782.4	151.9	1,695.3
Bonds	252.5	101.0	-	353.5
Alternatives	73.2	-	-	73.2
Cash and cash equivalents	21.0	-	-	21.0
Other	-	-	62.6	62.6
Total	**1,107.7**	**883.4**	**214.5**	**2,205.6**

1.4 **Analysis of net investment income due in 2015/2016**

31 March 2015	UK £000	Non-UK £000	Global £000	Total £000
Equities	15,337	-	-	15,337
Bonds	-	-	-	-
Alternatives	2,365	-	-	2,365
Cash and cash equivalents	69	-	-	69
Other	-	-	-	-
Total	**17,771**	**0**	**0**	**17,771**

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

Greater Gwent (Torfaen) Pension Fund ("the Fund") Actuarial Statement for 2015/16

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

Description of Funding Policy

The Funding Strategy Statement (FSS) sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,924 million, were sufficient to meet 71% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £799 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

Method

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

Assumptions

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:

Financial assumptions	31 March 2013			
	For past service liabilities (Funding Target)		For future service liabilities (Common Contribution Rate)	
	% p.a. Nominal	% p.a. Real	% p.a. Nominal	% p.a. Real
Discount rate	4.8%	2.2%	5.6%	3.0%
Pay increases	4.1%*	1.5%*	4.1%	1.5%
Price inflation/Pension increases	2.6%	-	2.6%	-

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

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Torfaen County Borough Council, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
12 May 2016

Hymans Robertson LLP
20 Waterloo Street

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

I have examined the pension fund accounts and related notes contained in the 2015/16 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 2016 which were authorised for issue on 19 July 2016. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

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

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

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

Opinion

In my opinion the pension fund accounts and related notes included in the Annual Report of Greater Gwent (Torfaen) Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Torfaen County Borough Council for the year ended 31 March 2016 which were authorised for issue on 19 July 2016 on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the Authority's Statement of Accounts, 20 July 2016, and the date of this statement.

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

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

Date: 20 July 2016

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 2016

	Note	2014/2015 £000	2015/2016 £000
Dealings with members, employers and others directly involved in the fund			
Contributions receivable	7	(104,655)	(103,450)
Transfers in	8	(5,318)	(9,277)
Other income	12a	(7)	(1)
		(109,980)	(112,728)
Benefits payable	9	102,179	109,229
Payments to and on account of leavers	10	49,841	9,616
		152,020	118,845
		42,040	**6,117**
Management expenses	11	**9,403**	**9,205**
Returns on investments			
Investment income	12	(22,419)	(19,431)
Taxes on income	13	1,626	1,660
Profit and losses on disposal of investments and changes in the market value of investments	14a	(226,762)	68,793
Net return on investments		**(247,555)**	**51,022**
Net (increase)/decrease in the net assets available for benefits during the year		**(196,112)**	**66,344**

Net Assets Statement for the Year Ended 31 March 2016

	Note	Restated As at 1 April 2014 Bid Price basis £000	Restated As at 31 March 2015 Bid Price basis £000	As at 31 March 2016 Bid Price basis £000
Investment assets	14	2,249,820	2,291,598	2,187,726
Cash deposits	14	11,500	11,475	17,870
		2,261,320	**2,303,073**	**2,205,596**
Investment liabilities	14	(198,837)	-	-
Current assets	19	22,305	23,051	15,395
Current liabilities	20	(4,998)	(50,222)	(11,433)
Net assets of the Scheme available to fund benefits at 31st March		**2,079,790**	**2,275,902**	**2,209,558**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the financial year. The actuarial present value of promised retirement benefits is disclosed at Note 18.

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF FUND

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

The following description of the Fund is designed to be a summary only. For more detail, reference should be made to the 'signposting' to the Fund statutory documentation on page 46.

1.1 General

The Fund is governed by the Superannuation Act 1972 and the Public Service Pension Act 2013 and administered in accordance with the following secondary legislation:-

- The Local Government Pension Scheme Regulations 2013
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- 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. There has been a change during the year in the Fund's wider governance arrangements with the Fund's previous stakeholder representative body, the Pension Fund Management Group, being replaced by a Local Pension Board. The Public Service Pensions Act 2013, and subsequently the LGPS (Amendment) (Governance) Regulations 2015, required all LGPS Funds to form such a Board. As with the Pensions Committee, the Local Pension Board has been formally established within the Council's constitution. The Board has a statutory role to assist the Council in its role as the Scheme Manager of the Pension Fund.

1.2 Membership

Membership is automatic for all employees other than those with a Contract of Employment of less than three months, who can elect to join, employees of admitted bodies and those who have opted out in the past.

There are 56 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table in appendix 2 (page 83) provides some further details in terms of membership.

1.3 Benefits

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

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

1.4 **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 10.3% to 27.6% of pensionable pay.

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

2. BASIS OF PREPARATION

2.1 The Fund Account summarises the Fund's transactions for the 2015/16 financial year and its position at year end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 77.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Fund account – revenue recognition

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

i) Contribution Income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

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

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

ii) Transfers To and From Other Schemes

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

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

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

iii) Investment Income

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

3.2 Fund account – expense items

i) Benefits Payable

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

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

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

ii) **Management Expenses**

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

- **Administrative expenses**

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

- **Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

- **Investment Management Expenses**

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change:

In addition the fund has negotiated with Fidelity Worldwide Investment that an element of their fee be performance related.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2015/16 £0.475m of fees is based on such estimates (£0.706m in 2014/15).

iii) **Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

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

3.3 Net assets statement

i) Financial assets

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

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Investments in unquoted property pooled funds are valued at the net asset value or a single price advised by the fund manager.

- Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

- Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

ii) Cash and cash equivalents

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

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

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

iii) **Financial Liabilities**

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

3.4 Actuarial present value of promised retirement benefits

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

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 18, page 77).

3.5 Additional voluntary contributions

The Greater Gwent (Torfaen) Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Standard Life and Clerical Medical as its AVC providers. Some AVC contributions from prior years are also held with Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)b of the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 21, page 79).

4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

4.1 Pension fund liability

The triennial valuation of the Fund per the LGPS Regulations 1997 (as amended) differs from the IAS19 annual valuations of the promised retirement benefits at the Balance Sheet date. The Pension Fund Valuation is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 17, page 76. 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 77. Since this depends upon a number of complex judgements, an actuary advises on the assumptions employed and carries out the calculation. The assumptions employed for IAS19 accounting purposes can differ from those employed for the triennial valuation of the Fund and could affect the value calculated.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Net Assets Statement date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £389m. A 0.5% increase in assumed salary inflation would increase the value of liabilities by approximately £142m and a one-year increase in life expectancy would increase the liability by approximately £111m. A 0.5% increase in the pension increase rate would increase the liability by £240m.
Limited Liability Partnerships	The investments in the Prudential/M&G UK Companies Financing Funds are valued at fair value by the administrator of the fund. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total investment in limited liability partnerships in the financial statements is £8.3m. There is a risk that this investment may be under or over stated in the accounts.

6. EVENTS AFTER THE REPORTING DATE

The accounting statements are required to reflect the conditions applying at the end of the financial year, however, the pension fund investment assets will move in line with the value of securities quoted on world stock exchanges which could increase or decrease. As the pension fund time horizon is long term and the true value of investments is only realised when investments are sold, no adjustments are made for any changes in the fair value of investments between 31 March 2016 and the date that the accounting statements are authorised for issue. This is known as a non-adjusting event after the reporting period.

7. CONTRIBUTIONS RECEIVABLE

The assessed rate for the Fund as a whole for 2015/16 was 13.1% of pensionable pay with individual adjustments applicable to individual Authorities. During the year some employers have paid additional contributions over and above the rate set for them by the Actuary. The deficit recovery contribution contains lump sum payments and contributions paid over the 13.1%.

By category

2014/15 £000		2015/16 £000
(80,137)	Employers	(78,838)
(24,518)	Members	(24,612)
(104,655)	**Total**	**(103,450)**

By authority

2014/15 £000		2015/16 £000
(15,065)	Administering Authority	(15,197)
(79,784)	Scheduled bodies	(77,568)
(291)	Deemed bodies	(212)
(9,515)	Admitted bodies	(10,473)
(104,655)	**Total**	**(103,450)**

By type

2014/15 £000		2015/16 £000
(24,512)	Employees' normal contributions	(24,599)
(6)	Employees additional contributions	(13)
(50,173)	Employers' normal contributions	(49,859)
(25,575)	Employers' deficit recovery contributions	(25,578)
(4,389)	Employers' augmentation contributions	(3,401)
(104,655)	**Total**	**(103,450)**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2014/15 £000		2015/16 £000
(5,318)	Individual transfers in from other schemes	(9,277)
(5,318)		**(9,277)**

9. BENEFITS PAYABLE

By category

2014/15 £000		2015/16 £000
54,737	Pensions - statutory	58,536
21,755	Pension increases	21,990
21,979	Commutation of pensions and lump sum retirement benefits	24,681
2,527	Lump sum death benefits	3,075
1,181	Additional allowances	947
102,179		**109,229**

By authority

2014/15 £000		2015/16 £000
13,911	Administering Authority	13,681
81,062	Scheduled Bodies	87,169
1,319	Deemed Bodies	1,305
5,887	Admitted Bodies	7,074
102,179		**109,229**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2014/15 £000		2015/16 £000
116	Contributions returned to employees	171
33	Payments in lieu of graduated pension contributions	68
45,000	Group transfers out to other schemes	3,066
4,692	Individual transfers out to other schemes	6,311
49,841		**9,616**

The 2014/15 payments included a provision for the group transfer from the University of Wales, Newport to the University of South Wales in the Rhondda Cynon Taf Pension Fund. A payment on account of £40m was made in 2015/16 with the remaining £5m carried forward as a current liability.

11. MANAGEMENT EXPENSES

2014/15 £000		2015/16 £000
995	Administrative costs	1,131
7,753	Investment management expenses	7,466
655	Oversight and governance costs	608
9,403		**9,205**

This analysis of the costs of managing the Greater Gwent (Torfaen) Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Oversight and governance includes the costs arising from establishing and operating the new local pension board. This was a new statutory requirement placed on all pension fund administering authorities with effect from 1 April 2015.

a) Investment management expenses

2014/15 £000		2015/16 £000
992	Transaction costs	1,237
6,516	Management fees	5,617
109	Performance related fees	480
136	Custody fees	132
7,753		**7,466**

Management fees fell during 2015/16 due to a change in investment arrangements for global equities and also a revised fee agreement with one fund manager. Lower market values during the year also affected the fees paid to the majority of managers.

One of the fund's external fund managers, Fidelity Worldwide Investment, has an element of their fee related to a performance benchmark set up by the Pensions Committee. Under the terms of their mandate out-performance during the year triggers a performance payment. This improved performance is reflected in asset growth during the reporting period. Performance fees are accrued to the year in which out-performance was earned. In 2014/15 the Fidelity fee accrual was underestimated by £150,743 so this has increased the figure in 2015/16.

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

12. INVESTMENT INCOME

2014/15 £000		2015/16 £000
(20,114)	Equity dividends	(16,997)
(436)	Pooled investments (M&G)	(426)
(1,782)	Pooled property investments	(1,939)
(87)	Interest on cash deposits	(69)
(22,419)		**(19,431)**

a) Other income

2014/15 £000		2015/16 £000
	Miscellaneous income	(1)
(7)	Audit fee reimbursement	
(7)		**(1)**

13. TAXES ON INCOME

2014/15 £000		2015/16 £000
1,626	Withholding tax - equities	1,660
1,626		**1,660**

14. INVESTMENTS

Value at 31.03.15 bid price £000		Value at 31.03.16 bid price £000
	Investment assets	
432,488	Equities	404,115
1,795,820	Pooled investments	1,715,629
59,987	Pooled property investments	64,888
11,475	Cash deposits	17,870
3,303	Investment income due	3,094
2,303,073	**Total investment assets**	**2,205,596**
-	**Total investment liabilities**	**-**
2,303,073	**Net investment assets**	**2,205,596**

a) Reconciliation of movements in investments

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

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

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

b) Analysis of investments

Major Asset Class	31 March 2015 £000 Bid Price		%	31 March 2016 £000 Bid Price		%
Equities						
UK						
Quoted	432,488	**432,488**	**18.8**	404,115	**404,115**	**18.3**
Unquoted Pooled funds – additional analysis						
UK						
Unit Trusts						
Gilt Fund	155,952			160,930		
Corporate Bond Fund	95,632	**251,584**	**10.9**	91,598	**252,528**	**11.4**
Unitised Insurance Policies						
UK Equities Fund	375,339	**375,339**	**16.3**	356,837	**356,837**	**16.2**
Other Managed Funds						
M&G Limited Partnership	10,005	**10,005**	**0.4**	8,311	**8,311**	**0.4**
Overseas						
Unit Trusts						
Gilt Fund	16,504			16,697		
Corporate Bond Fund	79,872	**96,376**	**4.2**	84,349	**101,046**	**4.6**
Unitised Insurance Policies						
European Equities Fund	312,911			309,424		
US Equities Fund	218,905			228,233		
Global Equities Fund	206,489					
GARS Fund	65,112	**803,417**	**34.9**	62,573	**600,230**	**27.2**
Other Managed Funds						
Global Equities Fund				151,903		
Far East Equities Fund	123,084			116,664		
Emerging Markets Equities Fund	61,217			56,851		
Japanese Equities Fund	74,798	**259,099**	**11.3**	71,259	**396,677**	**18.0**
Unquoted Pooled Property Investments						
UK Property Unit Trusts	59,987	**59,987**	**2.6**	64,888	**64,888**	**2.9**
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	3,924			7,858		
Cash on deposit with financial institutions	7,551	**11,475**	**0.5**	10,012	**17,870**	**0.9**
Other Investment Balances and Liabilities						
Other investment balances	3,303	**3,303**	**0.1**	3,094	**3,094**	**0.1**
Net Investment Assets	**2,303,073**	**2,303,073**	**100**	**2,205,596**	**2,205,596**	**100**

c) Investments analysed by fund manager

Fund Manager	Proportion of Fund (%)	Value of Funds Held (£000)	Portfolios Held (actively managed unless otherwise stated)
BlackRock	11.8	261,068	UK Equities Fund (Passive)
	10.4	228,233	US Equities Fund (Passive)
	14.0	309,424	European Equities Fund
	6.9	151,903	Global Equities Fund
	8.0	177,627	Gilt Fund
	8.0	175,947	Corporate Bond Fund
Net Assets held by BlackRock	**59.1**	**1,304,202**	
Lazard Asset Management	18.3	404,115	UK Equities
	0.4	7,858	Cash
	0.1	2,607	Other Investment Balances
Net Assets held by LAM	**18.8**	**414,580**	
Standard Life Investments	4.4	95,769	UK Equities Fund
	2.8	62,573	GARS Fund
Net Assets held by SLI	**7.2**	**158,342**	
Invesco Perpetual	5.3	116,664	Far East Equities Fund
Net Assets held by Invesco	**5.3**	**116,664**	
Nomura Asset Management	3.2	71,259	Japanese Equities Fund
Net Assets held by Nomura	**3.2**	**71,259**	
Fidelity Worldwide Investment	2.6	56,851	Emerging Markets Equities Fund
Net Assets held by Fidelity	**2.6**	**56,851**	
Net Assets held by Fund Managers	**96.2**	**2,121,898**	
Torfaen County Borough Council	2.9	64,888	UK Property Unit Trusts
	0.5	10,012	Cash on deposit with financial institutions
	0.4	8,311	M&G Limited Partnership
	0.0	487	Other Investment Balances
Net Assets held via Administering Authority	**3.8**	**83,698**	
Net Investment Assets	**100.0**	**2,205,596**	

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	UK
Fidelity Worldwide Investment	England & Wales
Invesco Perpetual	England & Wales
Nomura Asset Management	Ireland
Standard Life Investments	UK

15. FINANCIAL INSTRUMENTS

a) Classification of financial instruments

Accounting policies (note 3, page 55) 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 2016. 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	**Restated** Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2015				**31 March 2016**		
£000	£000	£000		£000	£000	£000
			Financial Assets			
432,488			Equities	404,115		
1,795,820			Pooled investments	1,715,629		
59,987			Pooled property investments	64,888		
	11,475		Cash		17,870	
3,303			Other investment balances	3,094		
	23,051		Debtors		15,395	
2,291,598	**34,526**	**-**		**2,187,726**	**33,265**	
			Financial liabilities			
		(50,222)	Creditors			(11,433)
		(50,222)				**(11,433)**
2,291,598	**34,526**	**(50,222)**	**Total**	**2,187,726**	**33,265**	**(11,433)**

b) Net gains and losses on financial instruments

31 March 2015		31 March 2016
£000		£000
	Financial assets	
224,692	Fair value through profit and loss	(71,361)
2,070	Loans and receivables	2,568
-	Financial liabilities measured at amortised cost	
	Financial liabilities	
-	Fair value through profit and loss	
-	Loans and receivables	
-	Financial liabilities measured at amortised cost	
226,762	**Total**	**(68,793)**

c) 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.

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. 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.

Level 3

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

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

	31 March 2015 £000	31 March 2016 £000
Opening balance	**10,862**	**10,005**
Contributions	773	297
Net income and expenses	422	391
Return on investment	(436)	(426)
Interest on investment	(24)	-
Return of capital	(1,591)	(1,960)
Net change in unrealised appreciation/(depreciation)	(1)	4
Closing balance	**10,005**	**8,311**

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 2016	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	407,209	1,772,206	8,311	2,187,726
Loans and receivables	33,265			33,265
Total financial assets	**440,474**	**1,772,206**	**8,311**	**2,220,991**
Financial liabilities				
Financial liabilities at fair value through profit and loss				
Financial liabilities at amortised cost	(11,433)			(11,433)
Total financial liabilities	**(11,433)**			**(11,433)**
Net financial assets	**429,041**	**1,772,206**	**8,311**	**2,209,558**

Restated Values at 31 March 2015	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	435,791	1,845,802	10,005	2,291,598
Loans and receivables	34,526			34,526
Total financial assets	**470,317**	**1,845,802**	**10,005**	**2,326,124**
Financial liabilities				
Financial liabilities at fair value through profit and loss				
Financial liabilities at amortised cost	(50,222)			(50,222)
Total financial liabilities	**(50,222)**			**(50,222)**
Net financial assets	**420,095**	**1,845,802**	**10,005**	**2,275,902**

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

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

Overall procedures for managing risk

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

The Pension Fund prepares statutory documents detailing its investment strategy and how it implements and monitors this. The Fund's Statement of Investment Principles (SIP) 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 that is assisted in its role by a Local Pension Board. Both bodies meet regularly to monitor asset allocation and investment performance against Fund benchmarks.

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

a) Market risk

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

The Pension Fund's funding position is sensitive to market price changes on two levels. Changes in the market price of investments such as equities, affect the net assets available to fund promised member benefits. Changes in the yields (and thus price) of bonds, as well as affecting asset values, also affect the value placed on the Pension Fund's liabilities within its overall funding calculations. To give an indication of scale, the change in the market value of the Pension Fund's net investment assets during the year was a decrease of £97.5 million.

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

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

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

Asset price risk

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

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

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

Asset price risk – sensitivity analysis

Following, 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 2016/17 reporting period:

Asset type	Potential market movement (+/-)
UK equities	10.70%
Overseas equities	11.79%
Fixed interest (Gilts)	6.56%
Fixed interest (Corporate Bonds)	6.46%
Pooled property investments	1.37%
Alternative investments	3.29%

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

Asset type	Long term performance expectations p.a. (+)
Equities	6.1%
Fixed interest (Gilts)	1.6%
Fixed interest (Corporate Bonds)	3.4%
Property investments	5.0%

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 2015/16 volatility assumptions are also shown below):

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

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

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 2015 £000s	As at 31 March 2016 £000s
Cash on deposit with financial institutions	7,551	10,012
Cash held by Managers	3,924	7,858
Fixed interest securities	347,960	353,574
Total	**359,435**	**371,444**

Interest rate risk sensitivity analysis

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

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

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

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

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

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

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

Currency risk

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

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

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

Currency exposure - asset type	Value as at 31 March 2015 £000	Value as at 31 March 2016 £000
Overseas equities	997,404	934,334
Overseas fixed income (Gilts)	16,504	16,697
Overseas fixed interest (Corporate)	79,872	84,349
Global Absolute Return Strategies Fund (GARS)	65,112	62,573
Total overseas assets	**1,158,892**	**1,097,953**

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 2016 to be 5.95%. 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 2016 £000	Potential change in exchange rates %	Value on increase £000	Value on decrease £000
Overseas equities	934,334	5.89	989,366	879,302
Overseas fixed income (Gilts)	16,697	6.47	17,777	15,617
Overseas fixed interest (Corporate)	84,349	6.47	89,806	78,892
GARS Fund	62,573	5.99	66,321	58,825
Total change in assets available	**1,097,953**	**5.95**	**1,163,270**	**1,032,636**

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

b) Credit risk

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

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

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

The Pension Fund's Cash Management Strategy for 2015/16 (and its forward looking strategy for 2016/17 which is now in place) sets out the type and minimum acceptable criteria for investments; the institutions with which they can be placed; the maximum value that can be placed with each institution and the maximum period for which money can be invested. The strategy references and details the Fund's processes and procedures in terms of its cash management and how specialist external advice is used within the process. In terms of this external advice then the Pension Fund utilises Capita Asset Services for formulating and monitoring the Fund's list of approved counterparties. Capita uses a comprehensive method of assessing counterparty's credit ratings which includes overlaying the three credit rating agencies' scores with additional data, relative to each institution, such as rating watches and CDS spreads where available to advise of a maximum suggested investment period with that counterparty.

The Fund believes that it has, through a continuing difficult period for financial markets and institutions, adequately managed its exposure to credit risk. There have been no instances of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2016 was £10.0 million (31 March 2015 was £7.6 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	Rating (Fitch Long Term) (at 31 March 2015)	Balances as at 31 March 2015 £000	Balances as at 31 March 2016 £000
Money Market Funds			
BlackRock	AAA	549	
Ignis now Standard Live	AAA	6,868	8,658
Invesco Perpetual	AAA	-	2,097
Standard Life Investments	AAA	-	
Bank Current Accounts			
TCBC Pension Fund		134	(743)
Total		**7,551**	**10,012**

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 2016, all Pension Fund cash balances were spread across such immediate access accounts. The Fund still retains the option to invest within fixed term deposits but, in accordance with the cash management strategy, these must currently be of maximum 6 months duration and placed with UK banks. At any point in time the whole of the Fund's cash investments can therefore be deemed to be reasonably liquid in that they could be 100% redeemed within a maximum 6 month period if required.

In practice however, the vast majority of cash deposits will be available to a much shorter timescale, as demonstrated at year end when all cash deposits were immediately available should this have been required. The Fund monitors and manages the timing of its cash flows on both an operational and a longer term strategic basis. The strategic profile of the Fund continues to show that the Fund's cash flow is positive with contributions being received exceeding the value of benefits paid out. This excess is diminishing year on year, but continues to be appropriately monitored in a strategic sense.

With the Fund remaining fundamentally cash generative however, though the Fund's strategic asset allocation contains a 3% allocation to cash, the Fund has again been comfortable (documented via its cash management strategy) to allow cash levels to float around or below the 1% level during the 2015/16 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 2013. That valuation showed that the employers would need to pay different contributions to the Fund from 1 April 2014. The common rate of employers' contributions payable is 13.1% of pensionable pay. Individual employers rate vary from the common rate depending on demographic and actuarial factors particular to each employer. Members' contribution rates range from 5.5% to 12.5% depending on their salary.

17.3 The contribution rates for the unitary councils with effect from 1 April 2015 are as follows:-

Blaenau Gwent	Greater of a) 12.4% plus £3,523,600 or b) 21.5%
Caerphilly	Greater of a) 12.8% plus £5,747,300 or b) 19.5%
Monmouth	Greater of a) 13.6% plus £2,959,300 or b) 21.1%
Newport	Greater of a) 12.4% plus £4,154,800 or b) 19.2%
Torfaen	Greater of a) 12.4% plus £3,994,300 or b) 21.2%

A full list of contribution rates for all employers can be found in the Actuarial Valuation which is available on the Pension Fund website.

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

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

17.4 The market value of the Fund's assets at the 2013 valuation was £1,924 million. At the valuation date, the Fund's liabilities exceeded the assets by £799 million giving a revised funding level of 71% (the funding level at the 2010 valuation was 74%). The main factor that contributed to the change in funding position was a change in the financial assumptions.

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 2016.

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

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

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 dated 31 March 2013 that can be found on the Pension Fund's website:-

https://gwentpensionfund.co.uk/media/2461/valuation-report.pdf

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

18.1 The Code requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes. To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.5% per annum
Rate of pay increases	3.5% per annum*	3.7% per annum
Rate of increase in pensions (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.2% per annum

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

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

18.3 During the year bond yields improved slightly, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.3% p.a. versus 3.5% p.a.). The expected long-term rate of CPI inflation also increased during the year, resulting in a higher assumption for pension increases at the year-end than at the beginning of the year (2.0% p.a. versus 2.2% p.a.).

18.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £3,566 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to increase the liabilities by £28 million. Adding interest over the year and allowing for net benefits accrued/paid over the period increases the liabilities by another £64 million.

18.5 The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £3,658 million.

18.6 The Fund, in parallel, also uses its Actuarial assumptions and methodology as referred to in note 17 to provide an interim funding position on an annual basis between valuations as an appropriate monitoring mechanism.

19. CURRENT ASSETS

31 March 2015 £000		31 March 2016 £000
	Contributions due from employing bodies:-	
2,080	- Employees contributions	2,004
14,052	- Employers contributions	9,714
4,334	Early retirement costs	1,490
197	Fund manager fee rebates	192
3	Pension payroll	5
4	Interest	6
2,381	Group transfer receivable	1,984
23,051		**15,395**

Analysis of debtors

31 March 2015 £000		31 March 2016 £000
2,382	Central Government bodies	1,986
11,040	Other Local Authorities	7,799
9,629	Other entities and individuals	5,610
23,051		**15,395**

a) Funding of early retirement costs

During 2015/16, the cost to the pension fund of early retirements arising in that year was £3,491,210.14 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 2015/16 and in future financial years for early retirements known as at 31 March 2016. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2015/16 in respect of:		
Prior Years	2,583	
Current Year	3,322	5,905
Balances b/f 1 April 2015	4,334	
Payments Received in 2015/16	(6,246)	
Reversal of previous instalments due	(3,755)	(5,667)
Instalments due for 2016/17	506	
Instalments due for 2017/18 & later years	746	1,252
2015/16 Debtor		**1,490**

The instalments due for 2016/17 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2015/16.

20. CURRENT LIABILITIES

Restated 31 March 2015 £000		31 March 2016 £000
(1,322)	Unpaid benefits	(3,596)
(801)	Pension payroll	(810)
-	Refunds due to employers	(5)
(7)	Inland Revenue	(54)
(1,909)	Investment management expenses	(1,866)
(54)	Oversight and governance costs	(38)
-	Administrative costs	(16)
(32)	AVC	(48)
(46,097)	Group transfers payable	(5,000)
(50,222)		**(11,433)**

Analysis of creditors

31 March 2015 £000		31 March 2016 £000
(804)	Central Government bodies	(864)
(973)	Other Local Authorities	(1,833)
(48,445)	Other entities and individuals	(8,736)
(50,222)		**(11,433)**

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 2015/16	366	183	3	552
Market value of AVC Investments 31st March 2016	3,694	1,572	936	6,202

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. AGENCY SERVICES

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

31 March 2015 £000		31 March 2016 £000
	Payments on behalf of:-	
14	Central Government	14
9,194	Other Local Authorities	9,056
23	Other entities and individuals	22
9,231		**9,092**

23. RELATED PARTY TRANSACTIONS

23.1 In the course of fulfilling its role as administering authority to the Fund, Torfaen CBC provided services to the Fund. Costs are normally in respect of those staff employed in ensuring the pension service is delivered and are included in the accounts within Management Expenses (note 11, page 61). Related parties to the Pension Fund include all employers within the Fund and members of the Torfaen Pensions Committee. There have been no financial transactions between any of these parties and the Fund apart from the routine contributions and benefits payable that are defined by statutory regulation and are therefore not within the direct control of any party.

23.2 **Governance**

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

23.3 **Key management personnel**

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

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

24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENT

24.1 The fund invests in the Prudential/M&G UK Companies Financing Funds (Funds I and II) which are in the form of Limited Liability Partnerships. As at 31 March 2016 no further liability remains for Financing Fund I but it does for Financing Fund II. During 2015/16 the fund made a contribution of £296,897 to Financing Fund II but this was offset by net loan repayments received of £559,135. A further liability of £5,436,342 exists at the year end.

25. PRIOR PERIOD ADJUSTMENT

25.1 From 1 April 2011 employees working for Monwell Hankinson transferred from Newport City Council to Rhondda Cynon Taf County Borough Council. As a result they transferred from the Greater Gwent (Torfaen) Pension Fund to Rhondda Cynon Taf Pension Fund effective from 1 April 2011. This transfer should have been recognised as a group transfer out at this date, and therefore have been recognised in the Fund Account for the year ended 31 March 2012. An actuarial assessment of the liability at 1 April 2011 was £1,097k. During the 2015/16 audit it was identified that this charge had not been accrued in 2011/12. Therefore, a prior period adjustment has been made to recognise that a liability of £1,097k would have been created at 1 April 2011 and carried forward in respective Net Asset Statements until the liability was paid in the 2015/16 financial year. The Net Asset Statement and relevant notes have been restated to reflect this adjustment.

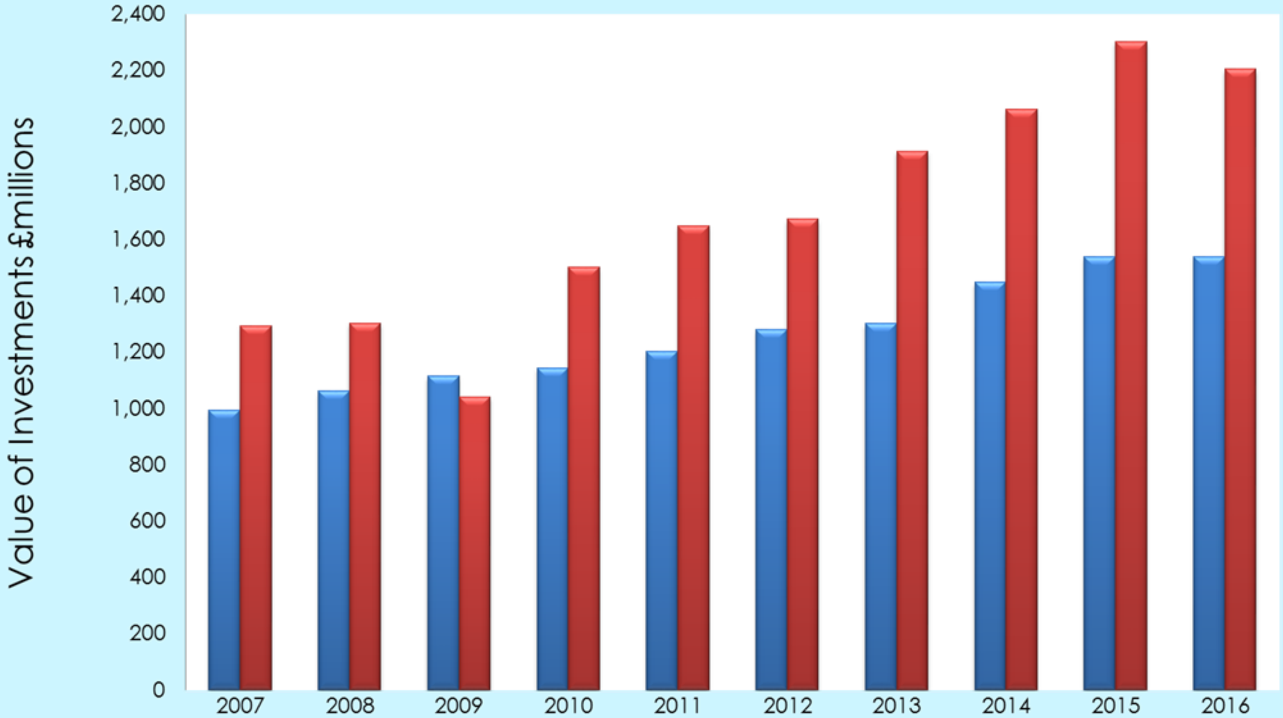
26. NON-ADJUSTING POST BALANCE SHEET EVENT – IMPACT OF EU REFERENDUM OUTCOME

26.1 With the vote to leave the EU confirmed on 24 June 2016, global stock markets have, as expected, responded with some significant fluctuations. Whilst these significant fluctuations are expected to ease in the coming weeks, the Pension Fund will need to consider the impact of these events on its financial statements at the time of their approval. With significant balances held in investments carried at fair value, the Fund will be impacted by these events. In this case the values reported may be significantly lower, or possibly higher, than the position reported at 31 March 2016.

Appendices

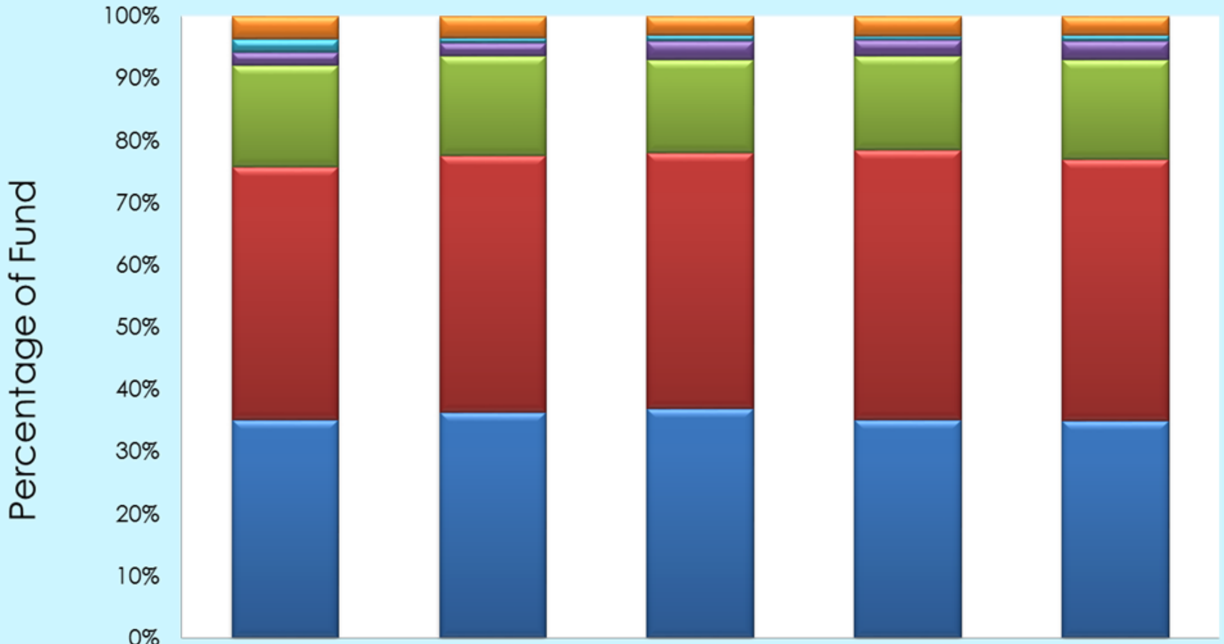
Appendix 1

Ten Year Valuation of Investments



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Book Cost	994	1,062	1,115	1,145	1,204	1,280	1,303	1,449	1,539	1,541
Market Value	1,294	1,303	1,042	1,502	1,650	1,673	1,915	2,062	2,303	2,206

Tactical Asset Allocation



	2011/12	2012/13	2013/14	2014/15	2015/16
Alternatives	4	4	3	3	3
Cash	2	1	1	1	1
Property Unit Trust	2	2	3	3	3
Fixed Interest	16	16	15	15	16
Overseas Equities	41	41	41	43	42
UK Equities	35	36	37	35	35

Appendix 2

Fund Membership

	Active Members 31/03/15	Active Members 31/03/16
Administering Authority		
Torfaen CBC	3,105	3,323
Current Scheduled Bodies		
Blaenau Gwent CBC	2,745	2,973
Caerphilly CBC	6,718	6,802
Monmouthshire CC	2,698	2,702
Newport City Council	3,822	3,844
Caldicot & Wentloog LDB	18	0
Valuation Panel	4	4
Coleg Gwent	667	622
Chepstow Town Council	6	6
Brynmawr Town Council	1	1
Chief Constable (Gwent)	807	776
Police & Crime Commissioner (Gwent)	19	23
Silent Valley Waste Disposal	3	3
Caldicot Town Council	2	2
Nantyglo & Blaina Town Council	1	1
Monmouth Town Council	2	2
Gwent Cremation Committee	9	8
Cwmbran Community Council	8	7
Pontypool Community Council	7	10
Tredegar Town Council	2	1
Rogerstone Community Council	4	4
Bargoed Town Council	1	1
Portskewett Community Council	1	1
Shirenewton Community Council	1	1
Henllys Community Council	1	1
Magor with Undy Community Council	1	1
Langstone Community Council	1	1
Caerwent Community Council	0	1
Llanfoist Fawr Community Council	0	1
Deemed Bodies		
Newport Transport	10	8
Admitted Bodies		
Melin Homes	62	60
Careers Wales Gwent	97	88
Citizen Advice Bureau Caerphilly	8	8
Mitie (formerly Ballast)	2	2
Hafod Care	25	22
Archives	12	11
Monmouthshire Housing	157	155
Bron Afon	482	516
Newport City Homes	204	216
Tai Calon	258	249
DRIVE	4	4
Regent Ex Monmouth CC	7	2
Regent Ex Monmouth Cluster	3	2

Appendix 2

Fund Membership

	Active Members 31/03/15	Active Members 31/03/16
Admitted Bodies continued		
Regent Ex Abergavenny Cluster	2	0
Regent Ex Chepstow Cluster	7	0
Vinci	1	1
Compass Catering Newport	90	67
Compass St Albans	1	0
National Trust	7	7
Barnardo's	4	3
EAS	88	92
Caterlink NCC Caerleon	3	0
Caterlink NCC Newport High	5	4
Churchill	8	4
Monwell Ltd	23	0
Torfaen Leisure Trust	149	222
Borough Theatre	7	7
NPS Newport	17	18
NCS Norse	123	112
Life Leisure	360	426
Newport Live	0	179
Total Active Membership	22,880	23,607
Total Deferred Members	15,153	16,058
Total Pensioners and Dependants	15,204	15,816
Total Membership	**53,237**	**55,481**

Appendix 3

Top Ten UK Equity Segregated Holdings as at 31 March 2016

Company	Bid Market Value £
Royal Dutch Shell	33,229,747
British American Tobacco	23,597,010
Diageo	16,058,548
GlaxoSmithKline	15,947,813
BP	15,437,473
Vodafone Group	15,094,105
Lloyds Banking Group	13,625,804
Unilever	13,255,191
BT Group	12,094,734
Rio Tinto	10,663,391

Ten Year Summary of Statistics

Revenue Account	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Contributions	91,427	99,087	105,720	113,894	110,304	101,652	101,028	109,666	104,655	103,450
Transfer Values Received	10,755	11,378	6,672	12,603	7,265	7,824	4,942	7,946	5,318	9,277
Investment Income and Other	19,043	18,682	18,096	16,043	17,099	21,448	20,659	26,095	20,800	17,772
Total Income	**121,225**	**129,147**	**130,488**	**142,540**	**134,668**	**130,924**	**126,629**	**143,707**	**130,773**	**130,499**
Pensions and Other Benefits	56,102	62,146	69,411	76,190	81,491	84,538	88,856	95,175	102,179	109,229
Transfer Values Paid	6,421	5,901	3,499	8,875	8,512	22,965	6,303	3,177	49,692	9,377
Refunds of Contributions	33	37	13	15	5	2	5	8	149	239
Fees and Other	4,257	5,179	4,199	4,667	5,810	6,032	6,642	8,709	9,403	9,205
Total Expenditure	**66,813**	**73,263**	**77,122**	**89,747**	**95,818**	**113,537**	**101,806**	**107,069**	**161,423**	**128,050**
Net Surplus for Year	54,412	55,884	53,366	52,793	38,850	17,387	24,823	36,638	(30,650)	2,449
Net Profit/(Loss) on Sale of Investments	96,856	12,152	(936)	(20,183)	20,631	40,620	14,317	119,325	75,822	30,736
Unrealised Change in Market Value	(17,694)	(64,259)	(310,662)	430,997	89,520	(52,621)	218,496	1,124	150,940	(99,529)
Increase/(Decrease) in the Fund	**133,574**	**3,777**	**(258,232)**	**463,607**	**149,001**	**5,386**	**257,636**	**157,087**	**196,112**	**(66,344)**

Investment Assets	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Book Cost at 31 March	993,537	1,061,990	1,114,650	1,144,901	1,203,604	1,279,958	1,302,617	1,449,212	1,538,838	1,540,889
Market Value at 31 March	1,294,237	1,302,616	1,042,438	1,501,677	1,649,900	1,673,634	1,914,788	2,062,483	2,303,073	2,205,596

Membership										
Contributors	21,559	21,834	22,143	21,667	21,196	20,550	20,582	22,435	22,880	23,607
Pensioners	11,740	12,183	12,610	13,091	13,576	13,910	14,296	14,820	15,204	15,816
Number of Preserved Benefits	8,216	9,067	9,735	10,577	11,378	12,189	13,180	14,359	15,153	16,058
Total	**41,515**	**43,084**	**44,488**	**45,335**	**46,150**	**46,649**	**48,058**	**51,614**	**53,237**	**55,481**

Appendix 5

Points of Contact

Governance, Management and Investments
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If you need more information you can write to:-

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Pontypool
Torfaen NP4 6YB

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