



**TORFAEN  
COUNTY  
BOROUGH**



**BWRDEISTREF  
SIROL  
TORFAEN**

# Greater Gwent (Torfaen) Pension Fund Annual Report & Accounts

## Cronfa Bensiwn Gwent Fwyaf (Torfaen) Adroddiad Blynyddol a Chyfrifon

**2017/2018**

Nigel Aurelius, CPFA  
Assistant Chief Executive Resources



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## Statement of Responsibilities for the Pension Fund Accounts

### The Council's responsibilities as Administering Authority

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Assistant Chief Executive (Resources);
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Pension Fund accounts.

### The Assistant Chief Executive (Resources)'s Responsibilities

The Assistant Chief Executive (Resources) is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the Pension Fund accounts, the Assistant Chief Executive (Resources) has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Assistant Chief Executive (Resources) has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### The Assistant Chief Executive (Resources)'s Certificate

I certify that the Pension Fund accounts give a true and fair view of the financial position of the Greater Gwent (Torfaen) Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2018.

**Signed:**



**Nigel Aurelius, CPFA**  
**Assistant Chief Executive (Resources)**  
**Date: 26 June 2018**

## INTRODUCTION

- 1.1 Welcome to this year's Pension Fund Annual Report and Accounts. The last year has been a period of change for the Fund at all levels from global influences to Local Government Pension Scheme specific issues and closer to home, changes in the Pensions Committee membership and also at officer level. It has therefore been important to maintain stability but also to ensure service levels are maintained.

### **Governance**

- 1.2 In 2017/18, the Fund's Pension Committee has met regularly, with new members of the Committee undergoing the necessary training to improve their levels of knowledge and understanding. Particular focus for the Committee has centred on investment arrangements, the developments around collective investment pooling and the increasing importance of how the Fund ensures it demonstrates it is a responsible investor. Joint training has also been undertaken with the Local Pensions Board which play an important role in supporting the governance arrangements of the Fund. Their annual report is included later within this report.
- 1.3 The all Wales collective investment Pooling arrangements continue to progress in accordance with UK Central Government requirements. The Wales Pension Partnership (WPP) has established a Joint Governance Committee formed from Elected Member representatives of the eight participating Welsh Funds to govern the WPP and a regulated third party operator has been appointed to administer the pooling arrangements. The intention remains that each Fund maintains its own funding requirements and investment strategy but then uses a collective investment arrangement to implement its investment requirements, thereby achieving economies of scale in investment management fees through a combined Welsh LGPS Pool of some £16bn.
- 1.4 The wider investment opportunities available via the WPP remind us however of the importance to act as a responsible investor and take economic, social and governance matters seriously whilst also being clear that the Fund must operate in the best interests of its members. In that context it is important to note that the Fund expects all its managers to operate within industry standards through, for example, membership of the UNPRI (United Nations supported Principles for Responsible Investment) - which sets the international principles for responsible investment. In addition, the Fund itself is a member of the LAPFF (Local Authority Pension Fund Forum), a collective of local government pension funds who look to influence behaviours within those companies which we invest in. Where equity shares are owned, the Fund, its advisers and asset managers will also engage with companies to understand the extent of a company's planning for environmental, social and governance related issues such as lower carbon emissions. This informs the Fund's investment decisions and allows the Fund to apply pressure on companies' management to increase their efforts in these areas where appropriate. However the Fund always looks to review, evolve and develop its policies and practices in this area, and has a Responsible Investment Working Group currently undertaking a further review of the Funds current policy, practices and approach to determine what, if any changes may be required in the context of industry developments and emerging wider thinking on these important issues.

### **Administration**

- 1.5 Overall membership of the Fund has increased during the year by 3.6% to 59,294 as at 31st March 2018 and what is perhaps encouraging is that active membership has increased by 5.3% whilst non active (pensioners and deferred members) has increased by only 2.5%. The net effect is that active contributors now account for 41% of the total fund membership with 28% of the total membership drawing pension benefits and a further 31% with deferred benefits.

- 1.6 Workloads have therefore, not surprisingly, increased throughout the year with over 13,500 core tasks being undertaken around retirements, deferred members, transfers and deaths in service. During the year the Administration team have continued to improve the efficiency of the various processes by, for example, providing an easy to use pension calculator which can reduce the number of standard queries but which equally enables more in depth queries to be raised as members improve their understanding of all things pension related.

The team has also been extremely successful in signing members up for the 'My Pension Online' service with over 14,000 or around 24% of members already signed up. Active and Deferred members once again received their Annual Benefit Statements via the member portal and Pensioners are now also able to access their payslips and P60s via 'My Pension Online'. The Team has also continued to work closely with employers during the year, to encourage the use of Employer Self Service. The Fund now has 36 Employers using the service covering over 99% of the Active Membership.

### **Investments**

- 1.7 I suggested in last year's report that despite strong returns and markets proving unexpectedly resilient in 2016/17, returns were unlikely to remain at such high levels and that the Fund would need to plan for more modest returns and continued volatility in the future. In the last 12 months, this has indeed proved to be the case and the Fund has had to consider how best to adjust its overall investment approach to not only progress its way through this investment environment but also to do so by taking advantage of the new investment opportunities being presented to the Fund through the WPP arrangements. In 2017/18 there have been extended periods when the positive market progress continued to be driven by a generally growing optimism for the health of the global economy with good company and economic data. However the final quarter of 2017/18 saw a lot more global economic and investor uncertainty with concerns over inflation, a potential US and China trade war and interest rate rises especially in the US but also with the Bank of England raising UK interest rates for the first time in ten years. This all caused considerable concern right across the globe meaning that the financial year ended with negativity prevailing across economies and global markets in early 2018.
- 1.8 Despite the especially poor final quarter, the Fund was successful over the course of the full year to report a positive investment return of 3.53% with an increase in its market value from £2,700 million to £2,790 million. Our investment performance return for the year was an out-performance against our benchmark (2.53%) of 1.00% but an underperformance when compared to the weighted local authority average. This has also helped longer term performance as shown elsewhere within this report with reporting periods up to 10 years showing a positive return against benchmark.
- 1.9 Finally, some "thank yous". One is to the members of the Pensions Committee who following elections in May 2017 have risen to the challenge of providing governance, stewardship and direction for the Fund providing the leadership required to see the Fund navigate through changing times. Secondly, to the members of the Pensions Team who have retired this year and in particular, Mary Rollin who took a well-deserved retirement at the end of March 2018. Her contribution over the 9 years as Pensions Manager has been very significant and highly valued and it now falls to her successor, Joanne Griffiths to lead the Administration team forward. Finally, I would like to thank all the staff of the Pension Fund for their commitment and hard work towards delivering a quality service during the year. Despite the increasing workloads in an increasingly complex area, staff continue to place the scheme members first and this is valued by our members and those charged with the governance of the Fund.

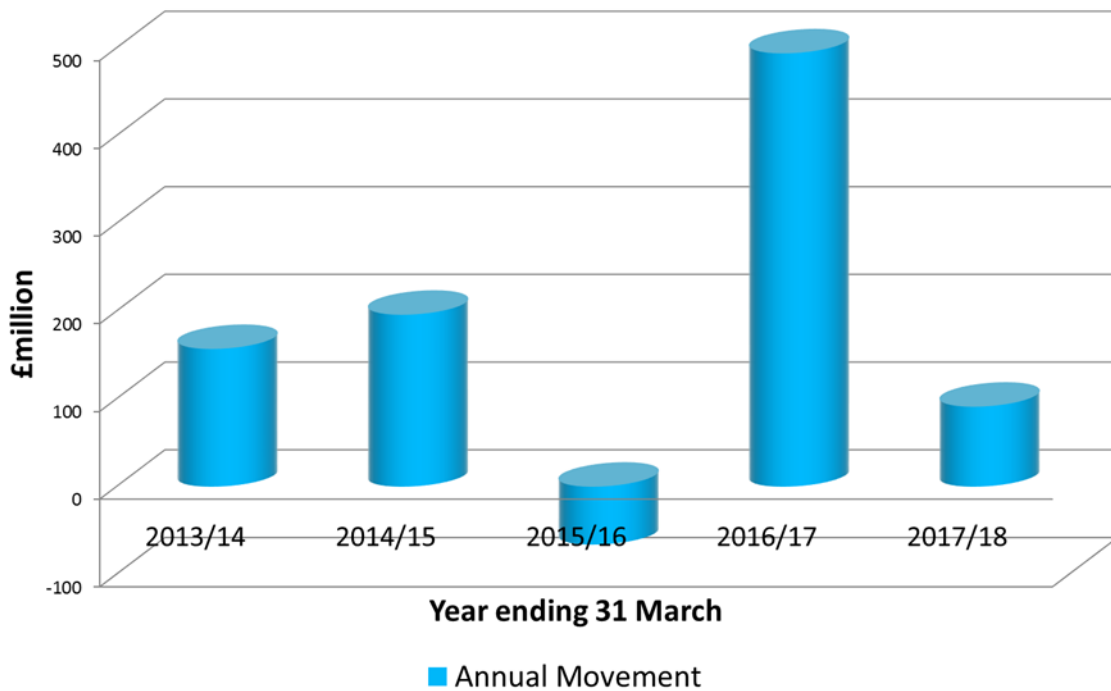
**NIGEL AURELIUS, ASSISTANT CHIEF EXECUTIVE RESOURCES  
TORFAEN COUNTY BOROUGH COUNCIL  
MAY 2018**

## OVERVIEW

### 1. 2017/2018 in summary

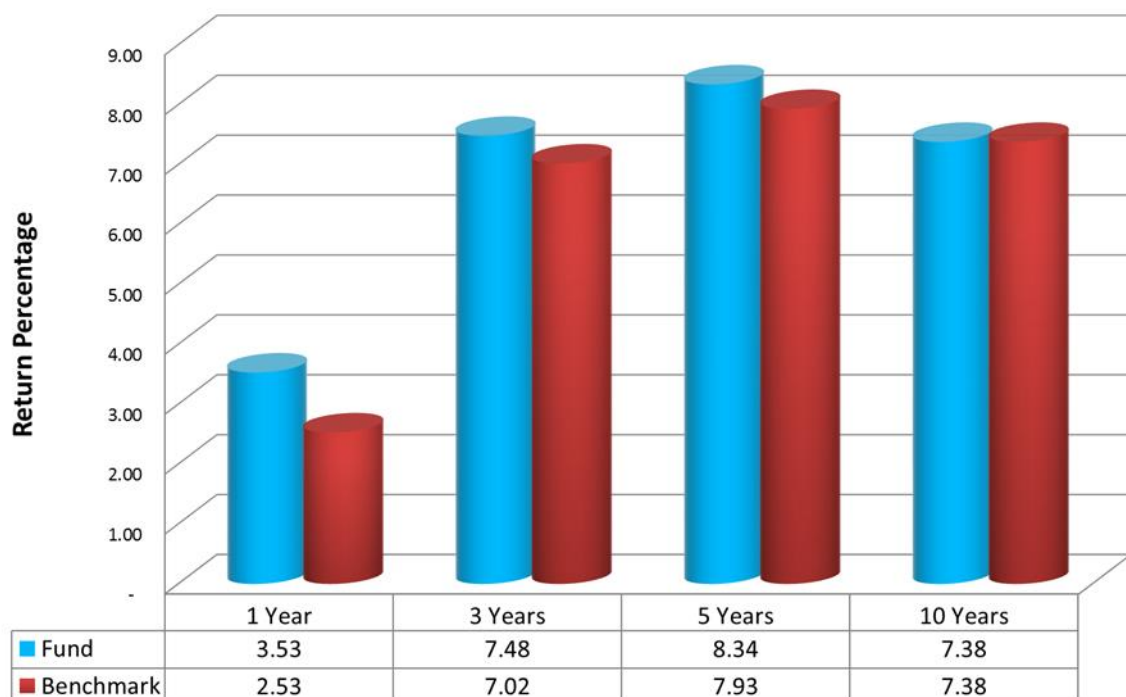
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
<b>59,294</b>	<b>£2.8bn</b>	<b>£111.419m</b>	<b>£114.118m</b>

Annual Movement in the Net Assets of the Fund

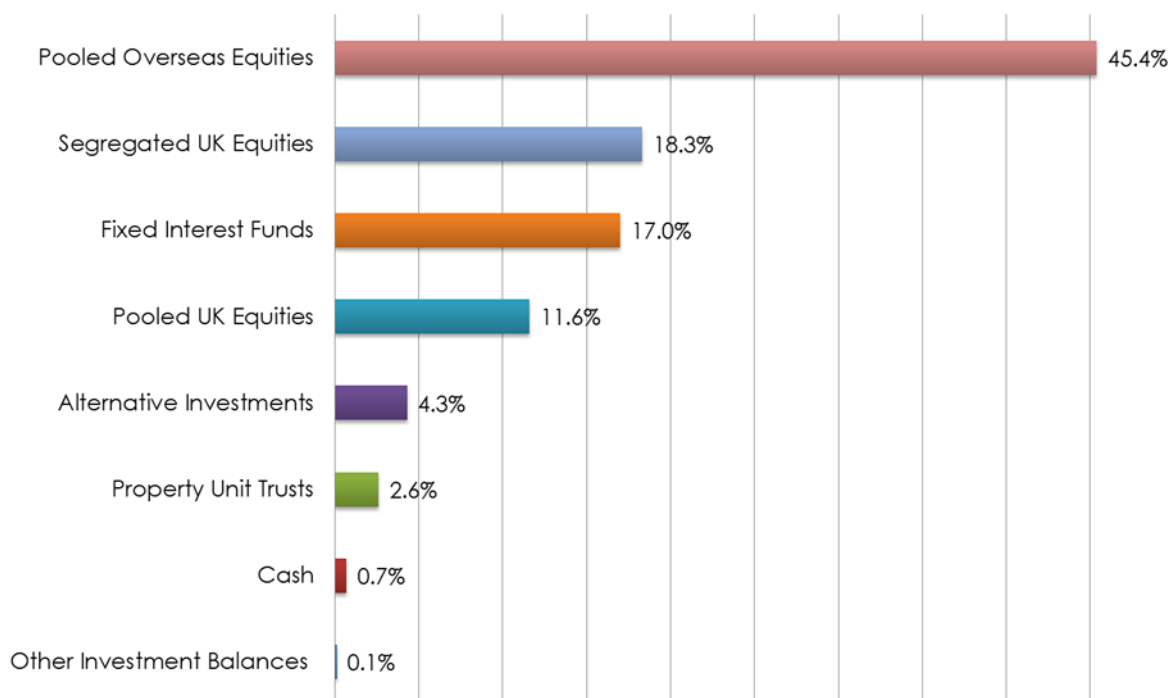


### 2. Investments

Periodic Performance to 31 March 2018



## Portfolio distribution as at 31 March 2018



### 3. Membership

Contributing Members

**23,991**

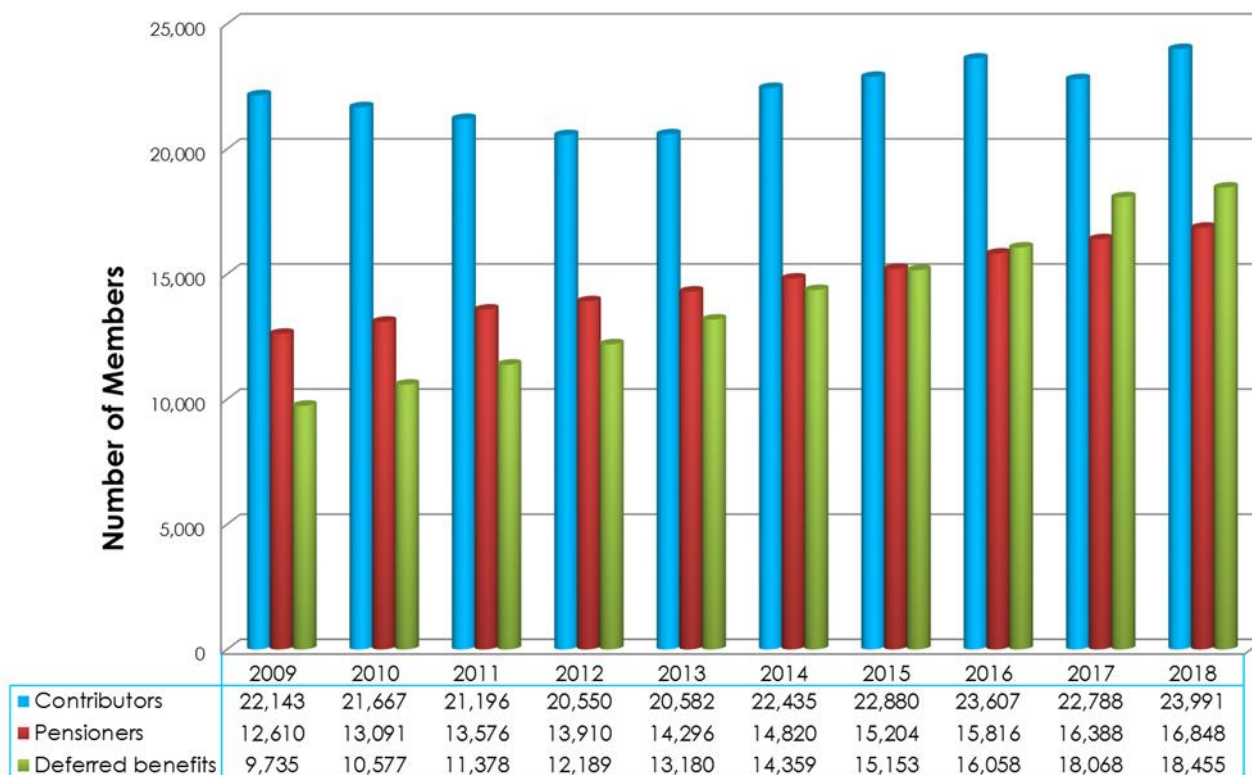
Members in Receipt of Pension

**16,848**

Members with Deferred Benefits

**18,455**

#### Split of Fund Membership as at 31 March





## GOVERNANCE AND FINANCIAL PERFORMANCE REPORT

### 1. Scheme management and advisors

- 1.1 The Greater Gwent (Torfaen) Pension Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) (The 2013 Regulations), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) (The Transitional Regulations). It is the appropriate occupational pension scheme for employees of local authorities in the Greater Gwent area with the exception of teachers and lecturers, who have a separate scheme which applies to them. In addition, the employees of certain bodies providing public services are admitted to the Fund. Details of the authorities covered by the scheme are given on page 59.
- 1.2 Torfaen County Borough Council 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 2018 the membership of the Pensions Committee, together with advisors and dedicated internal officers for the Fund are as follows:-

#### **Chair**

Councillor Glyn Caron

#### **Committee Members**

Councillor Huw Bevan  
Councillor Joanne Gauden  
Councillor Jon Horlor  
Councillor Peter Jones  
Councillor Raymond Williams



#### **Chair**

Councillor Glyn Caron

#### **Administrator**

Nigel Aurelius, Assistant Chief Executive Resources



#### **Assistant Chief Executive Resources**

Nigel Aurelius

#### **Head of Service**

Graeme Russell, Head of Pensions

#### **External Investment Advisors**

Aoifinn Devitt (Deputy Elizabeth Carey CFA)



**Consulting Actuary**

Hymans Robertson (Douglas Green)

**Investment Consultant**

Mercer Investment Consulting (Joanne Holden)

**Solicitor and Legal Advisor to the Fund**

Tim James, Chief Legal Officer

Delyth Harries, Monitoring Officer and Assistant Chief Legal Officer

**Investment Fund Managers**

BlackRock

Fidelity Worldwide Investments

Invesco Perpetual

Lazard Asset Management

Aberdeen Standard Investments

**Custodians**

Bank of New York Mellon

**Bankers to the Fund as at 31 March 2018**

Lloyds Bank

1 Gwent Square

New Town Centre

Cwmbran, South Wales

NP44 1XN

## 2. Local Pension Board Annual Report

This section constitutes the Annual Report of the Local Pension Board 2017-2018 and is written by Ian Coleman, Independent Chair of the Pension Board.

### 2.1 Background

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

**Independent Chair**

Ian Coleman (4)

**Employee Representatives**

Bob Campbell (4)

Jan Davies (1)

Cheryl Morgan (1)

Anthea Wellington (3)

John Wright (4)

**Employer Representatives**

Steve Harford (3)

Rhian Hayden (4)

Meirion Rushworth (2)

Ruth Tucker (1)

Jane Waters (4)

The numbers in brackets indicate the number of Pension Board meetings attended during 2017-18.

Cheryl Morgan and Ruth Tucker have submitted their resignations from the Pension Board and a process is underway to appoint replacements.

The Pension Board met on four occasions during 2017-18: 26 April 2017, 19 July 2017, 18 October 2017 and 24 January 2018, and each meeting was quorate.

## 2.2 Functions and Operation of the Board

- The two primary functions of a Local Pension Board are to assist the Administering Authority to:
  - i) Ensure effective and efficient governance and administration of the LGPS
  - ii) Ensure compliance with relevant laws and regulations
- The Pension Board has a monitoring, assisting and reviewing purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Pension Board is to seek assurances, with evidence provided by the Pension Fund and from other sources, that the Fund is meeting its objectives, producing all required statements and adequately managing risks.
- In so doing, the Pension Board is helping to manage the reputational risk of the Pension Fund, and of the Administering Authority, which is under more scrutiny now that the LGPS in England and Wales has the Ministry for Housing, Communities and Local Government (MHCLG), The Pensions Regulator (TPR) and the LGPS Scheme Advisory Board (SAB) all with some regulatory responsibilities.
- The Pension Board operates under Terms of Reference which were agreed by Torfaen Council on 3 March 2015.
- The establishment and initial meetings of the Pension Board during 2015-16 coincided with a period of significant pressure on the senior officers of the Council with the Administering Authority having to respond to the then Department for Communities and Local Government (DCLG) by 19 February 2016 on consultation documents on both the proposed pooling of LGPS investments, and on proposed revised Investment and Management of Funds Regulations.
- The pressures did not abate in 2016-17 with the Administering Authority having to make a further submission to the DCLG on the pooling of investments by 15 July 2016. A Memorandum of Understanding relating to the procurement of services by the Administering Authorities of the LGPS in Wales was prepared on 11 October 2016 and on 23 November 2016 the DCLG approved the establishment of the all Wales investment pool. On 28 February 2017 the Council approved an Inter Authority Agreement (IAA) covering the all Wales pension fund investment pooling.
- In addition to the pooling of investments; other developments in 2016-17 included the triennial valuation at 31 March 2016 and the preparation of a new statutory document, the Investment Strategy Statement, by 31 March 2017.
- The workload, and consequent pressure, brought about by the creation of the Wales Pension Partnership (WPP) has continued throughout 2017-18. Following the approval of the IAA, Carmarthenshire CC was appointed as Host Authority for the WPP. A selection questionnaire in May 2017 elicited eight responses and on 9 June 2017, an Invitation to Tender was issued to six potential operators with responses due by 17 July 2017. A progress report was submitted to the DCLG in October 2017, and on 7 November 2017, the Joint Governance Committee of the WPP recommended the appointment of an operator. This recommendation was approved by Torfaen County Borough Council in December 2017.

- In addition to the WPP, other developments in 2017-18 included the creation of a Responsible Investment Working Group which was proposed by the Pension Board on 19 July 2017 and which met for the first time on 13 December 2017; the implementation of the Markets in Financial Instruments Directive on 3 January 2018; support for the SAB voluntary code of reporting on investment cost transparency and consistency; and preparation for the implementation of the General Data Protection Regulations on 25 May 2018.
- Given these pressures on the Administering Authority, and the number of reports arising from consideration of these issues, the Pension Board has attempted to prioritise and limit the number of additional reports requested.
- In 2017-18 there was a financial budget for the Pension Board of £50,000 within the overall budget of the Pension Fund. The travelling and training expenses relating to Scheme Member and Employer representatives are charged to this budget, as are the fees and expenses of the Independent Chair. The Pension Board has contained its expenditure within the approved budget. The Pension Board is mindful of delivering value for money, and has identified means of working in a cost-effective manner. By so doing, it is seeking ways of saving administration costs, plus the valuable time of officers, without compromising the functionality of the Pension Board.

## 2.3 Detailed Work of the Board

### i) Scheme Documents

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

### ii) Risk Management and the Risk Register

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

### iii) Recording and Reporting Breaches

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

### iv) Pooling

Reference has already been made to the impact on the workload of the requirement to initially respond to DCLG consultations and then subsequently to create the all Wales investment pool. The decision on investment pooling represents the most significant individual decision by the Administering Authority for many years. As such it has been appropriate for the Pension Board to review the decision-making process at each stage and comments have been provided as appropriate to support the prescribed process of change. Operation of the WPP and, in particular, the development of the governance and reporting arrangements, will continue to be a key interest for the Pension Board in 2018-19. The Board will be looking to continue to make a relevant and positive contribution to support the delivery of this major development.

### v) Pensions Committee Attendance

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

## vi) **Pensions Committee Agenda**

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

## 2.4 **Training**

Each member of the Pension Board has to be conversant with the details of the LGPS, which translates as having a good working knowledge. During 2017-18 specific external training was provided for Pension Board members on Responsible Investment and on the roles and responsibilities of the Operator and the Investment Advisor for the WPP. Board members were encouraged to attend two updates for Local Pension Boards in Wales from CIPFA and Barnett Waddingham, and also to attend trustee training provided by the Local Government Association on the fundamentals of the LGPS. Assessment of training needs, and how they are met, is a standing item on the agenda. Both formal and informal training is provided and a detailed training log of individual and Board training is maintained.

## 2.5 **Workplan**

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

- Accounts and budget
- Administration
- Audit and Risk Management
- Governance
- Investments
- Training
- Wales Pension Partnership

## 2.6 **Thanks**

I wish to thank all of my colleagues on the Pension Board who have volunteered their time and energy to serve on the Board, and for their ongoing support. In particular, I wish to thank Cheryl Morgan and Ruth Tucker for their contributions to the Board over the past three years.

Thanks are also expressed to the Officers of Torfaen Council who have supported the Pension Board. Following her retirement, I wish to thank Mary Rollin in particular for her support over the past three years.

## 3. **Risk management**

3.1 The Fund's statutory documentation and 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 it 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 Investment Strategy Statement 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.

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In line with best practice, the Pension Fund also maintains 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 Local Pension Board have considered drafts of the register as it has been developed and will continue to review it at regular intervals. The full Risk Register is publically available via Committee agenda papers but the table below provides a high level summary of the detailed risk information published within the above statutory documents, together with risk mitigation measures in place:-

Risk Area / Type	Risk Detail	Risk Mitigation Measures
<b><u>Governance and Operational Risks</u></b>		
Decision making	Accountability and documentation of decisions	The Fund's primary decision making body, the Pensions Committee, operates within the Council's constitutional processes.
	Scrutiny and review	Additional layer of scrutiny and review previously via the Pension Fund Management Group and now the newly established Local 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 Pension Fund related activities/processes including governance, administration, payroll, and investments.
	Accounting	Officers of the Fund's investment team and accountancy section independently maintaining complete accounting records relating to the investment activity of external managers and to the income flows arising from Fund assets.
Knowledge and Skills	Training and Development	Member and officer training plans are in place with appropriate attendance at training and development events to aid education and keep abreast of current thinking and developments.
	Review of training undertaken and future requirements.	Formal review of member training needs and training attended at each Pensions Committee meeting.

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Risk Area / Type	Risk Detail	Risk Mitigation Measures
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 Policy & Compliance Statement (LGPS Regulations 2013 as amended)	Traffic light system included within Governance Compliance Statement to allow detailed monitoring against the nine principles of good governance practice.
<b><u>Investment Risk</u></b>		
Investment Strategy	Decisions	The Pensions Committee recognises that there will be investment risk but also the need to keep this to a minimum without compromising the investment returns required to meet funding objectives.
Diversification	Investment Type	Appropriate spread across different investment assets in accordance with strategic asset allocation policy.
	Investment Management arrangements	Six primary external managers in place together with a spread of funds and counterparties across internally managed Property and Cash investments.
Compliance	Operating within legal and procedural requirements	Restricting external investment manager activity in accordance with prevailing LGPS investment regulations via their Investment Management Agreements.

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Risk Area / Type	Risk Detail	Risk Mitigation Measures
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.
		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.
	Liquidity Risk (ensuring that member benefits can be met as required)	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.  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 allowing same day access to cash deposited without penalty.



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Risk Area / Type	Risk Detail	Risk Mitigation Measures
Compliance	<p>Investment Risk Sensitivity Analysis and Reporting</p> <p>Adherence to the requirement of the 2016 LGPS Investment Regulations and the requirement to demonstrate compliance with a revised set of sound investment practice (Myners) Principles.</p>	<p>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.</p> <p>Detailed sensitivity analysis, taking account of investment strategy and third party analysis, is updated and published within each Pension Fund Annual Report.</p> <p>Traffic light system included within Statement of Investment Principles/Investment Strategy Statement to allow detailed monitoring against the six principles of good investment practice.</p>

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

## 4. Financial performance

- 4.1 The Fund Account (page 57) indicates a net increase in the net assets of the scheme available to fund benefits during the year of £91.19 million for 2017/18, this follows a £494.21 million increase in the Fund in 2016/17. The summarised figures are shown in the table below.

<b>Fund Account 31 March 2018</b>	
	<b>£000</b>
Employees/employers contributions	114,118
Payments and refunds	(111,669)
Net transfer values	(1,849)
Net return on investments	99,957
Other income/expenses	(9,365)
<b>Net increase/(decrease) in the Fund</b>	<b>91,192</b>

- 4.2 Contributions to the Fund from members and employers have increased by £6.913 million from £107.205 million in 2016/17 to £114.118 million in 2017/18.
- 4.3 Transfer values received have increased from £5.573 million to £5.704 million and transfer values paid out have increased from £7.138 million to £7.553 million.
- 4.4 Payments to beneficiaries in respect of pensions have increased by £2.538 million from £108.881 million in 2016/17 to £111.419 million in 2017/18.
- 4.5 The net assets of the Fund are represented primarily by investments (see below and page 69). Appendix 1 (page 91) illustrates the movement in the market value of investments since March 2009 and the tactical asset allocation.

<b>Net Assets 31 March 2018</b>		
	<b>£000</b>	<b>£000</b>
Bonds	471,901	
UK equities	833,059	
Overseas equities	1,265,968	
Property unit trusts	71,374	
Alternative investments	120,577	
Cash	19,099	
Other investment balances	3,162	2,785,140
Investment liabilities		-
Current assets		11,236
Current liabilities		(5,556)
<b>Net Assets of the Fund</b>		<b>2,790,820</b>

### 4.6 Timeliness of receipt of contributions

The table below sets out the percentage of contributions received from employers on or before the due date during 2017/2018. The Pensions Regulator requires that contributions deducted from pay must be paid to the Fund no later than the 22nd day (19th if paying by cheque) of the next month.

# Pension Fund Annual Report 2017/2018

	<b>2017/2018</b>
Percentage of contributions received on or before the due date	99.9%

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

## 4.7 Forecasts

The following tables show the forecasts and outturn for the Fund Account and Net Asset Statement for the 3 years to 31 March 2019. 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	2016/2017		2017/2018		2018/2019
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
<b>Income</b>					
Contributions receivable	(105,090)	(107,205)	(108,790)	(114,118)	(112,644)
Transfers in	(5,600)	(5,573)	(3,923)	(5,704)	(4,603)
Other income		(1)		(1)	
Investment income	(16,768)	(19,282)	(19,639)	(21,317)	(22,501)
<b>Total income to the Fund</b>	<b>(127,458)</b>	<b>(132,061)</b>	<b>(132,352)</b>	<b>(141,140)</b>	<b>(139,748)</b>
<b>Spending</b>					
Benefits payable	109,557	108,881	114,931	111,419	114,601
Transfers out and refunds	5,752	7,386	5,216	7,803	6,238
Management expenses	9,811	8,933	8,919	9,366	10,086
<b>Total spending for the Fund</b>	<b>125,120</b>	<b>125,200</b>	<b>129,066</b>	<b>128,588</b>	<b>130,925</b>
<b>Profit and losses on disposal of investments and changes in the market value of investments</b>	<b>(134,663)</b>	<b>(487,349)</b>	<b>(131,242)</b>	<b>(78,640)</b>	<b>(134,713)</b>
<b>Net (increase)/decrease in the Fund</b>	<b>(137,001)</b>	<b>(494,210)</b>	<b>(134,528)</b>	<b>(91,192)</b>	<b>(143,536)</b>

Net Asset Statement	2016/2017		2017/2018		2018/2019
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,813,956	2,085,533	2,203,504	2,099,027	2,217,806
Government bonds	182,600	229,300	232,281	233,488	236,523
Corporate bonds	182,809	232,502	237,385	238,413	243,420
Property	68,587	66,456	68,915	71,374	74,015
Cash and Other	92,307	86,403	89,351	142,838	148,089
<b>Net Investment Assets</b>	<b>2,340,259</b>	<b>2,700,194</b>	<b>2,831,436</b>	<b>2,785,140</b>	<b>2,919,853</b>

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The 2018/2019 forecasts for total investment assets are based on the actual figures for 31st March 2018, multiplied by the forecast long term returns for each asset class as provided by the Fund's Actuary. These long term forecasts are revised every 3 years in line with the actuarial valuation exercise.

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

### 4.8 Operational expenses

	2016/2017		2017/2018		2018/2019
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Administrative costs	1,170	1,108	1,231	1,225	1,306
Investment management expenses	7,919	7,055	6,744	7,492	7,979
Oversight and governance costs	722	770	944	649	801
<b>Total</b>	<b>9,811</b>	<b>8,933</b>	<b>8,919</b>	<b>9,366</b>	<b>10,086</b>

### 4.9 Analysis of pension overpayments

The Pension Fund routinely participates in the National Fraud Initiative (NFI).

## 5. Administrative management performance

### 5.1 Key administration performance indicators

The table below shows the key administration related performance Indicators for 2017/2018.

Performance Indicator	Target for Completion (days)*	% Processed within Target	Average Number of Days
Transfer	10	95.88	6.79
Death	5	71.03	11.71
Retirement Estimate	10	83.69	4.04
Deferred	10	89.76	10.63
Retirement	5	82.69	2.98

\*From receipt of clean and complete data

### 5.2 Financial indicators of administrative efficiency

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

	Number of Members 31 March	2017/2018 Costs £000	Cost per Member £
<b>Membership as at 31 March 2018</b>			
Contributors	23,991		
Pensioners	16,848		
Deferred benefits	18,455		
<b>Total scheme members</b>	<b>59,294</b>		
Administrative costs		1,225	<b>20.66</b>
Investment management expenses		7,492	<b>126.35</b>
Oversight and governance costs		649	<b>10.95</b>
<b>Total management expenses</b>		<b>9,366</b>	
<b>Total Cost Per Scheme Member</b>			<b>157.96</b>

The cost per scheme member for 2016/17 was £156.05.

### 5.3 Key staffing indicators

There are 26 posts on the establishment of the Pension Administration Section, including the Pension Manager and one additional post with effect from January 2018. This post has been created to strengthen the senior team. Including the additional new post the actual full time equivalent staffing compliment during the 2017/18 year was 23.13 staff. There are an additional 4 members of staff (3.2 full time equivalents (fte's)) covering the Pension Investments Team and wider governance function.

- **The Payroll Team**

The Payroll team has averaged 3.78 fte staff during the year 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.

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## ▪ The Benefits Team

The Benefits team has averaged 10.00 fte staff during the year 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 59,294 as at 31 March 2018, the Payroll and Benefits staff to fund member ratio is 1 full time staff member to 4,303 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	3.78	1,822	482
Benefits Team	10.00	12,477	1,248
<b>Total</b>	<b>13.78</b>	<b>14,299</b>	<b>1,037</b>

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

## ▪ The Systems Team

The Systems team has averaged 5.35 fte staff during the year. The Systems team are responsible for data quality and data cleansing, as well as processing the Year End, and electronic data exchange between the employers and the Pension Fund.

## ▪ The Communications Team

The Communications team comprises of 2 members of staff and has been responsible for dealing with incoming post and emails received into the central inbox, communicating changes to regulations and guidance to employers and employees, updating Pension Fund letter templates and forms as well as updating Fund specific information on the Pension Fund website.

## 5.4 Analysis of employers in the Fund

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

	Active	Ceased	Total
Scheduled Body	34	7	41
Deemed Body	1	1	2
Admitted Body	25	17	42
<b>Total</b>	<b>60</b>	<b>25</b>	<b>85</b>

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## 5.5 Contributions received in 2017/2018 split by employers and employees

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
<b>Administering Authority</b>				
Torfaen CBC	3,370	11,706	15,076	15,808
<b>Scheduled Bodies</b>				
Blaenau Gwent CBC	2,722	9,726	12,448	13,881
Caerphilly CBC	6,716	21,970	28,686	25,825
Monmouthshire CC	2,954	10,093	13,047	11,241
Newport City Council	4,152	13,178	17,330	18,021
Valuation Panel	9	40	49	52
Coleg Gwent	663	2,669	3,332	1,574
Coleg Gwent Training	6	23	29	0
Chepstow Town Council	6	26	32	10
Brynmawr Town Council	1	2	3	8
Gwent Police Authority	0	0	0	1,670
Chief Constable (Gwent)	1,179	7,013	8,192	1,617
Police & Crime Comm (Gwent)	53	104	157	54
Gwent Magistrates	0	0	0	450
Silent Valley Waste Disposal	7	33	40	26
Caldicot Town Council	5	14	19	0
Nantyglo & Blaina Town Council	2	11	13	8
Monmouth Town Council	4	15	19	1
Gwent Cremation Committee	14	42	56	47
Cwmbran Community Council	10	56	66	44
Pontypool Community Council	10	44	54	45
Tredegar Town Council	2	11	13	6
Rhymney Valley	0	0	0	1
Welsh Water	0	0	0	2
Rogerstone Community Council	5	22	27	2
Bargoed Town Council	1	2	3	9
Portskewett Community Council	0	2	2	10
Shirenewton Community Council	0	2	2	0
Henllys Community Council	0	2	2	0
Magor with Undy Com Council	3	16	19	0
Caerwent Community Council	1	2	3	0
Langstone Community Council	1	2	3	0
Llanfoist Fawr Community Council	1	2	3	0
Croesyceiliog & LLanyrafon CC	0	2	2	0
Abergavenny TC	1	4	5	0
BTM Community Council	1	4	5	0
Abertillery & LLanhilleth CC	2	5	7	0
SRS	389	1,223	1,612	15
<b>Former Scheduled Bodies</b>				
Gwent County Council	0	0	0	10,480
Commission for New Towns	0	0	0	714
DHSS	0	0	0	1
<b>Deemed Bodies</b>				
Islwyn Transport	0	0	0	158
Newport Transport	11	200	211	1,116



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Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
<b>Admitted Bodies</b>				
Big Pit	0	0	0	19
Melin Homes (formerly EVHA)	119	475	594	274
Careers Wales Gwent	152	740	892	722
Citizen Advice Bureau Caerphilly	13	162	175	25
Mitie (formerly Ballast)	1	10	11	11
CWVYS	0	3	3	20
Capita Gwent Consultancy	0	0	0	1,213
Hafod Care	16	72	88	284
Archives	21	67	88	43
Monitor	0	0	0	22
OCS Ex Monmouth CC	0	0	0	13
OCS Ex UWN	0	0	0	2
United Response	0	0	0	23
Monmouthshire HA	300	892	1,192	597
Bron Afon	804	1,938	2,742	1,507
Newport City Homes	428	1,215	1,643	855
Tai Calon	424	1,372	1,796	1,380
Manpower UK Ltd	0	0	0	3
DRIVE	6	17	23	4
Regent Ex Mon CC	1	2	3	15
Regent Ex Monmouth Cluster	0	0	0	5
Regent Ex Chepstow Cluster	0	0	0	1
Regent Ex Abergavenny Cluster	0	0	0	1
Vinci	2	6	8	1
Compass Catering Newport	24	107	131	190
Compass Catering St Albans	0	0	0	18
National Trust	6	25	31	24
Barnardo's	2	6	8	19
Education Achievement Service	267	839	1,106	403
Caterlink NCC Caerleon	0	9	9	4
Caterlink NCC Newport High	0	0	0	4
Churchill	2	14	16	29
Monwell Ltd	0	0	0	65
Torfaen Leisure Trust	114	237	351	150
Borough Theatre	5	17	22	5
NCS – Norse	110	574	684	277
NPS – Newport	51	229	280	45
Life Leisure	234	709	943	71
Newport Live	204	496	700	179
Alliance in Partnership	2	10	12	0
<b>Totals</b>	<b>25,609</b>	<b>88,509</b>	<b>114,118</b>	<b>111,419</b>

## INVESTMENT POLICY AND PERFORMANCE REPORT

### 1. Investment objectives

- 1.1 From an investment perspective this report reflects on a year that has, like last year, seen some periods of market uncertainty and volatility, though this has been predominantly towards the end of the reporting period during early 2018. Throughout much of 2017 however investment markets largely followed on from last year in a positive vein with many global indices again reaching historic high levels during the year. The very difficult start to 2018 however affected most asset classes but, despite that, over the year as a whole, the Fund has still seen positive returns from all the asset classes and regions in which it invests, resulting in an investment return for the year of just above +3.5%. Though returns have been more muted than last year, the year has therefore again been a positive one for the Fund. The periods of volatility however have again demonstrated the need for a diversified investment strategy to spread investment risk as far as is possible within the constraints of return required by the Fund to help meet its long term funding target of 100% cover for member benefits payable into the future.
- 1.2 The objective in investing Fund monies is the maximisation of the return on the money entrusted to the Fund, consistent with acceptable levels of risk. The portfolio's investment performance directly influences the contribution employers need to make to the Fund to pay for the statutory benefits payable from it. However, two particular factors need to be borne in mind. Firstly, the Fund's liabilities are very long term and secondly, those liabilities will increase with inflation and the rising level of employees' salaries and wages to the time of retirement. The need to ensure liquidity to pay benefits as they fall due is also a consideration in determining investment strategy. At present Fund income is exceeding expenditure and so the Fund has not been faced with the prospect of enforced realisation of investments. This requires regular monitoring however as the surplus of income over expenditure is decreasing year on year as the profile of its membership and liabilities changes over time.
- 1.3 The objectives of the Fund's investment strategy can therefore be summarised as to:-
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the tax payers and employers;
  - manage employers' liabilities effectively;
  - ensure sufficient resources are available as they fall due; and
  - maximise the returns from investments within reasonable risk parameters.

The Pensions Committee attempts to meet its objectives by securing, in the light of the economic climate, the most advantageous mixture of cash, bonds, equity, property and alternative investments. More details are contained in the Funding Strategy Statement (see page 48). Investment management policy, principles and arrangements are detailed within the Investment Strategy Statement (ISS) (see page 45). The ISS is a relatively new statutory document for the Fund within the requirements of updated 2016 LGPS investment regulations. It was introduced with effect from 1<sup>st</sup> April 2017 to replace the previous Statement of Investment Principles (SIP). Like the SIP, the ISS still documents and puts into effect the Fund's principal powers to invest in accordance with the investment regulations but now within an updated statutory framework that allows Funds more flexibility with increased prudential responsibility in determining the investments the Fund makes.

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

- 1.5 There have been two changes to these investment management arrangements during the year (both in September 2017). In accordance with the Fund's long term strategic direction of travel, two new investments have been made in multi asset funds that sit within the Fund's overall allocation to Alternative Investments. The investments have been made with existing managers Invesco and Fidelity within their Global Targeted Returns Fund and Multi Asset Income Fund respectively. These new investments totalling £55m were funded by trimming the Fund's equity investments which have advanced on strong performance during the year to levels above their strategic allocations.
- 1.6 As the only new investments made during the year have been with existing managers, as at the reporting date, the Fund's assets therefore remain primarily held with five external fund managers namely BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management and Aberdeen Standard Investments.
- 1.7 Within their consideration of the Investment Strategy during the year, the Pensions Committee made the decision in March 2018 to review and formalise the long term strategic direction noted above. The Committee reaffirmed their previous decision to generally continue to reduce the Fund's exposure to Equities and add to Alternative Investments, but have now also introduced specific revised formal percentage allocations across the Fund's Strategic Asset Allocation (SAA), within a slightly revised overall framework of 70% Equities; 16% Fixed Interest and 14% Alternative Investments. The new multi asset investments have already allowed the Fund to trim Equities a little and add to Alternative Investments, so in the direction required by this new allocation. The full reallocation will however be a gradual process that will take account of opportunities that investment pooling may present though the Fund will look to put the required changes into effect within the 2018/19 reporting year. The revised SAA is detailed within the table in Para 2.1 below.
- 1.8 In terms of the development of investment pooling itself then the all Wales collective investment Pooling arrangements continue to progress in accordance with Central Government requirements. The Wales Pension Partnership (WPP) has established a Joint Governance Committee formed from Elected Member representatives of the eight participating Welsh Funds to govern the WPP and a regulated third party operator has been appointed to administer the pooling arrangements. The intention remains that each Fund maintains its own funding requirements and investment strategy but then uses the collective investment arrangement to implement its investment requirements thereby achieving economies of scale in fees through a combined Welsh LGPS Pool of some £16bn. Work has commenced with the operator in terms of planning the phased development of sub-funds that will hold assets most appropriate to the requirements of the WPP member funds. This will by necessity be a gradual process but next year's annual report will no doubt be able to reflect on a year of considerable progress within the WPP following the current year which has been more focussed on ensuring the necessary "building blocks" are in place for the pooling partnership ahead.

## 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 (updated as noted above) compared to the actual tactical asset allocation at 31 March 2018 (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 2018 (%)
<b>UK Equities</b>				
UK Equities	Passive	BlackRock	14	11.6
UK Equities	Active	Lazard	14	18.3
<b>Overseas Equities</b>				
US Equities	Passive	BlackRock	8	8.7
Global Equities	Passive	BlackRock	0	4.3
Global Equities	Active	BlackRock	12	7.6
European Equities	Active	BlackRock	14	14.8
Far East Equities	Active	Invesco	6	7.0
Emerging Markets	Active	Fidelity	2	3.0
<b>Bonds</b>				
Government Bonds	Active	BlackRock	8	8.4
Corporate Bonds	Active	BlackRock	8	8.6
<b>Alternative Investments</b>				
Multi Asset Fund	Active	Aberdeen Standard	3	2.3
Multi Asset Fund	Active	Invesco	0.7	0.7
Multi Asset Fund	Active	Fidelity	1.3	1.2
Other	Active	M&G	0	0.1
Other	Active	TBA	5	0
<b>Other</b>				
Cash/Other	Active	TCBC/Lazard	1	0.8
Property Unit Trusts	Active	TCBC	3	2.6
<b>Total</b>			<b>100</b>	<b>100</b>

2.2 The table shows that variances to strategy and actual allocations are not fundamentally extensive. Variances are regularly monitored by officers and the Pensions Committee and, as noted last year, the strong performance of many equity investments in particular has seen their allocations increase during the year relative to some other allocations. There are also some variances evident following the decision of Pensions Committee noted above to formally revise the Fund's Strategic Asset Allocation at its last meeting prior to year-end held in March 2018. With the decision so close to year end, the required changes have not yet been implemented but will take place over time as they will ideally need to take advantage of investment pooling opportunities as these develop. Taking account of both these factors then the following provides some detail on the actual year-end tactical allocations that vary by more than 1% versus strategic allocations:-

- Equities – the March 2018 revisions to the Fund's Strategic Asset Allocation (SAA) included the requirement to formally reduce the Fund's overall equity allocation to 70%. Within that, the report of the Pensions Committee noted that the Fund has previously been heavily UK focused which is not representative of global markets and their capitalisation and had gradually over time adjusted this balance to give more appropriate emphasis to overseas as distinct from UK equities. The March 2018 decision continues that shift by reducing the Fund's overall allocation to UK Equities from 33.4% to 28%.

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The report also noted that a 50/50 apportionment of UK equities between active and passive is deemed a better balance of exposure, and some changes to effect this had already been made. However, with the SAA revisions yet to be fully implemented, the year-end allocations show an overall 1.9% overweight across UK Equities and, within that, the passive allocation is 2.4% underweight whilst the active allocation is 4.3% overweight. This imbalance will be addressed during 2018/19 to make the appropriate re-allocation in accordance with the new SAA. Year-end allocations to overseas equities are much more in line with the revised SAA requirements. The only variance above 1% is seen within Global Equities where, despite the overall year-end allocation of 11.9% being very close to the 12% strategy, there remains a 4.3% allocation to passive global equity investments within the BlackRock "warehousing" arrangements noted in last year's report. This will require re-allocation in accordance with the revised strategy and the developing active management options for this asset class within investment pooling via the Wales Pension Partnership.

- Alternative Investments – Year-end allocations across most of the Fund's alternative investments, including Property and Multi-Asset Funds, are close to the requirements of the March 2018 SAA revisions. The only notable variance relates to the additional overall allocation of 5% to other alternative investments made within these revisions, an additional allocation that is yet to be made. This will be progressed during 2018/19 with appropriate consideration of options and decisions of the Pensions Committee but, for the moment, this is necessarily shown as "TBA" within the allocation table above.
- Cash – due to the continuing exceptionally low interest rate environment the Fund's Cash Management Strategy has, in recent years, required cash to be held at considerably lower levels than what has historically been a 3% strategic allocation. The revised March 2018 SAA has taken account of that and formally revised the Fund's strategic allocation to cash down from 3% to 1%. Though there is no variance between tactical and strategic allocations to report this year therefore, the Fund will continue to monitor interest rates and the Fund's cash flow routinely by officers and then formally each year within the Cash Management Strategy report to Pensions Committee.

2.3 At 31 March 2018 the net investment assets of the Fund (measured at bid-price market value) were administered as follows:-

	Investments at Market Value		Cash & Other Balances		Net Investment Assets	
	£000	%	£000	%	£000	%
BlackRock	1,782,652	64.0			1,782,652	64.0
Lazard	510,076	18.3	7,965	0.3	518,041	18.6
Aberdeen Standard	64,372	2.3			64,372	2.3
Invesco	214,187	7.7			214,187	7.7
Fidelity	118,465	4.2			118,465	4.2
TCBC	73,127	2.7	14,296	0.5	87,423	3.2
<b>Total</b>	<b>2,762,879</b>	<b>99.2</b>	<b>22,261</b>	<b>0.8</b>	<b>2,785,140</b>	<b>100</b>

## 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 2018, versus both the Fund's bespoke investment benchmark and LGPS average performance which is now provided by PIRC Ltd via their "Local Authority Pension Performance Analytics Service":-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
Greater Gwent (Torfaen)	+3.53	+7.48	+8.34	+7.38
Strategic Benchmark	+2.53	+7.02	+7.93	+7.38
<b>Out/(Under) Performance</b>	<b>+1.00</b>	<b>+0.46</b>	<b>+0.41</b>	<b>+0.00</b>
Greater Gwent (Torfaen) (rounded for comparison)	+3.5	+7.5	+8.3	+7.4
PIRC Local Authority (Weighted) Average Return	+4.5	+8.3	+8.8	+7.7
<b>Out/(Under) Performance</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-0.5</b>	<b>-0.3</b>

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 2018:-

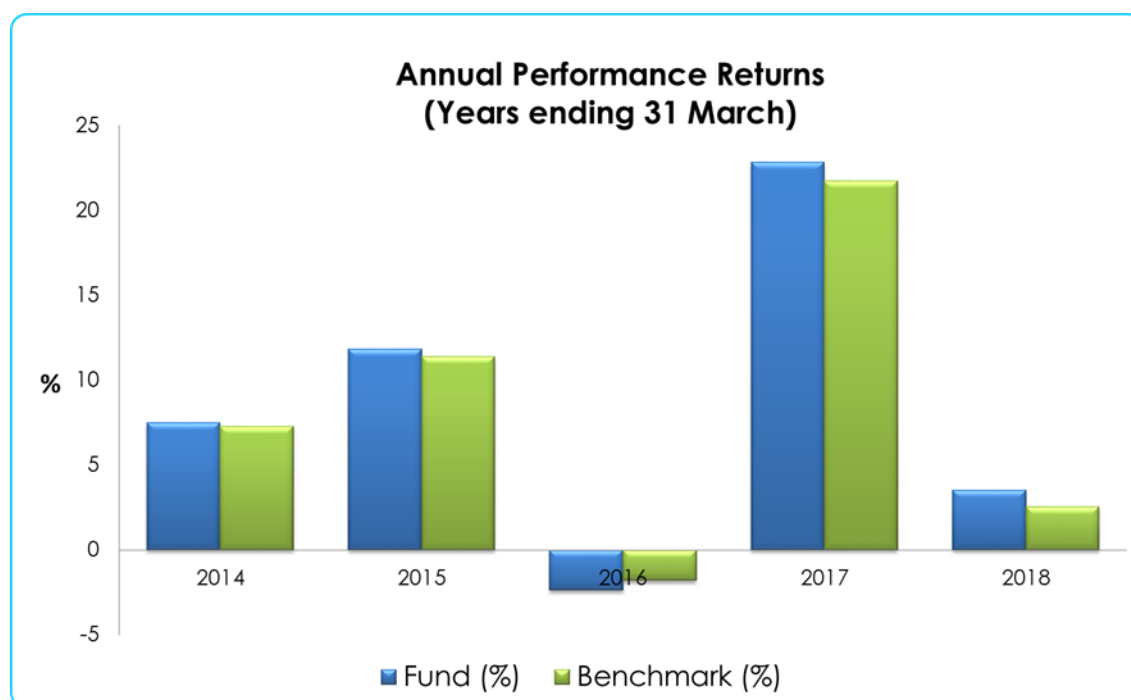
Annualised % Performance	1 Year	3 Years	5 Years	10 Years
UK Equities	1.4	5.9	6.7	6.8
US Equities	1.3	12.6	15.0	13.5
European Equities	5.6	9.7	12.0	7.0
Asia (ex-Japan) Equities	9.3	15.6	11.2	9.4
Emerging Market Equities	15.0	10.6	7.6	6.8
Global Equities	5.5	9.7	8.2	N/A
Government Bonds	1.8	3.4	4.3	6.3
Corporate Bonds	2.5	3.5	5.2	7.1
Property	10.2	8.9	10.4	3.2
Alternatives	1.1	-0.1	2.7	N/A
Cash and Other	0.3	0.5	0.6	1.1
<b>Total</b>	<b>3.5</b>	<b>7.5</b>	<b>8.3</b>	<b>7.4</b>

Performance data supplied by BNY Mellon Asset Servicing / PIRC Ltd

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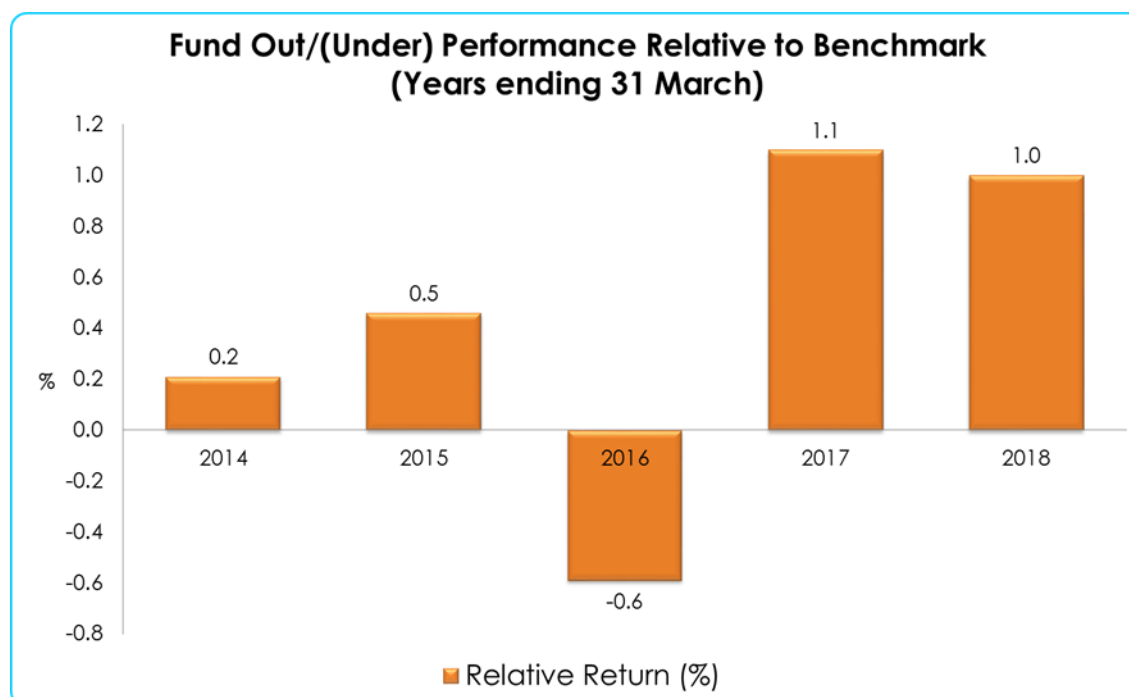
- 3.3 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2018 the Fund made an overall investment return of +3.53% compared with +2.53% for the benchmark return.
- 3.4 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's Strategic Asset Allocation (SAA) weightings. These will need to be revised to reflect the March 2018 updated SAA decision in due course but, for the purposes of 2017/18 full year reporting, these are 33.4% UK equities, 27% overseas equities, 13.6% global equities, 17% bonds, 3% UK property unit trusts, 5% alternative investments and 1% cash.
- 3.5 The +1.0% out-performance for 2017/18 means that the Greater Gwent (Torfaen) Pension Fund has achieved above benchmark performance in 5 out of the last 6 years.
- 3.6 The Fund also subscribes to the Local Authority Pension Performance Analytics Service as administered by PIRC Ltd (previously provided by WM/State Street). This shows that the return for the average Local Authority fund for the year ending 31 March 2018 was +4.5%. Last year's report showed that the Fund strongly out-performed the average by over +1.4% but has now under-performed the 1 year average by +1.0% in the current year under review. This demonstrates the impact of differing strategies and asset allocations across the LGPS but also the need to view investments over the longer term. Despite the negative year for the Fund, below the LGPS average, we have again seen improvement in the 3 Year and 5 Year comparisons, though the Fund's performance remains marginally below the average over the longest reported 10 Year timeframe.
- 3.7 The following graphs illustrate the Greater Gwent (Torfaen) Pension Fund annual performance returns as compared to the BNY Mellon benchmark return over the last five financial years. The absolute return is simply whatever an asset or portfolio returned over a certain period. Relative return is the difference between the absolute return and the performance of the market, which is gauged by a benchmark, or index. Longer term returns can be seen in the graph on page 4.

### a) Absolute performance returns





## b) Relative performance returns



## 4. Economic background and how the markets performed

### 4.1 Global Economic and Market Background

In an economic and investment sense, last year's Annual Report reflected on a year that saw many prior year negative influences recede but others, most notably the EU Referendum and the subsequent "Brexit" vote, advance to cause periods of market uncertainty and volatility. The year had also seen a surprise presidential result in the US and the 2016/17 report noted that a year with such considerable global/political events and influences would maybe suggest a predominantly uncertain year for investment markets. However most asset classes and regions seemed ultimately to take those events in their stride, withstanding the uncertainty, and indeed moved well ahead with many global indices reaching historic high levels at times, Equities especially performed well, though all asset classes in which the Fund invested had a strong positive year as a result.

Moving on to the current year's report then the 2017/18 reporting period has seen extended periods throughout 2017 when this positivity continued but a notably negative end to the period for both global economic sentiment and market performance during early 2018. We saw:-

- Continued positive early 2017 momentum largely continued into the start of the 2017/18 reporting period driven by a generally growing optimism for the health of the global economy and hopes that US President Trump's election win would be positive for the US and potentially wider global economies. Economic data was generally good as was company results.
- Then a further positive period for most investment markets, with continued generally impressive economic data supporting optimism for the health of the global economy. The solid data however meant that talk turned to the prospect of central banks reducing monetary policy and increasing interest rates.

- The positive economic environment and market conditions continuing into the end of 2017 as the global economy generally showed further signs of improvement. Concerns over inflation prompted the Bank of England to raise UK interest rates for the first time in ten years. Robust economic data from both the US and China boosted investor appetite for riskier assets.
- The end of the reporting period into early 2018 however saw a lot more global economic and investor uncertainty with continued concerns over inflation and interest rate rises especially in the US. The prospects of a trade war between the US and China caused considerable concern right across the globe meaning the reporting period ended with negativity prevailing across economies and global markets.

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

The positive early 2017 momentum largely continued into the start of the 2017/18 reporting period (**2017 Q2**) driven by generally growing optimism for the health of the global economy and hopes that US President Trump's election win would be positive for the US and potentially wider global economies. The quarter saw data suggesting the global economy was continuing its improvement with also a generally positive company reporting season. In the US, the Federal Reserve raised interest rates in June as the economy improved further and both corporate profitability and employment rose. In Europe sentiment received a boost after Emmanuel Macron won the French election, triumphing over his anti-EU rival Marine Le Pen. The European Central Bank however unsettled markets when it hinted that it may start to reduce quantitative easing later this year. In terms of 2017 Q2 market performance, then the above was generally positive for the investment markets in which the Fund invests, albeit with some pockets of negative market performance evident. European Equities were strongest though Asian and Emerging Markets both performed well. Commercial Property and UK equities were positive overall though the snap general election and BREXIT concerns impacted as the quarter progressed. US Equities were impacted by currency movements and UK Fixed income markets were buffeted by various political and monetary policy influences over the quarter, though credit markets proved more resilient than Gilts as yields rose in response to central banks more "hawkish" tones on the prospect of the pace of future interest rate rises.

The positive momentum continued into the third quarter of 2017 (**2017 Q3**) with equity markets in particular again performing generally very strongly amidst a continued general optimism for the health of the global economy. Continuing generally impressive economic data meant that talk turned to the prospect of central banks reducing monetary policy and interest rate hikes. Such an environment of less accommodating monetary policy prospects led to a difficult quarter for government bonds however. The United States saw slightly more mixed economic data but the Fed's "hawkish" rhetoric on interest rates continued. In Europe, a weaker-than-expected victory for Angela Merkel in the German national elections dampened sentiment towards the single currency. However, the reversal in recent euro strength, combined with continued robust economic data, propelled European equities higher over September. Emerging markets saw robust global demand and a rebound in the oil price helped as data showed a significant boost for emerging-market exports during 2017. In terms of 2017 Q3 market performance then the above factors were generally supportive of most asset classes in which the Fund invests with the exception of bonds. Emerging Market equities were strongest buoyed by strong global demand with European Equities next best as continued strong economic data and a reversal in Euro strength helped European markets. Asian equities, UK Equities and UK Commercial Property also continued to perform well but US equities lagged these though still stayed positive. UK Fixed income market returns were again negative, buffeted by various political and monetary policy influences, though credit markets again proved more resilient.

The positive economic environment and market conditions continued into the end of 2017 (**2017 Q4**) as the global economy generally showed further signs of improvement. The UK however reported some mixed economic data but concerns of inflation prompted the Bank of England to increase interest rates for the first time in over 10 years. Brexit talks progressed to the second phase after the UK and EU struck a last-minute deal. The United States saw a sentiment boost as President Trump signed the much-anticipated tax-cut package into law amidst generally positive US economic data. In Europe, political events dominated again following a narrow vote for independence in Catalonia which was rejected by the Spanish government. Asian and Emerging markets rose over the quarter as robust economic data from China and the US boosted investors' appetite for riskier assets. However, markets were negatively impacted by geopolitical tensions after North Korea conducted an intercontinental ballistic missile test. In terms of 2017 Q4 market performance then the above generally favourable influences meant a positive backdrop for the markets in which the Fund invests. Asian equities were strongest with the positive global backdrop and solid company reporting lifting returns. Emerging equities were close behind supported by the strong economic data from the US and China. US equities also did well with the tax reforms and updated growth forecasts encouraging markets. UK equities were close behind as economic data at home and abroad and some signs of BREXIT negotiation progress helped boost sentiment. UK Commercial Property also continued to perform well with returns improving further as domestic, but especially overseas, investor demand continued to support returns. UK Fixed income markets returned to positive performance as Gilts benefitted from BoE hints at maybe a slower pace of UK rate hikes and Corporate Bonds from the encouraging economic and company backdrop.

After initially carrying over the strong 2017 momentum into January the last three months of the reporting period (**2018 Q1**) saw a lot more global economic and investor uncertainty largely caused by the prospect of rising inflation and higher interest rates looming as economic growth continued to advance. After a brief recovery in sentiment early February again saw concerns over rising interest rates in the US triggering a global contagion with further market declines which continued into March as tensions heightened over a potential trade war between China and the US. In Europe Q1 saw political uncertainty again rear its head, particularly with the lack of a clear winner in Italy's general election. Asia and Emerging Markets were also impacted with echoes of the wider global concerns on higher interest rates and the potential for US tariffs on Chinese imports which would most likely be reciprocated if implemented. In terms of 2018 Q1 market performance then the above factors combined to produce considerable market volatility and predominantly risk-averse investors to sell equities, especially during March, ensuring most global indices were down for the quarter. All the equity markets in which the Fund invests were consequently negative over Q1, with the UK being hardest hit as BREXIT negotiations remained centre stage, the housing market showed some weakness and the BoE hinting at a May interest rate rise added to the wider global concerns. Europe, US and Asian equities were next weakest with Emerging markets protecting a bit more but still negative overall. UK Corporate bonds started on a positive note but fell also then as risk aversion dominated. UK gilts saw an opposite trajectory, starting the quarter poorly as the 2017 "risk on" momentum continued but then recovering well to finish positive overall for the quarter as "risk off" dominated as the quarter progressed and the reporting period came to an end.

It is evident from the above that the final negative quarter of the reporting period was a sharp contrast to the generally positive nine months that preceded it. Its impact was however sufficient to significantly mute the overall returns for the year from most of the asset classes in which the Fund invests, though all remained in positive territory for the year as a whole. The return figures are however a distinct contrast to those reported last year within the 2016/17 report when investment markets certainly forged ahead, supported by a post-Brexit fall in the value of the UK pound. Though the above section provides some quarter by quarter detail of how the year unfolded, the below summarises the resultant performance of the various asset classes in which the Fund invests for the year as a whole.

## 4.2 Market performance summary

Against the above predominantly positive, though increasingly volatile, global backdrop, **Equity Markets** performed positively overall. As would be expected there was some divergence in performance over the reporting period across the world's regions, within a range (in sterling terms) of between +1% and +12%. Looking at the regions in which the Fund invests then, as was the case last year, Emerging and Asian equity markets were the best performing regions with returns approaching +12% and +8% respectively. European Equities were next best with returns of just over +4% but both US and UK equities had a disappointing, though still positive, year with returns of around +1.8% and +1.3% respectively. Overall return levels for the year were therefore noticeably lower than the +20% to +30% performance range saw last year, but equities have still performed better than almost all other asset classes so the Fund's relatively high (though well diversified) weighting to equities has again benefitted the Fund's overall investment return considerably over the year.

Last year's performance summary noted a good year for **Bond Markets** though it was also noted that this was maybe a little surprising given that the year was certainly one when risk assets thrived and therefore it might be expected that more risk averse assets, such as Government Bonds in particular, perform less well. This year is a similar story in many ways as, though returns have been lower, both Government and Corporate Bonds have been positive over the year as a whole despite what has been again a year when investors have been generally more "risk-on" for much of the reporting period. At +1.3% UK Corporate Bonds performed better than UK Government Bonds which returned around +0.5%, but both contributing positively to the Fund's overall investment return.

Within other asset classes in which the Fund invests, then the real stand-out performer for the Fund for the year was **UK Commercial Property** which recovered impressively from its post Brexit stresses of last year to achieve a return of just over +10% for the year and was therefore the Fund's highest performance asset class. Cash based markets, against which the Fund benchmarks its **Alternatives** and **Cash** investment returns remain suppressed in the low interest rate environment with 6 Month and 1 Week market index returns of around +0.5% and +0.2% respectively.

**The consolidated performance of all the above asset classes and regions in which the Fund invests has been positive for the Fund's investment performance, though considerably lower than the quite extraordinary levels of market returns noted within last year's report. The 2017/18 reporting year has seen with an overall market (benchmark) return for the year of +2.53%.**

## 5. How did our managers perform?

In addition to this investment performance from the markets themselves the Fund looks to generate additional returns across the majority (almost 75%) of its asset allocation via active investment management, where the Fund's investment managers look to out-perform these respective market returns. We reported last year that active management had worked well for the Fund collectively and it is pleasing to report that this has also been the case this year with a strong excess return achieved over and above the year's market returns. **In aggregate, the Fund's active management has out-performed the market return noted above of +2.53% by +1.00% over the period and thus generated the year's overall +3.53% investment return for the Fund.**

As well as being good in overall terms the Fund's active management has been pleasingly consistent this year in that all our active managers have out-performed their respective benchmarks across all of the active investment mandates they operate for us. The table below details this and shows that strong out-performance has been especially evident in Emerging Market Equities (Fidelity) and Global Equities (BlackRock) but the performance across the board from our investment managers has been particularly pleasing over this year.

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As well as showing consistent out-performance during the year under review, it is also worthy of note that all of the Fund's current investment managers and mandates continue to demonstrate positive out-performance over the longer term since the inception of our investments with them. All of the Fund's investment managers provide their own views on their investment mandates and the factors that have contributed to the year's performance within the manager commentaries later in this report.

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

Asset Class / Region	Manager	Share of Fund at Year end %	Fund Performance for Year %	Benchmark Performance for Year %	Relative Performance for Year %
<b>Equities</b>					
UK (Passive)	BlackRock	11.6	1.36	1.25	<b>+0.11</b>
UK (Active)	Lazard	18.3	1.66	1.25	<b>+0.41</b>
US (Passive)	BlackRock	8.7	1.29	1.76	<b>-0.46</b>
European (Active)	BlackRock	14.8	5.55	4.13	<b>+1.42</b>
Asia (ex-Japan)	Invesco	7.0	9.34	7.60	<b>+1.73</b>
Emerging Markets	Fidelity	3.0	15.03	11.75	<b>+3.28</b>
Global (Active)	BlackRock	7.6	5.50	2.90	<b>+2.60</b>
Global (Passive)	BlackRock	4.3	1.39	1.25	<b>+0.14</b>
<b>Bonds</b>					
Gilts	BlackRock	8.4	1.83	0.46	<b>+1.37</b>
Corporate Bonds	BlackRock	8.6	2.54	1.26	<b>+1.28</b>
<b>Other</b>					
Alternatives	In house	0.1	4.59	0.52	<b>+4.07</b>
	Aberdeen Standard GARS	2.3	1.61	0.52	<b>+1.09</b>
	Fidelity MAI	1.2	N/A	N/A	<b>N/A</b>
	Invesco GTR	0.7	N/A	N/A	<b>N/A</b>
Property	Various	2.6	10.17	10.02	<b>+0.15</b>
Cash and other investment balances	Various	0.8	0.34	0.21	<b>+0.13</b>
<b>CONSOLIDATED</b>		<b>100</b>	<b>3.53</b>	<b>2.53</b>	<b>+1.00</b>

Performance data supplied by BNY Mellon Asset Servicing

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

# BLACKROCK

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

The BlackRock passive funds achieved their aim in the year by performing broadly in line with the market index returns. The slight underperformance shown in the returns provided by Bank of New York Mellon for US Equities results from the re-allocation to Multi Asset funds in September 2017, though this will be largely offset by improving cash and alternative investment returns in the period. The respective markets themselves were positive but returns were much lower than those reported last year and all within a close range of between +1.2 and +1.8% over the year.

### **European Equities**

The European Equity market performed stronger than most other equity regions during 2017/18 amidst further improved economic growth prospects for the region and the actively managed Ascent Life Fund added to this by out-performing the market benchmark return over the year in review.

“2017 saw an improvement in sentiment towards Europe in tandem with the strengthening of the Eurozone economy. A victory in the French Presidential election for Emmanuel Macron eased fears of a rise in populism and existential threats to the European Union. Also GDP growth in the single currency area hit a level not seen since the financial crisis. Capital flowed back into Europe, equity markets rose and the Euro strengthened substantially. There were some periods of volatility, though mainly due to events outside of Europe.

Insights in the fund's quantitative model that had a sentiment/trending element worked particularly well in 2017, capturing some of the major trends driving equity prices, such as investor appetite for technology stocks and the outperformance of cyclical industrial firms geared to the European recovery. Factor timing insights also enhanced our ability to profit from the pro-momentum environment that prevailed in the second half of the year. We also gained diversification from more contrarian insights related to Exchange Traded Funds, stock trading activity and asset price volatility as the French election and changes to interest rate expectations caused some market rotations around the middle of the year”.

Looking at the 2017 quarters in more detail then “In Q2, as economic data continued to surprise to the upside in Europe, stocks with exposure to cyclical growth were rewarded. Examples of successful holdings included Rockwool Int. (building materials) and Dormakaba Holding AG (security systems). In Q3, an overweight position in French car manufacturer Renault was beneficial, as the stock gained 4.9%. In Q4, one example of successful positioning was a relative overweight in Kering (the owner of the Gucci brand). The stock gained more than 17% over the course of the quarter, after reporting strong earnings results.

Into 2018 and, in Q1, the insights focused on company quality remained a major driver of positioning but, in the event, impacted performance as some of these signals' positive views on firms were at odds with forecasts for the year ahead which disappointed the market. Also the extreme volatility in February and resulting performance challenges for trend following hedge funds seemed to spill over into the fund's trend following strategies focused on broker sentiment within European equities. Despite this stocks chosen via signals based on employee sentiment, anti-asset growth and cash flow trends all performed solidly.

For the full 12 month period, however, the fund outperformed the benchmark, with the strength from factor timing and sentiment signals being the major driver”.



## Global Equities

BlackRock manage the Fund's active global equity assets on a "warehousing" basis pending longer term management arrangements that will be considered in the context of the emerging Wales Pension Partnership investment pool. These assets are actively managed within the Systematic Global Equity Fund which performed strongly over the period, significantly above its market benchmark.

"The market environment in 2017 was characterised by low levels of volatility and by the same token several stable trends playing out through the year. That environment was highly constructive for the techniques we use to identify the sentiment of other market participants. Text analysis techniques that measure the sentiment of brokers through their reports and company management teams through the transcripts of their conference calls resulted in some particularly effective positioning, for example.

The techniques we use to take Macro views (about which countries, industries and equity styles the portfolio should be exposed to) were also strong drivers of performance in 2017. We were well positioned for performance across different industries: for most of the year, the portfolio held a pro-growth industry stance, with overweights in Information Technology, Industrials and Consumer Discretionary, balanced by underweights in areas like Financials, Property investments and Energy. This positioning was largely motivated by techniques which assess capital market activity across industries, hiring intentions and supply chain effects. Our country views also added to returns, with the quantitative investment model effectively moving between overweight and underweight stances on the US, Europe and Japan through the year.

The weakest components of our model in 2017 were techniques which assess company valuation as the market tended to overlook these characteristics in the risk-on, growth focused environment. Fundamentals focused techniques have gained more of a foothold so far in 2018, however. Performance from value focused techniques has continued to be mixed at best, but quality focused insights have come to the fore as equity markets have wobbled. A mix of traditional insights focused on company profitability and new innovations designed to capture the quality of company management via social media bolstered performance as investors have sought out more defensive characteristics since the early February sell-off".

## Gilt and Corporate Bond Funds

"Both the Core Plus UK Gilt Fund and Core Plus UK Corporate Bond Funds outperformed their respective market benchmarks over the 12 months. The Funds seeks to outperform their benchmarks via a range of active systematic strategies including Directional Duration, Relative Value Rates, Auctions, Volatility, Emerging Market and Asset Allocation strategies.

The Credit Security Selection strategies were significant contributors to the funds' excess performance over the period. Within corporates, positioning in industrials performed strongly. Overweights in names such as Glencore and Anglo American were positive to performance, along with names in the consumer cyclical services subsector. Within Macro Rates, the Cross Market strategies were positive contributors as monetary policy divergence between major markets became more of a theme in government bond markets. An underweight position in bonds issued by the US and an overweight position in Germany were amongst the main drivers of positive performance in Q1 2018.

The Directional Duration strategies saw a small drag on performance during 2017. A short duration position overall weighed on performance as bond yields fell due to indications of slowing global economic growth in May. Overall, interest rate strategies contributed to around half of the funds' excess performance. The Asset Allocation strategy made a positive contribution to performance through a long position in credit. The position was driven by supportive flows, low macro-economic uncertainty, strong global economic momentum, and favourable carry dynamics."



## UK Equities

### Market Background

“Over the period, UK equities enjoyed three quarters of consecutive rises before entering correction territory during the final quarter. Helped by the synchronised global economic recovery and the passing of new US tax legislation, the domestic equity markets overcame a number of potential stumbling blocks, which included the narrowness of the Conservative general election victory, low consumer confidence and Brexit related uncertainty. The overall market ended positively over the year, while small and mid-cap stocks outperformed large-caps as the pound strengthened against the US dollar.

UK economic data remained mixed for much of the period, though record employment and higher inflation prompted the Bank of England to raise interest rates from a very low level. Rising bond yields contributed to strong relative performance for the financials sector and weakness in the telecommunications and utilities sectors. Technology stocks suffered heavily during the final quarter after Facebook’s use of user data came under heavy scrutiny and President Donald Trump criticism of Amazon.

### Performance Review

Over the 12-month period under review, the portfolio outperformed the UK markets as measured by the benchmark FTSE All-Share Index. In terms of what contributed to this outperformance:

- Stock selection in the industrials and consumer goods sectors contributed positively to performance. Underweighting the utilities sector was also helpful.
- Healthcare facilities provider NMC Health rose strongly after good results and management confirmation that strong organic growth and further M&A were expected to continue in 2018.
- Man Group rose strongly, benefitting from strong net-inflows, performance fees, and the company’s announcement of a share buy-back programme.

What detracted value from relative performance:

- Stock selection in the basic materials and consumer services sectors detracted from relative performance.
- Gold miner Acacia Mining fell as the Tanzanian government’s move to increase its economic interests in a range of mining operations led to an export ban and associated disputes for the company.
- Tobacco stocks, including British American Tobacco, sold off after the US Food & Drug Administration proposed stringent nicotine limits in combustible tobacco products in an effort to limit addiction.

### Strategy & Outlook

We believe that the gloom associated with the UK market has become too entrenched and indiscriminate, causing investors to overlook opportunities in this largely internationally focused market. We would argue that the strong market sell-off during early 2018 has made UK equity valuations look even more attractive relative to global peers. Those companies with a diversified revenue base and solid corporate fundamentals are particularly compelling in this environment. We remain constructive on the financial and oil sectors, as we believe they are well placed to benefit from a strengthening global economic backdrop. A rising bond yield environment should be supportive to financials, while we anticipate supply/demand dynamics in commodities to bolster share prices in the basic materials sector.”





## **Multi Asset Funds - Global Absolute Return Strategies (GARS)**

### **Market Background**

"The global economy continued to strengthen and broaden out over much of the period under review, driving further gains from risk-assets. During 2017 investors shrugged off escalating geopolitical tensions on the Korean Peninsula, focusing instead on the improving health of the global economy and US President Trump's proposed stimulus package. After a continued strong start to 2018, global equities fell in late-January as investors grew nervous about rising interest rates and a possible global trade war, which saw the return of more volatile market conditions. Global government bonds also sold off in January at the prospect of higher rates, but returned to favour in March, as worries about the impact of trade protectionism on global economic growth revived investors' appetite for safe-haven assets. "

### **Performance and Strategy**

"The strong performance of global equity markets throughout much of the year boosted our equity exposures, particularly in the US and Europe. Similarly, our position in US investment grade credit contributed positively, propelled by healthy corporate earnings growth, demand for yield and the prospect of tax reforms. Our global REITs (real estate investment trusts) strategy also gained, as investors sought out the attractive dividend income offered by this asset class. In the US, our equity relative-value position favouring banks over consumer staples stocks generated a positive return. The environment of steadily rising interest rates, softer regulations and President Trump's stimulus package favoured banks, while consumer staples stocks were hampered by the threat posed by Amazon's purchase of Whole Foods. Meanwhile, our European equity relative-value position expecting banks to outperform the broader market dragged on performance. Banks underperformed on worries about Spain's political crisis and indications that the ECB would tighten monetary policy only very modestly.

Our preference for the US dollar over the British pound and the euro was penalised. Despite rising US rates, the dollar weakened possibly due to concern about the impact of Mr Trump's stimulus package on the US budget deficit. Similarly, our currency pair favouring the Swedish krona over the euro detracted from performance. The krona lost ground on signs that the recent slowdown in inflation could force the Riksbank to delay interest rate hikes. Also negative was our UK versus German government bonds position as UK gilt yields drifted higher as the BoE signalled earlier-than-expected interest rate rises. Equity market volatility picked up in the final months of the review period but for most of the year remained at historically low levels. As a result, our equity variance strategies detracted from performance."

### **Outlook**

"Our central expectation is for continued modest broad-based global growth, albeit with regional variations. Fiscal policy and the changing monetary policies of central banks will be important drivers of asset returns, especially as the pace of change in policies remains uncertain. The US is moving to a tighter monetary environment, albeit on a gradual incline. Improving data in Europe may reduce the ECB's appetite for monetary easing. However, it will likely remain cautious in the near term given the elevated levels of uncertainty around the process of the UK's withdrawal from the EU. Japan, meanwhile, is likely to maintain a loose monetary path. Geopolitical tensions remain elevated and, on many metrics, asset prices look expensive. We will seek to exploit the opportunities that these conditions present by implementing a diversified range of strategies across multiple asset classes".



## Asia (ex Japan) Equities

### Market Background

“Asian equity markets made positive gains over the twelve months to 31 March 2018 despite the challenging backdrop of political and macroeconomic uncertainty. Over the period robust corporate earnings revisions were a key driver of Asian equity market performance”.

### Performance

“The fund out-performed its benchmark over the period under review. Positive contributors were found among the technology companies. For example, the Chinese internet companies Autohome and JD.com announced better-than-expected earnings over the period while the component manufacturer, Yageo, added value as price increases were achieved across its product range. Elsewhere, stock selection within the financial sector added value particularly the fund’s lack of exposure to the underperforming Australian banking sector. The increasingly competitive environment, a bank levy and risk of further regulation has dampened these companies’ outlooks. Finally, Korea Investment Holdings benefited from its sensitivity to a rising Korean stock market.

Conversely, a number of stock specific issues negatively impacted relative performance over the period: Korea Electric Power’s earnings suffered from the higher cost of coal, while at the same time, there has been no sign of tariff increases which some investors had been expecting; the fund’s underweight exposure to Tencent Holdings detracted as its share price strength was driven by strong revenue growth in games and advertising; and the fund’s lack of exposure to Alibaba Group was a negative contributor as its share price performance benefited from strong earnings growth”.

### Strategy and Outlook

“Asian equity markets recovered strongly over the last 12 months driven by the robust global economic backdrop and progress in Chinese structural reform. Recently, we have seen some profit taking as investors focused on the potential risk of a US-China trade war and the outlook for interest rates. In our view, the combination of a global debt overhang and a lack of significant overheating pressure from China is likely to keep global inflation contained suggesting only moderate interest rate rises. However, we would expect volatility in markets to be sustained at a higher level than in 2017 reflecting renewed uncertainty and this could impact on global investor confidence. In terms of valuations, Asian equity markets are trading at levels above their long-term averages, but we do not believe they are at overextended levels and continue to compare favourably with world averages. Earnings growth estimates for 2018 are currently around 12.4%, and are underpinned by a robust domestic consumption in China, an improving global economic outlook and a still low interest rate environment globally.

We seek to invest in companies whose share prices are substantially below our estimate of fair value. We have been gradually reducing the fund’s overweight position in the technology sector, taking profits from recent outperformers. However, we continue to have exposure in highly cash generative Chinese internet companies because we believe that the market is too sceptical on their ability to maintain strong earnings growth. Elsewhere, South Korea has historically been one of Asia’s most cheaply rated markets, partly due to its weak corporate governance. We believe this valuation discount should start to narrow as more companies start adopting shareholder friendly policies and we remain overweight in this market. We have also been increasing exposure to heavily cash-backed businesses with strong free cash flow – a notable theme within the fund”.

## Multi Asset Funds - Global Tactical Returns (GTR)

### Market Background

"2017 was a strong year for global equity markets as a strong earnings season was complemented by generally positive economic data. In the US, President Trump enjoyed some success in getting his proposed tax reforms through congress and the US Federal Reserve (Fed) raised interest rates in December, as expected, while upgrading its economic outlook for 2018. While political issues in Germany and Spain weighed on sentiment, economic momentum accelerated in Europe and there was evidence that the recovery was not just limited to Germany as growth in France and Italy also picked up. Elsewhere, there was a bigger than expected interest rate cut in Russia where policy makers cited an OPEC deal to maintain oil production cuts as helping to keep inflation in check. Despite a backdrop of reduced support from the main central banks, government bonds delivered positive returns in the final quarter of 2017 with the Gilt market the highest returning of the core markets.

After historically low levels of equity market volatility in 2017, many market watchers were predicting some turbulence this year and there were signs of what was to come in January as US Treasuries led government bond yields higher with inflation concerns creeping in followed in early February by a sharp equity market sell-off. Equity markets appeared to get back on track later during February and early March but fell again as attentions were turned to the potential impact of US President Trump's desire to impose trade tariffs on competitors. Hardest hit were the more cyclical sectors, which tend to benefit from global trade. Among these was technology, which was also buffeted by Facebook data privacy concerns and fears of a related regulatory crackdown and by Amazon-related tweets from President Trump. Buried among this was another interest rate hike from the US Federal Reserve, which was accompanied by a more positive outlook for the US economy. Government bonds outperformed corporate bonds in the first quarter of 2018, as equity market volatility increased demand for the perceived stability of government bond markets."

### Performance, Strategy and Outlook

"Against that backdrop, the diversification of the ideas in our portfolio has provided a level of stability, mitigating capital loss in down markets as our ideas with more 'risk off' characteristics have provided a buffer. The fund's performance was broadly flat over the reporting period.

Strong equity markets meant some of our more directional equity ideas proved beneficial over the period. We were also able to take some conditional exposure to US equity markets at the start of 2018, which worked well for the fund.

In addition, we had a number of interest rates ideas that performed very strongly, favouring Australian government debt over US treasuries and also holding selected emerging market government bonds.

Our currency idea preferring the Chilean and Mexican pesos to the Australian and New Zealand dollars also worked well. On the downside, our long Swedish krona vs euro idea worked against the fund. Another currency idea that was negative over the reporting period was our Indian rupee vs Chinese renminbi position as the Chinese currency performed very strongly at the beginning of the year.

We continue to look for ideas that we believe can offer positive returns in our two- to three-year investment horizon and provide diversification within our portfolio. Over the reporting period, we added five new ideas and removed three. We also significantly altered the implementation of eight ideas.

Our outlook remains cautiously optimistic. While the global economic recovery appears to be broadening, we believe there are question marks over the durability of the recovery."



## Emerging Market Equities

### Market Background

"Emerging market equities rose over the period as economic growth in China stabilised. Interest rate hikes by the US Fed were well-received by markets signalling confidence in the strength of the US economy, a key export market for developing countries. However, expectations of higher-than-expected interest rate hikes by the new Fed Chairman partially weighed on sentiment and concerns over a trade war between the US and China also limited gains. Equities advanced as China announced the easing of foreign ownership limits on banks and fund managers, and plans to reform H-shares of companies listed in Hong Kong. In Latin America, Brazilian markets rose over the year. Investors found relief in plans to improve government finances through labour and pension reforms. Shares in the emerging Europe, Middle East and Africa region gained. Russian markets rose as the oil price strengthened."

### Performance & Strategy

"The fund delivered strong absolute returns and outperformed the index, driven by stock selection in the financials, consumer discretionary and industrials sectors. From a country perspective, Russian and Chinese holdings aided returns. In China, optimism around stabilising economic growth and the MSCI's decision to include A-shares in its emerging markets index buoyed equities. Against the backdrop of robust demand for air conditioners, the allocation to white goods manufacturers Midea Group and Gree Electric Appliances enhanced gains. The position in Inner Mongolia Yili Industrial Group advanced as revenues rose and the company benefited from strong demand. Elsewhere, Brazil-based education service provider Estacio Participacoes reported robust quarterly results, with an increase in margins. The allocation to media company Naspers rose on the back of the strong performance of Tencent Holdings and Mail.Ru Group, Naspers' internet businesses in China and Russia, respectively. Tencent Holdings maintained a strong run during the year, in what was a particularly impressive period for Chinese internet names. However, the fund had an underweight stance in Tencent, which weighed on relative performance as its share price rose. Within financials, the exposure to Russia's Sberbank added value on the back of its strong market position, which enabled it to release better-than-expected results."

### Outlook

"While the backdrop for investing in emerging markets has improved, selectivity and discipline remain critical to maximising long-term returns. Market leaders in their respective segments that can deliver sustainable earnings and cash flow are the most compelling investment ideas. The rising purchasing power of emerging market consumers indicates opportunities in many consumer-related businesses across a number of sectors though gains are likely to be derived from those companies that can defend the underlying profitability and efficiently deploy their capital.

Policy developments across the major countries in the developing world such as China and India bode well for economic growth. China will remain topical and is likely to have a degree of uncertainty while the risk of a trade war with the US lingers. The Europe Middle East and Africa (EMEA) region is home to an array of countries with significant growth potential though geopolitical tensions and oil price movements may create volatility in the Russian market. In South Africa, the appointment of a new president was welcomed by investors. Political activity will continue to remain in focus as Colombia and Mexico elect their Presidents in May and July, respectively. In many respects, politics is an unquantifiable risk, which will no doubt result in periods of uncertainty and volatility. It is important to note that emerging market equities are rising from a very low base, and with a valuation discount to developed market equities, the asset class remains attractive".

## Multi Asset Funds – Multi Asset Income (MAI)

### Market Background

“Global markets were positive until January 2018, supported by synchronised and broadening global growth. However, they corrected sharply towards the end of the period as higher US wage growth data sparked fears over a rise in inflation and faster interest rate hikes by the US Federal Reserve (Fed). Moreover, the imposition of import tariffs by the US government sparked concerns about the possibility of trade wars. The spike in volatility triggered a sell-off and led to risk aversion as investors continued to anticipate the end of the current market cycle. Among fixed income markets, US Treasuries posted losses as there were bouts of volatility due to the lack of clarity on US tax reforms and concerns around the budget deficit and inflation. However, European government bonds generated small positive returns as investors looked outside the US for safer assets. Meanwhile, the recent broad risk-off sentiment and rising volatility in stock markets, led to negative returns in credit markets. Returns in sterling terms were weakened by its appreciation against the US dollar and the euro, but supported by its depreciation against the yen.”

### Performance & Strategy

“The fund continued to deliver on its objectives of offering an attractive, natural income with low volatility and capital protection. It generated negative total returns over a volatile period, with the largest detractor coming from equity holdings. However, the fund was well positioned going into this period of higher volatility as a more defensive stance had been adopted earlier. This helped limit the drawdown. Sterling strength against the US dollar and, to a lesser extent, the euro hurt returns as the fund has some exposure to these currencies. Equity holdings detracted due to style biases and the broad market sell off more recently. The fund held equity market hedges to protect against a rise in volatility. These detracted from returns while equity markets were rising but added significant value in February and March, when markets were volatile. Social infrastructure holdings fell due to concerns about nationalisation and negative headline news around the collapse of Carillion. Energy infrastructure holdings were negatively impacted following an unexpected announcement about a tax change for Master Limited Partnerships (MLPs), which raised concerns about the potential impact on income distributions. However, the attractive yield and valuation continue to support the investment thesis of these holdings. Several other positions in the alternatives space such as renewable energy infrastructure and aircraft leasing held up very well in this environment. Elsewhere, the global risk-off environment, a rise in geopolitical risks and increased issuance led to some downward pressure for high yield bonds. Consequently, positions in the asset class negatively impacted returns. Loans and emerging market debt (local currency), two of the asset classes we favour, performed better, making small positive contributions. Among Income assets, government bonds and mortgages supported returns. However, the allocation to investment grade bonds and emerging market debt (hard currency) proved unhelpful”.

### Outlook

“Although equity markets are likely to remain supported by the strong global growth environment, we are preparing for greater volatility by adding to defensive assets. Returns over the rest of 2018 are likely to be influenced by asset class positioning, rather than a broad upwards move in markets. Our portfolio strategy continues to be to add to defensive assets, mainly US government bonds but also US corporate bonds at the safer end of the investment grade spectrum. We continue to favour carefully sized short positions in equities to help mitigate the risks equity investors face and we favour enhanced income strategies that boost the income we earn from our equity allocation, with typically less volatility. Financial equity and debt positions have been increased, given that this sector stands to perform well in the event of further interest rate rises. Emerging market debt (local currency) remains a favoured asset class which the fund accesses through a strategy that can tilt its exposure to emerging market economies with strong fundamentals. Overall, we believe the fund remains well positioned to deal with increased market volatility, striking the right balance of defensive and ‘risk-on’ positions and to continue delivering an attractive natural income”.

## ADMINISTRATION AND BENEFITS REPORT

### 1. The year in focus

- 1.1 The Pension Fund has a collective approach to continual improvement to meet the challenges we face. With direction from the Pensions Committee and support from Senior Management we have put in place the resources and systems necessary to effectively manage the Pension Fund in a period of increased pressure on resources combined with increasing workloads and complexity.
- 1.2 The main focus of the Pension Fund during 2017/2018 was the development of its IT systems, My Pension Online and Employer Self Service, and the improvement of its data integrity.
- 1.3 The level of engagement with Scheme Employers continued to increase during 2017-2018. The Systems Team has continued to work closely with employers over the past year, to encourage them to sign up and use Employer Self Service (ESS). The Fund now has 36 Employers using the service. This covers 99.73% of the Active Membership. This has increased from 31 during 2016/2017. Out of these, 20 of the Employers are providing the Fund with Monthly data, and 13 of the 36 are using the whole suite of services available through ESS, which includes, Monthly Returns, Electronic Starters and E-forms. As a result of ESS, the quality of Year End data submissions improved once again in 2016/2017. This can be illustrated in the following table:-

Deadline	Deadline Met
30 April 2015	36%
30 April 2016	62%
30 April 2017	77%

The 77% of Employers that met the deadline of 30<sup>th</sup> April 2017 covered 93% of the Active Membership, as opposed to 49% of the total Active membership in 2015-2016 and 35% of the total Active membership in 2014-2015.

- 1.4 The total number of members who have signed up to My Pension Online has continued to increase during 2017-2018. Over 14,000 members have signed up for My Pension Online. This includes Active, Deferred and Pensioner Members. Active and Deferred members once again received their Annual Benefit Statements via My Pension Online. Pensioners are now also able to access their payslips and P60s via My Pension Online.
- 1.5 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.
- 1.6 The wider economic environment and, in particular, budget reductions by employers who participate in the Scheme, continues to impact on the work of the Pension Team in relation to increased enquiries from employers with regard to potential redundancies, staff reduction exercises and the out-sourcing of services.



## 2. Administration service and current developments

### 2.1 Core work

The work undertaken by the Pension Team in relation to the main 'core service' statistics is illustrated on the following table. The table illustrates the work outstanding as at 1<sup>st</sup> April 2017, additional work added during the period, the amount of work completed during the period and the work in progress as at 31<sup>st</sup> March 2018.

	Work outstanding 1 April 2017	New	Total	Completed	Work in progress 31 March 2018
Retirements processed	382	1,300	1,682	1,319	363
Deferred processed	1,054	1,709	2,763	2,130	633
Retirement estimates	495	2,578	3,073	2,606	467
Deaths processed	185	617	802	642	160
Transfers in/out	1,771	2,767	4,538	2,476	2,062
New Starters	779	4,741	5,520	4,373	1,147
<b>Total</b>	<b>4,666</b>	<b>13,712</b>	<b>18,378</b>	<b>13,546</b>	<b>4,832</b>

The work in progress as at 31<sup>st</sup> March 2018 is higher than the work in progress at 1<sup>st</sup> April 2017. This is reflective of:

- A number of maternity absences during the year and the need to train up temporary maternity cover staff.
- Auto Enrolment – A number of large employers had to re-enroll their members into the scheme
- The additional administration requirements relating to the increased complexity of the scheme.
- An increase in the number of members being affected by Annual and Lifetime Allowance limits.
- The continuing 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 31<sup>st</sup> March 2018 with the previous year as set out in the table below.

	Average Monthly New Work received in year to 31/03/2017	Average Monthly New Work received in year to 31/03/2018	Average Monthly work completed in year to 31/03/2017	Average Monthly work completed in year to 31/03/2018
Retirements processed	116.83	108.33	112.92	109.92
Deferred processed	239.83	142.41	208.92	177.5
Retirement estimates	199.66	214.83	193.25	217.17
Deaths processed	48.75	51.41	48.67	53.5
Transfers in/out	104.58	230.58	91.58	206.33
New Starters	311.08	395.08	333.58	364.42
<b>Total</b>	<b>1,020.73</b>	<b>1,142.64</b>	<b>988.92</b>	<b>1,128.84</b>

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

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

## 2.2 Other activity

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

- Facilitating training for employers, including the production of Newsletters and Bulletins.
- 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 1<sup>st</sup> April 2014 is continuing to increase the number of members who are exceeding the allowance and increasingly the Pension Fund is receiving enquiries from members who have the opportunity for promotion.
- Providing guidance to members in relation to the reduction in the Lifetime Allowance to £1 million with effect from 6<sup>th</sup> April 2016 and the protections available.
- Continuing work on the GMP reconciliation project which is required following the announcement by DWP that they will not routinely provide funds with GMP details for scheme members after 2016.
- Participation in Club Vita to provide a bespoke analysis of the longevity of the members of the Greater Gwent (Torfaen) Pension Fund.
- Participation in the National Fraud Initiative (NFI) and utilising the services of a tracing agency.
- Continuing collaboration with the other seven Local Government Pension Funds within Wales to improve communication and administration systems.
- Participation in the LGA Communications sub group to assist in developing LGPS Scheme wide communications.

## 2.3 Internal dispute resolution procedure

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

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

## 2.4 Current challenges

- The main challenge facing the Pension Team is the continually increasing workloads coupled with increased complexity. The increased complexity means that the members and employers have difficulty in understanding how the regulations will impact in a particular case and the Pension Fund staff are spending increasing amounts of time providing help and guidance in this area.
- The timescale within which the Pension Fund must provide each member with an Annual Benefit Statement is 31<sup>st</sup> August each year. The Pension Fund was able to issue the 2017 Annual Benefit Statements ahead of this deadline however the timescale is still a challenge with little room for any unforeseen circumstances. The Fund is committed to using the technologies available to assist employers with complying with their responsibilities to ensure that the Pension Fund can also meet its obligations under the Regulations and related legislation.
- The current Annual Allowance of £40,000 is resulting in more and more members potentially having a tax liability. The Pension Fund carries out an exercise each year to assess the position of individual scheme members and writes to each individual who has either exceeded the Annual Allowance or has come close to exceeding it.



We are receiving an increasing number of enquiries from members who are considering accepting a promotion and are concerned about how the increase in salary will affect their annual allowance position. The annual allowance regime may therefore be acting as a disincentive to career advancement as well as adding to the complexities which Pension Fund staff need to be able to administer and the increase in the level of guidance which the Pension Fund staff need to be able to provide with regard to the impact on retirement income.

- The Life Time Allowance which is the total amount that an individual can hold in total in pension savings reduced from £1.25 million to £1 million with effect from 6<sup>th</sup> April 2016. We have therefore seen an increase in the number of members with a potential or actual lifetime allowance tax liability. This has also added to the complexity in relation to providing guidance to members on lifetime allowance protections and the impact of exceeding the Allowance on their retirement income.
- With effect from 1<sup>st</sup> 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.

### 3. Future challenges

- 3.1 The General Data Protection Regulations (GDPR) will come into effect from 25<sup>th</sup> May 2018. GDPR puts greater emphasis on the documentation that data controllers must keep to demonstrate their accountability. GDPR applies to 'personal data' meaning any information relating to an identifiable person who can be directly or indirectly identified in particular by reference to an identifier. The Fund is working closely with Torfaen County Borough Council, LGA and other Local Government Pension Funds to ensure its members and employers are informed accordingly.
- 3.2 The Fund is actively working on GMP Reconciliation with HMRC records. The deadline for this is December 2018.
- 3.3 There has been a change to the senior management team within the Fund during 2017-2018, with the retirement of the Pension Manager, and the Operations Manager taking Flexible Retirement. This has created opportunities for career progression within the Pension Section building on the training and development plans previously implemented.
- 3.4 The next actuarial valuation for the Pension Fund will be carried out as at 31<sup>st</sup> March 2019. Preparation for this next valuation will commence over the next 6 months, working with employers to ensure that the data held by the Pension Fund is as accurate and up to date as possible.
- 3.5 The Pensions environment continues to change and the Pension Fund needs to be able to adapt to reflect these changes.
- 3.6 The continually increasing workload coupled with the ever increasing complexity continues to impact on the Pension Team Resources.
- 3.7 The increased Governance arrangements impose more prescriptive reporting requirements on the Pension Fund and again impacts on the Pension Fund resources.
- 3.8 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 and to find the most efficient ways of providing its services.

## FUND POLICIES

### 1. Investment Strategy Statement

#### 1.1 Background

Until 31 March 2017, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required administering authorities to prepare, publish and review from time to time a written Statement recording the investment policy of the Pension Fund - its Statement of Investment Principles (SIP). The updated 2016 LGPS investment regulations however require funds to publish a new replacement document, an Investment Strategy Statement (ISS). Like the SIP, the ISS still documents and puts into effect the Fund's principal powers to invest in accordance with the investment regulations, but now within an updated statutory framework that allows more flexibility with increased prudential responsibility in determining the investments the Fund makes. The Fund produced its first ISS as required in April 2017 and Page 50 of this Annual Report includes a website link to access this document. Though there is no statutory requirement to annually review the ISS, it does now require some updating, including the Strategic Asset Allocation revisions recently made in March 2018, so an updated version will be brought to Pensions Committee for their consideration and published during 2018 following appropriate consultation. The below however provides a brief overview of the current document.

#### 1.2 Introduction

The ISS confirms that The Committee seeks to invest, in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (see paragraph 3 below).

#### 1.3 The suitability of particular investments and types of investments

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Committee monitors the investment strategy on a regular basis, focusing on factors including, but not limited to:-

- Suitability given the Fund's level of funding and liability profile
- Potential impact of market conditions on long term levels of expected risk
- Outlook for asset returns

Within its general consideration of strategic approach, the Fund's Investment Objectives can be summarised as:-

- 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
- to manage employers' liabilities effectively
- to ensure that sufficient resources are available to meet all liabilities as they fall due
- to maximise the returns from investments within reasonable risk parameters
- to ensure that all statutory payments made from the Pension Fund are at minimal cost to local tax payers
- to achieve a funding level within the range 95% to 105% liabilities
- to aim for upper quartile investment returns over rolling 3 year periods

## 1.4 Investment of money in a wide variety of investments

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund's current target investment strategy is set out within this section of the ISS including the maximum percentage of total Fund value that it will invest in these asset classes and at which point re-alignment to strategy needs to be considered. At regular intervals, and certainly at each review point of the investment strategy, projections of anticipated return and risk levels are undertaken to ensure these continue to meet the actuarial requirements versus the Fund's assessed liabilities. The current ISS notes that, at the time the document was prepared, latest expected long term return for the Fund's portfolio (based on its tactical allocation at that time) was 6.29% p.a. with an expected long term volatility of 14.71% p.a.

## 1.5 Investment management arrangements

The ISS notes that the Committee has appointed a number of appropriately authorised external investment managers to manage around 94% of the Fund's investments. The remaining 6% is allocated internally to manage the Fund's strategic allocations to Property, Cash and a small element of the Alternatives allocation. At present there are five investment managers appointed via individual Investment Management Agreements. The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

## 1.6 The approach to risk, including the ways in which risks are to be measured and managed

The ISS includes a detailed section noting the various types of risk the Fund faces and the measures in place to mitigate those risks. The risks are analysed across the headings of Funding Risks; Asset Risks and Other Provider Risks. As well as being included within the ISS, this analysis from the ISS is also summarised within Note 17 to the Fund's Accounts on Page 75 of this report.

## 1.7 The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the All Wales investment pool (the Wales Pension Partnership). The proposed governance structure and basis on which the Wales Pool will operate was set out in the July 2016 submission to government, and has since been extensively considered and developed. The final arrangements are set out in an Inter Authority Agreement approved by both the Pensions Committee and Administering Authority's full Council in March 2017. The Fund's intention is to invest its assets through the Wales Pool as and when suitable Pool investment solutions become available; and provided the solution meets the Fund's investment objectives and criteria; and also provided that there is a clear financial benefit to the Fund in investing in the solution offered by the Pool. The ISS provides details and the total percentage of investments the Fund holds within the Pool, compared to assets held outside the Pool together with reasons for this.

## 1.8 How social, environmental or corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The ISS details the Fund's approach to the consideration of ESG Factors and Sustainable Investment as well as its approach to the Stewardship of its assets. Further details of this are included within Section 2 (below).

## 1.9 Feedback and review

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

## 2. Socially Responsible Investment & Corporate Governance

### 2.1 Responsible Investment

The Committee takes ESG matters very seriously and periodically conducts a review of its policies in this area. The Fund's policy on how ESG factors should be taken into account in the selection, retention and realisation of investments was originally developed under the Fund's previous governance arrangements by its Investment Panel when members considered that they should, in all circumstances, act in the best financial interests of the Beneficiaries. This over-arching policy remains, however, 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, in their considered best interests of the investments they are managing for the Fund.

Within the Fund's current governance arrangements, the Pensions Committee has also reviewed the approach to Socially Responsible Investment within its work plan and last year's Annual Report noted that, as a result of that review, the Committee decided that a separate working group, the Environmental Social and Corporate Governance (ESG) Working Group should be formed to specifically consider the Fund's current approach to environmental, social and corporate governance matters within its investment decision making process. The original 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 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 via its membership of the Local Authority Pension Fund Forum (LAPFF). The Pensions Committee confirmed that they were content that the Group continued to meet 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 (PFMG) as the body that provided wider stakeholder representation at that time. The statutory change in the Fund's governance arrangements led to the PFMG being superseded by the Local Pension Board and last year's report noted the possibility of re-convening the Group as the Pension Board becomes further embedded in the Fund's amended governance arrangements.

We are able to report this year that the Group has indeed now been re-convened during the year and, in doing so, has been renamed as the Responsible Investment Working Group (RIWG) to emphasise the broad coverage of its remit to review all aspects of the Fund's investments from the perspective of the Fund as a Responsible Investor. The Group is chaired by the Chair of the Local Pension Board and has eight members representing the Board; Pensions Committee and Fund Officers. Its first meeting was in December 2017 and there have been three meetings in total to date during which the Group has:-

- Investigated the extent and range of the issues pertaining to Responsible Investment (RI).
- Undertaken research (by way of survey) to gauge the views and beliefs of Pensions Committee members; Pension Board members and Fund officers in respect of Responsible Investment.
- Identified where there is a strong consensus amongst respondents/decision makers for the Fund and also identified those areas where there is a less clear view.
- Received an in depth educational session around RI linked to the results of the survey.
- Considered particular topical and recent developments in the area of RI with particular emphasis on climate change.
- Begun to consider how the wider menu of RI issues could be formulated into an appropriate Policy framework for the Fund with necessary prioritisation.

From the above consideration and further work streams identified the Group will look to develop a draft formal Responsible Investment Policy for the Fund, for consideration by Pensions Committee in due course. Any subsequent ESG policy decisions made by the Pensions Committee will be incorporated within future versions of the Fund's Investment Strategy Statement.

## 2.2 Myners Compliance

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

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

As part of its on-going review of good practice, the Fund regularly gives further consideration to these and related issues. A detailed position statement showing the extent of the Fund's compliance with the revised set of principles has historically been contained within the Fund's Statement of Investment Principles and a further consideration of Myner's compliance will be undertaken as an element of preparing the Fund's revised 2018 Investment Strategy Statement and published within it.

## 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 50 of this document.

## 4. Communications Policy Statement

- 4.1 The Fund's Communications Policy Statement (CPS) does not require annual review. It was however extensively reviewed and updated during early 2017 to reflect changes which the Pension Fund had introduced in relation to communicating with Employers and Members. It has additionally had some further minor factual update during March 2018.
- 4.2 The current CPS continues to address the points below that have been noted within recent annual reports :-
- the increased complexity of the LGPS
  - the increased demand from scheme employers for guidance in relation to the application of LGPS Regulations
  - the increased demand from scheme employers for guidance in relation to budget restrictions and the impact on pension costs
  - the increased demand from scheme members in relation to the application of the LGPS Regulations and wider pension and tax planning issues
  - the increase in the level of reporting to DCLG, the Scheme Advisory Board, the Local Pension Board and the Pension Regulator
  - the desire to make better use of the opportunities available in relation to electronic communication, including conference calls and webinars
- 4.3 The updated policy however reflects the significant improvements in the area of electronic communication which have been introduced by the Fund. These include an upgrade to the Pension Fund website as well as the roll out of Employer Self Service and Member Self Service. Employer Self Service enables employers to submit year end and monthly data through a secure portal but also provides a secure means of communication between the Pension Fund and the employers. Member Self Service enables members to view their pension records and plan more effectively for their retirement and enables the Pension Fund to communicate with the scheme members in a secure, cost effective manner.
- 4.4 The Policy aims remain focused on ensuring that the Fund delivers clear and timely, proactive communications to our stakeholders which are targeted, clear and accessible, accurate and timely and easily understood. The Fund recognises that there is a diverse range of Scheme Employers within the Fund with different levels of resource and understanding of pension's issues. The Employer self-service facility has improved the flow of information to and from, in particular, the larger employers. However, the Fund recognises the need to maintain other forms of communication which are tailored to meet the differing needs of scheme employers including individual face to face meetings, employer forums, training workshops and guides as well as telephone and email engagement.
- 4.5 The My Pension Online facility has proved popular with members particularly those who are approaching retirement as the benefit calculator enables them to plan more effectively for their retirement. The Pension Fund website is the main source of information for scheme members and can now be used effectively on different devices including smart phones and tablet devices. The Fund encourages members to utilise the electronic communication facilities whilst recognising the need to utilise other forms of communication including face to face meetings, presentations and workshops, letters, newsletters and telephone.



### 5. Pension Fund Annual Report

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

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

## NATIONAL LGPS ANNUAL REPORT DATA

1.1 The Local Government Pension Scheme Advisory Board is a statutory body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. The purpose of the Board is to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues. The Board has recently published the fifth 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 90 fund annual reports, as at 31st March 2017. Here are some key LGPS highlights for 2017:

- The total membership of the LGPS grew by 394,000 (6.9%) to 5.6m members in 2017 from 5.2m in 2016. Over 1.6m pensioners were paid over the year.
- The total assets of the LGPS increased to £263bn (a change of 21.2%). These assets were invested in pooled investment vehicles (52%), public equities (32%), bonds (7%), direct property (3%), as well as other asset classes (6%). The scheme maintained a positive cash-flow position overall, although scheme income was lower than total scheme outgoings by £484m excluding investment income.
- 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:

- 'PIVs' include the holdings in fixed interest and equity pooled investment vehicles.
- 'Other' denotes the absolute return funds (where the underlying investments comprise of assets of more than one type) and limited liability partnerships.
- '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 2018

31 March 2018	UK £m	Non-UK £m	Global £m	Total £m
Equities	510.1			510.1
PIVs (pooled investment vehicles)	694.2	1,033.3	333.3	2,060.8
Property PIVs	71.3			71.3
Other	1.8		118.8	120.6
Other balances	3.2			3.2
Cash deposits	19.1			19.1
<b>Total</b>	<b>1,299.7</b>	<b>1,033.3</b>	<b>452.1</b>	<b>2,785.1</b>

### 1.4 Analysis of net investment income due in 2017/2018

31 March 2018	UK £000	Non-UK £000	Global £000	Total £000
Equities	18,670			18,670
PIVs (pooled investment vehicles)				-
Property PIVs	1,864			1,864
Other	142		597	739
Other balances				-
Cash deposits	44			44
<b>Total</b>	<b>20,720</b>		<b>597</b>	<b>21,317</b>

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 2017/18

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

### Description of Funding Policy

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

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

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

### Funding Position as at the last formal funding valuation

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

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

### Principal Actuarial Assumptions and Method used to value the liabilities

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

### Method

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

# Pension Fund Annual Report 2017/2018

## Assumptions

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

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

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

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

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

\*Aged 45 at the 2016 Valuation.

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

## Experience over the period since 31 March 2016

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

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



Douglas Green FFA  
For and on behalf of Hymans Robertson LLP  
24 April 2018

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

## The independent auditor's report of the Auditor General for Wales to the members of Torfaen County Borough Council as administering authority for Greater Gwent (Torfaen) Pension Fund

### Report on the audit of the financial statements

#### Opinion

I have audited the financial statements of Greater Gwent (Torfaen) Pension Fund for the year ended 31 March 2018 under the Public Audit (Wales) Act 2004. Greater Gwent (Torfaen) Pension Fund financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018.

#### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Report on other requirements

#### Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

## Pension Fund Annual Report 2017/2018

- the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with Local Government Pension Scheme Regulations 2013.

### **Matters on which I report by exception**

In the light of the knowledge and understanding of the pension fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

### **Certificate of completion of audit**

I certify that I have completed the audit of the accounts of Greater Gwent (Torfaen) Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

### **Responsibilities**

#### **Responsibilities of the responsible financial officer for the financial statements**

As explained more fully in the Statement of Responsibilities for the financial statements [set out on page 1], the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

#### **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.



Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
27 June 2018

24 Cathedral Road  
Cardiff  
CF11 9LJ

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

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# Pension Fund Accounts 2017/2018

## Fund Account for the Year Ended 31 March 2018

	Note	2016/2017 £000	2017/2018 £000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	7	(107,205)	(114,118)
Transfers in from other pension funds	8	(5,573)	(5,704)
Other income	12a	(1)	(1)
		(112,779)	(119,823)
Benefits	9	108,881	111,419
Payments to and on account of leavers	10	7,386	7,803
		116,267	119,222
<b>Net (additions)/withdrawals from dealings with members</b>		<b>3,488</b>	<b>(601)</b>
Management expenses	11	8,933	9,366
<b>Net (additions)/withdrawals including fund management expenses</b>		<b>12,421</b>	<b>8,765</b>
<b>Returns on investments</b>			
Investment income	12	(19,371)	(21,407)
Taxes on income	13	89	90
Profit and losses on disposal of investments and changes in the market value of investments	14a	(487,349)	(78,640)
<b>Net return on investments</b>		<b>(506,631)</b>	<b>(99,957)</b>
<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(494,210)</b>	<b>(91,192)</b>
<b>Opening net assets of the scheme</b>		<b>(2,205,418)</b>	<b>(2,699,628)</b>
<b>Closing net assets of the scheme</b>		<b>(2,699,628)</b>	<b>(2,790,820)</b>

## Net Assets Statement for the Year Ended 31 March 2018

	Note	2016/17 £000	2017/18 £000
Investment assets	14	2,700,194	2,785,140
Investment liabilities	14	-	-
<b>Total net investments</b>		<b>2,700,194</b>	<b>2,785,140</b>
Current assets	20	10,808	11,236
Current liabilities	21	(11,374)	(5,556)
<b>Net assets of the Scheme available to fund benefits at 31<sup>st</sup> March</b>		<b>2,699,628</b>	<b>2,790,820</b>

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

## NOTES TO THE ACCOUNTS

### 1. DESCRIPTION OF FUND

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

The following description of the Fund is designed to be a summary only. For more detail, reference should be made to the 'signposting' to the Fund's statutory documentation on page 50.

#### 1.1 General

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

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

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

As administering authority, Torfaen County Borough Council is responsible for interpreting all pension laws, keeping accurate records, calculating and paying benefits, and providing information to employees, employers and other relevant bodies. Torfaen County Borough Council has established within its Constitution a Pensions Committee to discharge its duties as administering authority of the Fund. The Fund's primary stakeholder representative body is its Local Pension Board. The Public Service Pensions Act 2013, and subsequently the LGPS (Amendment) (Governance) Regulations 2015, required all LGPS Funds to form such a Board. As with the Pensions Committee, the Local Pension Board is formally established within the Council's constitution. The Board has a statutory role to assist the Council in its role as the Scheme Manager of the Pension Fund.

#### 1.2 Membership

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

There are 60 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table below provides some further details in terms of membership.

# Pension Fund Accounts 2017/2018

## Fund Membership

	Active Members 31/03/17	Active Members 31/03/18
<b>Administering Authority</b>		
Torfaen CBC	3,112	2,983
<b>Current Scheduled Bodies</b>		
Blaenau Gwent CBC	2,498	2,777
Caerphilly CBC	6,653	6,826
Monmouthshire CC	2,792	3,002
Newport City Council	3,907	4,187
Valuation Panel	4	4
Coleg Gwent	653	706
Coleg Gwent Training	0	4
Chepstow Town Council	9	10
Brynmawr Town Council	1	1
Chief Constable (Gwent)	666	728
Police & Crime Commissioner (Gwent)	14	14
Silent Valley Waste Disposal	3	3
Caldicot Town Council	2	3
Nantyglo & Blaina Town Council	1	2
Monmouth Town Council	3	4
Gwent Cremation Committee	10	10
Cwmbran Community Council	7	8
Pontypool Community Council	10	9
Tredegar Town Council	2	2
Rogerstone Community Council	4	5
Bargoed Town Council	1	1
Portskewett Community Council	1	1
Shirenewton Community Council	1	1
Henllys Community Council	1	1
Magor with Undy Community Council	1	1
Langstone Community Council	1	1
Caerwent Community Council	1	1
Llanfoist Fawr Community Council	0	1
BTM CC	1	1
Abertillery & Llanhillith Community Council	1	1
Abergavenny Town Council	1	1
Croesyceiliog & Llanyrafon Community Council	0	1
SRS	0	199
<b>Deemed Bodies</b>		
Newport Transport	8	8
<b>Admitted Bodies</b>		
Melin Homes	54	52
Careers Wales Gwent	85	94
Citizen Advice Bureau Caerphilly	8	7
Mitie (formerly Ballast)	1	1
Hafod Care	15	14
Archives	15	14
Monmouthshire Housing	167	179
Bron Afon	476	426
Newport City Homes	200	231
Tai Calon	235	239
DRIVE	4	4
Regent Ex Monmouth CC	1	1
Regent Ex Monmouth Cluster	2	0



# Pension Fund Accounts 2017/2018

## Fund Membership

	Active Members 31/03/17	Active Members 31/03/18
<b>Admitted Bodies continued</b>		
Vinci	1	1
Compass Catering	57	47
National Trust	5	5
Barnardo's	2	2
EAS	74	80
Churchill	4	3
Torfaen Leisure Trust	268	272
Borough Theatre	6	5
NPS Newport	23	32
NCS Norse	101	91
Life Leisure	403	431
Newport Live	209	251
Alliance in Partnership	3	2
<b>Total Active Membership</b>	<b>22,788</b>	<b>23,991</b>
<b>Total Deferred Members</b>	<b>18,068</b>	<b>18,455</b>
<b>Total Pensioners and Dependents</b>	<b>16,388</b>	<b>16,848</b>
<b>Total Membership</b>	<b>57,244</b>	<b>59,294</b>

### 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)
<b>Pension</b>	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.
<b>Lump Sum</b>	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 2018. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. Contributions are currently based on the valuation as at 31 March 2016. Currently, employer contribution rates range from 16.1% to 35.8 % 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 Investment Strategy Statement which superseded the Statement of Investment Principles from 1st April 2017 as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 2. BASIS OF PREPARATION

2.1 The Fund Account summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

2.2 The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed in note 19, page 86.

## 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 allowance 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 with the following exceptions:
  - a) The Fidelity Multi Asset Income Fund generates monthly income distributions, although this is currently reinvested by the fund manager rather than paid out.
  - b) The Prudential/M&G UK Companies Financing Funds (Funds I and II) are in the form of limited liability partnerships and make income distributions at least twice a year.
  - c) Dividends are paid out by most of the property pooled funds held by the Fund either monthly or quarterly.
- 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 25 in any year, unless the total value is material.

The Fund's financial statements do not include CAY (Compensatory 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 Fund complies with the recommendation of the Code to disclose a breakdown of management expenses in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses'.

- **Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration section are charged directly 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 directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. This figure also includes the cost of our involvement in the pension fund collaboration across Wales via investment pooling which is shared between the 8 Welsh LGPS Funds. Further details on the Wales Pension Partnership can be found on page 23.

- **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 2017/18 £0.409m of fees is based on such estimates (£0.915m in 2016/17).

- iii) **Taxation**

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Tax is therefore only applicable to dividend income from equity investments. Income from overseas investments is subject to deduction of withholding tax in the country of origin, unless exemption is permitted. There is no longer tax applied to UK equity dividends.

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

### 3.3 **Net assets statement**

- i) **Financial assets**

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

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

- ii) **Cash and cash equivalents**

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

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

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

### iii) **Financial Liabilities**

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

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

The actuarial present value of promised retirement benefits is assessed by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 19, page 86).

### 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(1)b of the Local Government Pension Scheme (Management of Investment of Funds) Regulations 2016 but are disclosed as a note only (note 22, page 88).

## **4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES**

### 4.1 **Pension Fund liability**

The triennial valuation of the Fund carried out under Regulation 62 of the LGPS Regulations 2013 differs from the IAS19 annual valuations of the promised retirement benefits at the Balance Sheet date. The Pension Fund Valuation is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 18, page 84. This estimate is subject to significant variances based on changes to the underlying assumptions. The Code requires disclosure of the actuarial value of promised retirement benefits for the whole Fund at Balance Sheet date. See paragraph 3.4 above and note 19, page 86. 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 2018 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 £500m. A 0.5% increase in assumed salary inflation would increase the value of liabilities by approximately £90m and a one-year increase in life expectancy would increase the liability by approximately 3-5%. A 0.5% increase in the pension increase rate would increase the liability by £377m.
Limited Liability Partnerships	The investments in the Prudential/M&G UK Companies Financing Funds are valued at fair value by its administrator. 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 £1.753m. See note 15 (a) for basis of fair value.

## 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 2018 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 primary employer contribution rates for the Fund for 2017/18 varied between 16.1% and 35.8% of pensionable pay for individual employers. Also payable is the secondary rate which is made up of additional lump sums or contribution rates applicable, again to individual employers. 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 primary rates.

# Pension Fund Accounts 2017/2018

## By category

2016/17 £000		2017/18 £000
(82,380)	Employers	(88,509)
(24,825)	Members	(25,609)
<b>(107,205)</b>	<b>Total</b>	<b>(114,118)</b>

## By authority

2016/17 £000		2017/18 £000
(16,087)	Administering Authority	(15,076)
(80,230)	Scheduled bodies	(85,279)
(211)	Deemed bodies	(211)
(10,677)	Admitted bodies	(13,552)
<b>(107,205)</b>	<b>Total</b>	<b>(114,118)</b>

## By type

2016/17 £000		2017/18 £000
(24,740)	Employees normal contributions	(25,480)
(81)	Employees 50:50 contributions	(88)
(4)	Employees additional contributions	(41)
(50,261)	Employers normal contributions	(70,654)
(28,143)	Employers deficit recovery contributions	(15,540)
(3,976)	Employers augmentation contributions	(2,315)
<b>(107,205)</b>	<b>Total</b>	<b>(114,118)</b>

## 8. TRANSFERS IN FROM OTHER PENSION FUNDS

2016/17 £000		2017/18 £000
(5,573)	Individual transfers in from other schemes	(5,704)
<b>(5,573)</b>		<b>(5,704)</b>

## 9. BENEFITS PAYABLE

### By category

2016/17 £000		2017/18 £000
61,434	Pensions - statutory	64,546
21,452	Pension increases	21,634
21,650	Commutation of pensions and lump sum retirement benefits	21,116
3,237	Lump sum death benefits	3,113
1,108	Additional allowances	1,010
<b>108,881</b>		<b>111,419</b>



# Pension Fund Accounts 2017/2018

## By authority

2016/17 £000		2017/18 £000
15,082	Administering Authority	15,808
86,377	Scheduled Bodies	85,814
1,205	Deemed Bodies	1,275
6,217	Admitted Bodies	8,522
<b>108,881</b>		<b>111,419</b>

## 10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £000		2017/18 £000
167	Contributions returned to employees	215
81	Payments in lieu of graduated pension contributions	35
1,835	Group transfers out to other schemes	1,485
5,303	Individual transfers out to other schemes	6,068
<b>7,386</b>		<b>7,803</b>

## 11. MANAGEMENT EXPENSES

2016/17 £000		2017/18 £000
1,108	Administrative costs	1,225
7,055	Investment management expenses	7,492
770	Oversight and governance costs	649
<b>8,933</b>		<b>9,366</b>

### a) Investment management expenses

2016/17 £000		2017/18 £000
5,677	Management fees	5,968
147	Performance related fees	218
137	Custody fees	142
1,094	Transaction costs	1,164
<b>7,055</b>		<b>7,492</b>

Management fees paid to investment managers are broadly based on the market value of the investments under their management.

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

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

## Pension Fund Accounts 2017/2018

### 12. INVESTMENT INCOME

2016/17 £000		2017/18 £000
(17,051)	Income from equities	(18,760)
(360)	Pooled investments	(739)
(1,915)	Pooled property investments	(1,864)
(45)	Interest on cash deposits	(44)
<b>(19,371)</b>		<b>(21,407)</b>

#### a) Other income

2016/17 £000		2017/18 £000
(1)	Miscellaneous income	(1)
<b>(1)</b>		<b>(1)</b>

### 13. OTHER FUND ACCOUNT DISCLOSURES

#### a) Taxes on income

2016/17 £000		2017/18 £000
89	Withholding tax - equities	90
<b>89</b>		<b>90</b>

#### b) Wales Pension Partnership

2016/17 £000		2017/18 £000
94	Wales Pension Partnership	72
<b>94</b>		<b>72</b>

Included in the 2017/18 oversight and governance expenses in note 11 is the cost of our involvement in the Wales Pension Partnership (WPP) collaboration across Wales via investment pooling. In 2017/18 we incurred costs for our share of the professional fees incurred in the setting up of the Wales Pension Partnership following a procurement process run by the WPP and its advisors, Hymans Robertson and Burges Salmon. A key aim of the pooling arrangement is to make savings in terms of external fund management fees. Oversight and governance costs will however increase due to the additional layer of governance required but investment management savings are expected to outweigh them once the Pool becomes established. The WPP appointed Link Asset Services as the FCA authorised Operator to establish and run a collective investment vehicle for the sole use of the eight local authority Pension Funds in Wales, with Russell Investments providing advisory services. Further details on the Wales Pension Partnership can be found on page 23.

## 14. INVESTMENTS

Value at 31.03.17 bid price £000		Value at 31.03.18 bid price £000
<b>Investment assets</b>		
497,996	Equities	510,076
2,116,552	Pooled investments	2,181,429
66,456	Pooled property investments	71,374
15,387	Cash deposits	19,099
3,803	Investment income due	3,162
<b>2,700,194</b>	<b>Total investment assets</b>	<b>2,785,140</b>
<b>- Total investment liabilities</b>		
<b>2,700,194</b>	<b>Net investment assets</b>	<b>2,785,140</b>

### 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 31 March 2017 £000	Purchases during the year £000	Sales during the year £000	Change in market value during the year £000	Market Value 31 March 2018 £000
<b>Equities</b>	<b>497,996</b>	205,891	(184,708)	(9,103)	<b>510,076</b>
<b>Pooled investments</b>	<b>2,116,552</b>	57,393	(72,058)	79,542	<b>2,181,429</b>
<b>Pooled property investments</b>	<b>66,456</b>			4,918	<b>71,374</b>
	<b>2,681,004</b>	263,284	(256,766)	75,357	<b>2,762,879</b>
<b>Other investment balances:</b>					
• Cash deposits	15,387			3,283	19,099
• Investment income due	3,803				3,162
<b>Net investment assets</b>	<b>2,700,194</b>			<b>78,640</b>	<b>2,785,140</b>

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

# Pension Fund Accounts 2017/2018

## b) Analysis of investments

Major Asset Class	31 March 2017 £000 Bid Price			31 March 2018 £000 Bid Price		
			%			%
<b>Segregated Equities</b>						
<b>UK</b>						
Quoted	497,996	<b>497,996</b>	<b>18.5</b>	510,076	<b>510,076</b>	<b>18.3</b>
<b>Unquoted Pooled funds – additional analysis</b>						
<b>UK</b>						
<b>Unit Trusts</b>						
Gilt Fund	208,090			227,184		
Corporate Bond Fund	127,830	<b>335,920</b>	<b>12.4</b>	144,001	<b>371,185</b>	<b>13.3</b>
<b>Unitised Insurance Policies</b>						
UK Equities Fund	318,645	<b>318,645</b>	<b>11.8</b>	322,983	<b>322,983</b>	<b>11.6</b>
<b>Other Managed Funds</b>						
M&G Limited Partnership	3,859	<b>3,859</b>	<b>0.1</b>	1,753	<b>1,753</b>	<b>0.1</b>
<b>Overseas</b>						
<b>Unit Trusts</b>						
Gilt Fund	21,210			6,304		
Corporate Bond Fund	104,672			94,412		
Global Equities Fund	119,332	<b>245,214</b>	<b>9.1</b>	120,990	<b>221,706</b>	<b>8.0</b>
<b>Unitised Insurance Policies</b>						
European Equities Fund	390,836			412,537		
US Equities Fund	308,431			241,893		
GARS Fund	63,354			64,372		
Global Targeted Returns Fund	-	<b>762,621</b>	<b>28.2</b>	20,069	<b>738,871</b>	<b>26.5</b>
<b>Other Managed Funds</b>						
Global Equities Fund	201,274			212,348		
Far East Equities Fund	176,307			194,118		
Emerging Markets Equities Fund	72,712			84,082		
Multi Asset Income Fund	-	<b>450,293</b>	<b>16.7</b>	34,383	<b>524,931</b>	<b>18.8</b>
<b>Unquoted Pooled Property Investments</b>						
UK Property Unit Trusts	66,456	<b>66,456</b>	<b>2.5</b>	71,374	<b>71,374</b>	<b>2.6</b>
<b>Cash Deposits</b>						
Liquidity Funds/Cash at Fund Managers	8,305			5,407		
Cash on deposit with financial institutions	7,082	<b>15,387</b>	<b>0.6</b>	13,692	<b>19,099</b>	<b>0.7</b>
<b>Other Investment Balances and Liabilities</b>						
Other investment balances	3,803	<b>3,803</b>	<b>0.1</b>	3,162	<b>3,162</b>	<b>0.1</b>
<b>Net Investment Assets</b>	<b>2,700,194</b>	<b>2,700,194</b>	<b>100</b>	<b>2,785,140</b>	<b>2,785,140</b>	<b>100</b>

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### c) Investments analysed by fund manager

Fund Manager	Proportion of Fund %	Value of Funds Held £000	Portfolios Held (actively managed unless otherwise stated)
BlackRock	11.6	322,983	UK Equities Fund (Passive)
	8.7	241,893	US Equities Fund (Passive)
	4.3	120,990	Global Equities Fund (Passive)
	7.6	212,348	Global Equities Fund
	14.8	412,537	European Equities Fund
	8.4	233,488	Gilt Fund
	8.6	238,413	Corporate Bond Fund
<b>Net Assets held by BlackRock</b>	<b>64.0</b>	<b>1,782,652</b>	
Lazard Asset Management	18.3	510,076	UK Equities (Segregated)
	0.2	5,407	Cash
	0.1	2,558	Other Investment Balances
<b>Net Assets held by LAM</b>	<b>18.6</b>	<b>518,041</b>	
Aberdeen Standard Investments	2.3	64,372	GARS Fund
<b>Net Assets held by ASI</b>	<b>2.3</b>	<b>64,372</b>	
Invesco Perpetual	7.0	194,118	Far East Equities Fund
	0.7	20,069	Global Targeted Returns Fund
<b>Net Assets held by Invesco</b>	<b>7.7</b>	<b>214,187</b>	
Fidelity Worldwide Investment	3.0	84,082	Emerging Markets Equities Fund
	1.2	34,383	Multi Asset Income Fund
<b>Net Assets held by Fidelity</b>	<b>4.2</b>	<b>118,465</b>	
<b>Net Assets held by Fund Managers</b>	<b>96.8</b>	<b>2,697,717</b>	
Torfaen County Borough Council	2.6	71,374	UK Property Unit Trusts
	0.5	13,692	Cash on deposit with financial institutions
	0.1	1,753	M&G Limited Partnership
	0.0	604	Other Investment Balances
<b>Net Assets held via Administering Authority</b>	<b>3.2</b>	<b>87,423</b>	
<b>Net Investment Assets</b>	<b>100</b>	<b>2,785,140</b>	

All of the above companies are registered in the United Kingdom.

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

Security	Market value 31 March 2017 £000	% of total fund	Market value 31 March 2018 £000	% of total fund
Blackrock Ascent Life European Equity Fund	390,836	14.5	412,537	14.8
Blackrock Aquila Life UK Equity Fund	318,645	11.8	322,983	11.6
Blackrock Aquila Life US Equity Fund	308,431	11.4	241,893	8.7
Blackrock Core Plus UK Corporate Bond Fund	232,502	8.6	238,413	8.6
Blackrock Core Plus UK Gilt Fund	229,300	8.5	233,488	8.4
Blackrock BSF Systematic Global Equity Fund	201,274	7.5	212,348	7.6
Invesco Perpetual Asian Equity Fund	176,307	6.5	194,118	7.0

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## 15. FAIR VALUE – BASIS OF VALUATION

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

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

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018 £000	Value on increase £000	Value on decrease £000
Limited Liability Partnerships	5.13%	1,753	1,843	1,663
<b>Total</b>		<b>1,753</b>	<b>1,843</b>	<b>1,663</b>

## a) Fair value hierarchy

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

### Level 1

Assets and liabilities at level 1 are the most straightforward to value as a liquid market exists for these securities. Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Segregated equities are classed as level 1 as they have readily observable prices and therefore a reliable fair market value with a regular 'mark to market' mechanism for pricing.

### Level 2

Level 2 assets are assets that do not have regular market pricing, but whose fair value can be readily determined based on other data values or market. Level 2 is deemed the most appropriate classification where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. The pooled funds held by the Fund at the reporting date fall into this category as they are not exchange traded.

### Level 3

Assets and liabilities at level 3 are those deemed most difficult to value, where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Within the Fund's investments there are only two (relatively minor) investments that would seem to fit into this category. The investments in the Prudential/M&G UK Companies Financing Funds (Funds I and II) are in the form of Limited Liability Partnerships, a structure very similar to that employed by the vast majority of Private Equity Investments. The two UK Company Financing Funds are now closed to new investors. The value of the investment is based on the net asset value provided by the fund manager i.e. using information not available in the market. With the exception of the above M&G investments, all of the Fund's investments therefore fall within the easy or moderately difficult to price levels 1 and 2.

The following tables provide an analysis of all the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable. This excludes cash deposits and other investment balances and liabilities.

	Quoted Market Price	Using observable inputs	With significant unobservable inputs	
<b>Values at 31 March 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	510,076	2,251,050	1,753	2,762,879
<b>Net investment assets</b>	<b>510,076</b>	<b>2,251,050</b>	<b>1,753</b>	<b>2,762,879</b>

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



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### b) Transfers between levels 1 and 2

There have been no transfers this year.

### c) Reconciliation of fair value measurements within level 3

	Market value 31 March 2017	Transfers into level 3	Transfers out of level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000	£000
Limited Liability Partnerships	3,859	-	-	-	(2,058)	(48)	-	1,753
	<b>3,859</b>				<b>(2,058)</b>	<b>(48)</b>		<b>1,753</b>

## 16. FINANCIAL INSTRUMENTS

### a) Classification of financial instruments

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

Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
31 March 2017			31 March 2018		
£000	£000	£000	£000	£000	£000
<b>Financial Assets</b>					
497,996			510,076		
2,116,552			2,181,429		
66,456			71,374		
	15,387			19,099	
3,803			3,162		
	10,808			11,236	
<b>2,684,807</b>	<b>26,195</b>		<b>2,766,041</b>	<b>30,335</b>	
		(11,374)			(5,556)
<b>2,684,807</b>	<b>26,195</b>	<b>(11,374)</b>	<b>2,766,041</b>	<b>30,335</b>	<b>(5,556)</b>

## b) Net gains and losses on financial instruments

31 March 2017 £000		31 March 2018 £000
<b>Financial assets</b>		
484,573	Fair value through profit and loss	75,357
2,776	Loans and receivables	3,283
<b>Financial liabilities</b>		
-	Fair value through profit and loss	-
-	Financial liabilities measured at amortised cost	-
<b>487,349</b>	<b>Total</b>	<b>78,640</b>

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

## 17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

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

### Overall procedures for managing risk

The principle powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which require an Administering Authority to invest, in accordance with its investment strategy, any Pension Fund money that is not needed immediately to make 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 Investment Strategy Statement (ISS), specifically sets out the Fund's policy on the type of investments to be held; investment restrictions and limits; the balance and diversification between these and the detail of the Fund's investment management arrangements in implementing its strategy. The ISS also includes a specific section on how the Fund measures and manages the different types of risks it faces. This is analysed as required by investment regulations across the headings of Funding Risk; Asset Risks and Other Provider Risk. The following summary from the relevant section of the current ISS summarises how the Fund seeks to reduce these risks to a minimum where it is possible to do so without compromising returns:

## Funding risks

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics - The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Fund manages these Funding risks by:-

- Setting a strategic asset allocation benchmark that takes into account asset liability modelling focused on probability of success and level of downside risk.
- Assessing risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to this.
- Seeking to understand the assumptions used in any analysis and modelling (including that relating to the demographics of its liabilities) so they can be compared to the Fund's own views and the level of risks associated with these assumptions.
- Seeking to mitigate systemic risk through a diversified portfolio.

## Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk - The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ('ESG') - The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Fund measures and manages these Asset risks by:-

- Setting a strategic asset allocation benchmark that ensures investment in a diversified range of asset classes. Regular monitoring and review of this allocation ensures that the Fund's 'actual allocation' does not deviate substantially from its target.
- Investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.
- Investing across a range of assets, including liquid quoted equities and bonds, as well as property, and recognising the need for access to liquidity in the short term.
- Investing in a range of overseas markets which provides a diversified approach to currency markets.
- Documenting within the ISS its approach to managing ESG risks.
- Considering the risk of underperformance by any single investment manager and attempting to reduce this risk by appointing more than one manager and, where market conditions are deemed supportive, having a proportion of the Scheme's assets managed on a passive basis.
- Formally assessing the Fund's managers' performance on a quarterly basis, and taking steps, including potentially replacing managers, if underperformance persists.

## Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Fund seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

The Fund measures and manages these Other Provider risks by:-

- Monitoring and managing these risks through a process of regular scrutiny of its providers
- Audit of the operations the provider conducts for the Fund, or the delegation of such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds).
- Retaining the power to replace a provider should serious concerns exist.

The full version of the Investment Strategy Statement is available on the Pension Fund's website [www.gwentpensionfund.co.uk](http://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 currency exchange rates. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings.

The Pension Fund's funding position is sensitive to market price changes on two levels. Changes in the market price of investments such as equities, affect the net assets available to fund promised member benefits. Changes in the yields (and thus price) of bonds, as well as affecting asset values, also affect the value placed on the Pension Fund's liabilities within its overall funding calculations. To give an indication of scale, the change in the market value of the Pension Fund's net investment assets during the year was an increase of £84.9 million.

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

- LGPS investment regulations set restrictions on the type of investments funds can hold. The latest (2016) Investment Regulations however provide some relaxation from the more stringent percentage limits defined within previous regulations that a Fund was required to include within its Statement of Investment Principles (SIP). The new statutory Investment Strategy Statement that replaced the SIP from 01 April 2017 allows some relaxation of these limits, requiring each Fund to implement its own prudential framework, so still requiring a diversified prudent approach to managing market risk.
- The Fund has a diversified strategic asset allocation which is monitored to ensure the diversification levels are within acceptable tolerances of the strategy and the reasons for any deviation understood.
- The asset allocation is designed to diversify risk and minimise the impact of poor market performance in a particular asset class.
- The Fund's investment portfolio is further diversified by geographical region; investment manager; manager style etc. to further optimise the diversification of both return and risk.
- The Fund's ISS also defines the limits/parameters 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.

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## 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 Investment Strategy Statement.

## Asset price risk – sensitivity analysis

Following analysis of historical market data, in consultation with advisors, for the indices against which the Fund benchmarks its investments the Fund has determined that the following movements in market price are reasonably possible within the year following the 2017/18 reporting period end:

Asset type	Potential 1 Year market movement (+/-)
UK equities	16.80%
Overseas equities	17.92%
Government bonds	9.54%
Corporate bonds	10.15%
Pooled property investments	14.32%
Alternative investments (absolute return)	12.57%
Alternative investments (direct lending)	5.13%
Cash/Investment Income Due	0.55%

The potential price changes disclosed above are consistent with the assumptions contained in advisors' most recent review. The total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory. It however disregards any long term investment value appreciation from the assets noted. To provide some context to this, the Fund actuary's recent view on long term positive performance assumptions of the various asset classes in which the Fund invests are noted within the table below:

Asset type	Long term performance assumptions (20 years) p.a. (+)
UK Equities	5.9%
Overseas Equities	6.0%
Government bonds (medium term)	1.2%
Corporate bonds (medium term)	1.9%
Property investments	4.5%

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Ignoring the potential for long term positive performance, however, and considering potential market price changes (volatility) only, should the market price of the Fund investments increase/decrease in line with the potential market movements noted above, the change in the net assets available to pay benefits would be as shown in the table below. The prior year comparators using the applicable 2016/17 volatility assumptions are also shown below. The Fund has used the services of its actuary to calculate the potential sensitivity levels within this section of the accounts.

Asset type	Value as at 31 March 2018 £000	Percentage change %	Value on increase £000	Value on decrease £000
<b>Cash and cash equivalents</b>	<b>19,099</b>	<b>0.55</b>	<b>19,204</b>	<b>18,994</b>
<b>Investment portfolio assets:</b>				
UK equities	833,059	16.80	973,013	693,105
Overseas equities	1,265,968	17.92	1,492,829	1,039,107
Government bonds	233,488	9.54	255,763	211,213
Corporate bonds	238,413	10.15	262,612	214,214
Pooled property investments	71,374	14.32	81,595	61,153
Alternative investments (absolute return)	118,824	12.57	133,760	103,888
Alternative investments (direct lending)	1,753	5.13	1,843	1,663
Investment income due	3,162	0.55	3,179	3,145
<b>Total assets available to pay benefits</b>	<b>2,785,140</b>	<b>12.55*</b>	<b>3,134,675</b>	<b>2,435,605</b>

\*Total Fund volatility figure

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

\* Total Fund volatility figure (shown to 2 decimal places)

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## Interest rate risk

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

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

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	As at 31 March
	2017	2018
	£000s	£000s
Cash on deposit with financial institutions	7,082	13,692
Cash held by Managers	8,305	5,407
Bonds	461,802	471,901
<b>Total</b>	<b>477,189</b>	<b>491,000</b>

## Interest rate risk sensitivity analysis

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

Sensitivity analysis can provide reasonable risk estimates for interest rate sensitive financial instruments using straightforward assumptions of the likely changes in interest rates. The Fund's advisors anticipate that interest rates are expected to move no more than 1% within the year following the 2017/18 reporting period end. The risk estimates provided below show the effect in the year on the net assets available to pay benefits of a +/-1% change in interest rates.

The 2017/18 table shows the duration estimates for the different components within the bond portfolios held by the Fund. The analysis however assumes that all the other variables, in particular exchange rates, remain constant.

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

Asset type	Value as at	Duration estimate	Value on	Value on
	31 March		increase	decrease
	2018	(years)	+1%	-1%
	£000		£000	£000
Cash on deposit with financial institutions	13,692		13,692	13,692
Cash held by Managers	5,407		5,407	5,407
Government Bonds	233,488	10.9	208,084	258,891
Corporate Bonds	238,413	8.0	219,364	257,462
<b>Total change in assets available</b>	<b>491,000</b>		<b>446,547</b>	<b>535,452</b>



## Pension Fund Accounts 2017/2018

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

Note: Durations are as at 31 December 2016

Income source	Amount receivable in year ending 31 March 2018 £000	Income received on increase +1% £000	Income received on decrease -1% £000
Cash on deposit with financial institutions	44	44	44
Cash held by Managers	-	-	-
Bonds	-	-	-
<b>Total change in assets available</b>	<b>44</b>	<b>44</b>	<b>44</b>

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

### 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 2017 £000	Value as at 31 March 2018 £000
Overseas equities	1,268,892	1,265,968
Overseas government bonds	21,210	6,304
Overseas corporate bonds	104,672	94,412
Global Absolute Return Strategies Fund (GARS)	63,354	64,372
Global Targeted Returns Fund	0	20,069
Multi Asset Income Fund	0	34,383
<b>Total overseas assets</b>	<b>1,458,128</b>	<b>1,485,508</b>

# Pension Fund Accounts 2017/2018

## 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 2018 to be 10.0%. This percentage is the 1 year expected standard deviation for an individual currency at 31 March 2018. This volatility level is consistent with that forecast within last year's analysis. 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 2018 £000	Potential change in exchange rates %	Value on increase £000	Value on decrease £000
Overseas equities	1,265,968	10.0	1,392,565	1,139,371
Overseas government bonds	6,304	10.0	6,935	5,674
Overseas corporate bonds	94,412	10.0	103,853	84,970
GARS Fund	64,372	10.0	70,809	57,935
Global Targeted Returns Fund	20,069	10.0	22,076	18,062
Multi Asset Income Fund	34,383	10.0	37,821	30,945
<b>Total change in assets available</b>	<b>1,485,508</b>	<b>10.0</b>	<b>1,634,059</b>	<b>1,336,957</b>

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

## 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.

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The Pension Fund's Cash Management Strategy for 2017/18 (and its forward looking strategy for 2018/19 which is now in place) sets out the type and minimum acceptable criteria for investments; the institutions with which they can be placed; the maximum value that can be placed with each institution and the maximum period for which money can be invested. The strategy references and details the Fund's processes and procedures in terms of its cash management and how specialist external advice is used within the process. In terms of this external advice then the Pension Fund utilises the services of Arlingclose for formulating and monitoring the Fund's list of approved counterparties. Arlingclose use a comprehensive method of assessing counterparty's credit ratings which includes overlaying the three credit rating agencies' scores with additional data, relative to each institution, such as rating watches and CDS spreads where available to advise of a maximum suggested investment period with that counterparty.

The Fund believes that it has, through a continuing difficult period for financial markets and institutions, adequately managed its exposure to credit risk. There have been no instances of default or uncollectible deposits over the past seven financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2018 was £13.7 million (31 March 2017 was £7.1 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	Rating (Fitch Long Term) (at 31 March 2018)	Balances as at 31 March 2017 £000	Balances as at 31 March 2018 £000
<b>Money Market Funds</b>			
Standard Life	AAA	6,550	7,000
Invesco Perpetual	AAA		6,800
<b>Bank Current Accounts</b>			
TCBC Pension Fund		532	(108)
<b>Total</b>		<b>7,082</b>	<b>13,692</b>

### c) Liquidity risk

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

The Pension Fund further manages its liquidity risk by maintaining its cash investments within money market funds allowing same day access to cash deposited without penalty. Indeed, at 31 March 2018, all Pension Fund cash balances were spread across such immediate access accounts. The Fund still retains the option to invest within fixed term deposits but, in accordance with the cash management strategy, these must currently be of maximum 6 months duration and placed with UK banks. At any point in time the whole of the Fund's cash investments can therefore be deemed to be reasonably liquid in that they could be 100% redeemed within a six month period if required.

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

With the Fund remaining fundamentally cash generative the Fund has again been comfortable (documented via its cash management strategy) to allow cash levels to float around or below a 1% level during the 2017/18 financial year. As this has now been the case for a number of years, and with a still likely slow path of interest rate increases going forward, at its March 2018 meeting the Pension Committee were comfortable to reduce the Fund's Strategic Asset Allocation to Cash to 1% from its previous 3% level. Though this means the Fund's actual cash allocation will now stay nearer to this strategic level in the future, where any surplus cash is accumulated in excess of the strategic level, these funds can still be re-allocated to other investments in accordance with the Fund's overall investment strategy.

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

### **Refinancing risk**

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

## **18. FUNDING ARRANGEMENTS**

- 18.1 There is a requirement for Local Government Pension Funds to produce a Funding Strategy Statement in line with the Local Government Pension Scheme Regulations 2013. Under these regulations, the administering authority must prepare, maintain and publish a written statement setting out their funding strategy.

The Fund's statement includes:-

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

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

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

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

- 18.2 The Actuary's valuation that affected these accounts was carried out as at 31 March 2016. That valuation showed that the employers would need to pay different contributions to the Fund from 1 April 2017. The common contribution rate is 13.1% of pensionable pay. Individual employer rates 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.

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18.3 The contribution rates for the unitary councils with effect from 1 April 2017 are as follows:-

Blaenau Gwent	Greater of a) 18.1% plus £1,405,000 or b) 21.5%
Caerphilly	Greater of a) 18.4% plus £1,150,000 or b) 19.5%
Monmouth	Greater of a) 18.6% plus £1,082,000 or b) 21.1%
Newport	Greater of a) 18.1% plus £689,000 or b) 19.2%
Torfaen	Greater of a) 18.3% plus £1,569,000 or b) 21.2%

A full list of contribution rates for all employers can be found in the Actuarial Valuation which is available on the Pension Fund website. These rates of contribution are the rates which, in addition to the contributions paid by the members, are sufficient to meet:-

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

18.4 The market value of the Fund's assets at the 2016 valuation was £2,210 million. At the valuation date, the Fund's liabilities exceeded the assets by £850 million giving a revised funding level of 72% (the funding level at the 2013 valuation was 71%). The funding deficit has however increased in monetary terms. Despite an improved funding position, the main reason for the increase in the cash deficit is the result of changes in financial assumptions such as discount rates which have increased the future liabilities for the Fund, together with interest accrued on the existing deficit. This has been offset by mortality and longevity improvements and investment returns greater than expected.

18.5 The previous Actuary used the Projected Unit method at the last valuation, but the current Actuary (Hymans) has used a Risk Based Method for this valuation. For the majority of employers the contribution rates which apply are based upon recovery of the deficit over a maximum period of 25 years. Another revaluation of the Fund will take place as at 31 March 2019.

18.6 The financial assumptions adopted by the Actuaries were as follows:-

	<b>Funding Target</b>	<b>Normal Cost</b>
	<b>2016</b>	<b>2016</b>
Discount Rate	4.0%	4.0%
Pensionable pay increases	2.6%	2.6%
Pension increases	2.1%	2.1%

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

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

## 19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

- 19.1 The Code requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS19 rather than the assumptions and methodology used for funding purposes. To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Discount Rate (Return on investments)	2.6% per annum	2.7% per annum
Rate of Salary increases	2.8% per annum	2.8% per annum
Rate of increase in pensions	2.4% per annum	2.4% per annum

- 19.2 The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017:-

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

- 19.3 During the year bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.7% p.a.). The expected long-term rate of CPI inflation (RPI-CPI gap) has remained the same during the year, resulting in the assumption for pension increases remaining the same at the year-end than at the beginning of the year (2.4% p.a.).
- 19.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2017 was estimated as £4,469 million. The impact of the changes in financial assumptions between 31 March 2017 and 31 March 2018 as described above is to decrease the liabilities by £95 million. There are no changes in demographic and longevity assumptions as they are identical to the previous period. Other experiences changes such as membership changes between the 2013 and 2016 formal triennial valuations (which we can only allow for triennially), adding interest over the year and allowing for net benefits accrued/paid over the period has increased the liabilities by further £195 million.
- 19.5 The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £4,569 million.

## 20. CURRENT ASSETS

31 March 2017 £000		31 March 2018 £000
	Contributions due from employing bodies:-	
2,041	- Employees contributions	2,090
5,950	- Employers contributions	6,731
1,014	Early retirement costs	965
198	Fund manager fee rebates	249
9	Administrative costs	4
7	Pension payroll	1
2	Interest	6
1,587	Group transfer receivable	1,190
<b>10,808</b>		<b>11,236</b>

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## Analysis of debtors

31 March 2017 £000		31 March 2018 £000
1,623	Central Government bodies	1,192
7,622	Other Local Authorities	8,504
1,563	Other entities and individuals	1,540
<b>10,808</b>		<b>11,236</b>

## a) Funding of early retirement costs

During 2017/18, the cost to the Pension Fund of early retirements arising in that year was £2,288,642, which is paid by the employers in instalments over periods of up to five years. The cost includes the extra years of pension payments as a result of employees retiring early, plus the augmented costs.

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 2017/18 and in future financial years for early retirements known as at 31 March 2018. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2017/18 in respect of:		
Prior Years	361	
Current Year	1,974	2,335
Balances b/f 1 April 2017	1,014	
Payments Received in 2017/18	(2,364)	
Reversal of previous instalments due	(917)	(2,267)
Instalments due for 2018/19	396	
Instalments due for 2019/20 & later years	501	897
<b>2017/18 Debtor</b>		<b>965</b>

The instalments due for 2017/18 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2017/18.

## 21. CURRENT LIABILITIES

31 March 2017 £000		31 March 2018 £000
(2,458)	Unpaid benefits	(2,730)
(813)	Pension payroll	(820)
(1)	Refunds due to employers	-
(51)	Inland Revenue	(114)
(1,594)	Investment management expenses	(1,788)
(34)	Oversight and governance costs	(37)
(58)	AVC	(57)
-	Transfer value payable	(10)
(6,365)	Group transfers payable	-
<b>(11,374)</b>		<b>(5,556)</b>



# Pension Fund Accounts 2017/2018

## Analysis of creditors

31 March 2017 £000		31 March 2018 £000
(864)	Central Government bodies	(934)
(2,233)	Other Local Authorities	(2,347)
(8,277)	Other entities and individuals	(2,275)
<b>(11,374)</b>		<b>(5,556)</b>

## 22. ADDITIONAL VOLUNTARY CONTRIBUTIONS

- 22.1 Members of the Pension Fund may pay 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 £000	Clerical and Medical £000	Equitable Life £000	TOTAL £000
Contributions received 2017/18	436	213	2	651
Market value of AVC Investments 31st March 2018	4,077	1,892	894	6,863

The above AVC investments are excluded from the financial statements of the Greater Gwent (Torfaen) Pension Fund in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## 23. AGENCY SERVICES

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

31 March 2017 £000		31 March 2018 £000
	Payments on behalf of:-	
34	Central Government	9
8,911	Other Local Authorities	8,723
22	Other entities and individuals	25
<b>8,967</b>		<b>8,757</b>

## 24. RELATED PARTY TRANSACTIONS

- 24.1 In the course of fulfilling its role as administering authority to the Fund, Torfaen CBC provided services to the Fund. Costs are normally in respect of those staff employed in ensuring the pension service is delivered and are included in the accounts within Management Expenses (note 11, page 67). 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.

## Pension Fund Accounts 2017/2018

### 24.2 Governance

There are no members of the Pension Fund Committee in receipt of pension benefits from the Fund. Five Councillors are active members and each member of the Pension Fund Committee is required to declare their interests at each meeting.

### 24.3 Key management personnel

There are two employees of Torfaen CBC who hold key positions in the financial management of the Fund. They are the Assistant Chief Executive (Resources) and the Head of Pensions. Their time allocated to the management of the Fund is 5% and 100% respectively. Total remuneration payable for 2016/17 and 2017/18 is set out below for their time apportioned to the Fund.

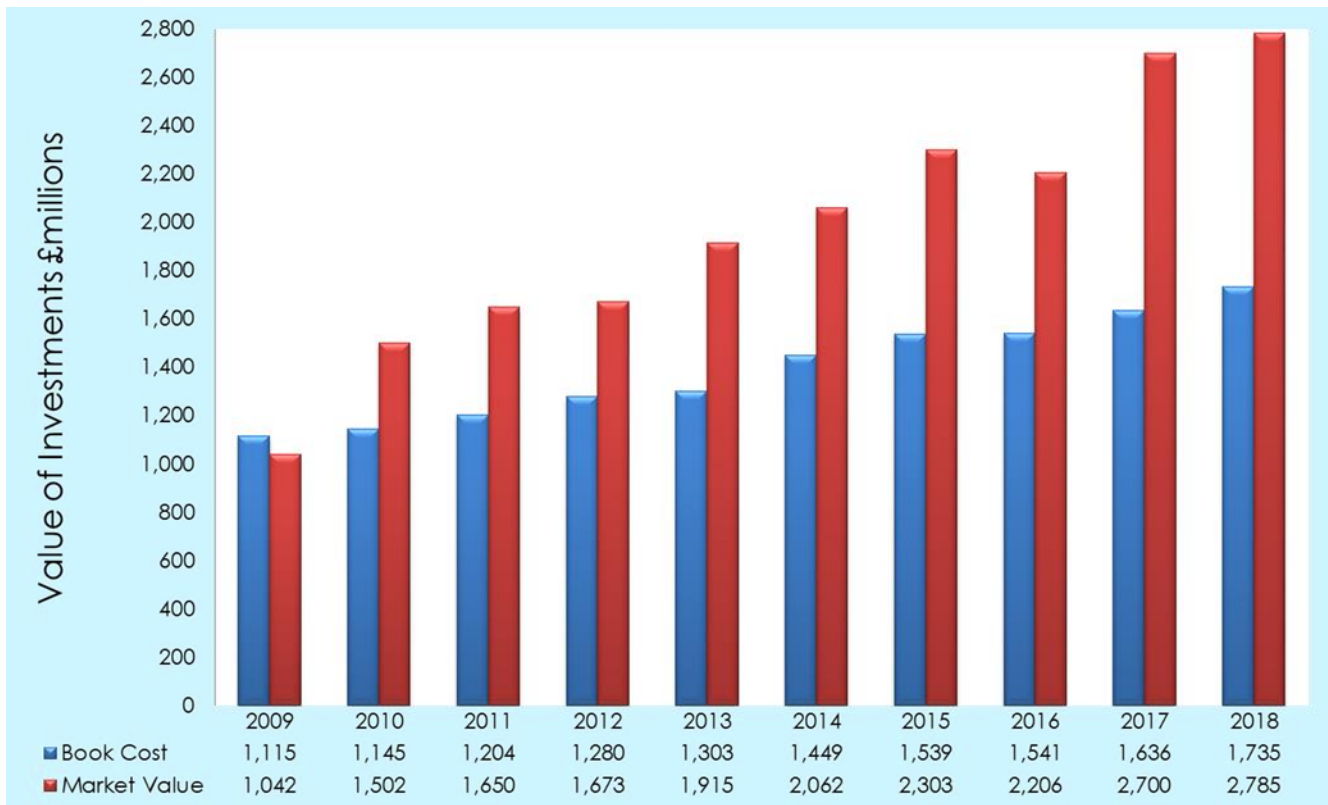
<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
45	Short-term benefits	48
11	Post-employment benefits	11
-	Termination Benefits	7
<b>56</b>		<b>66</b>

## Appendices

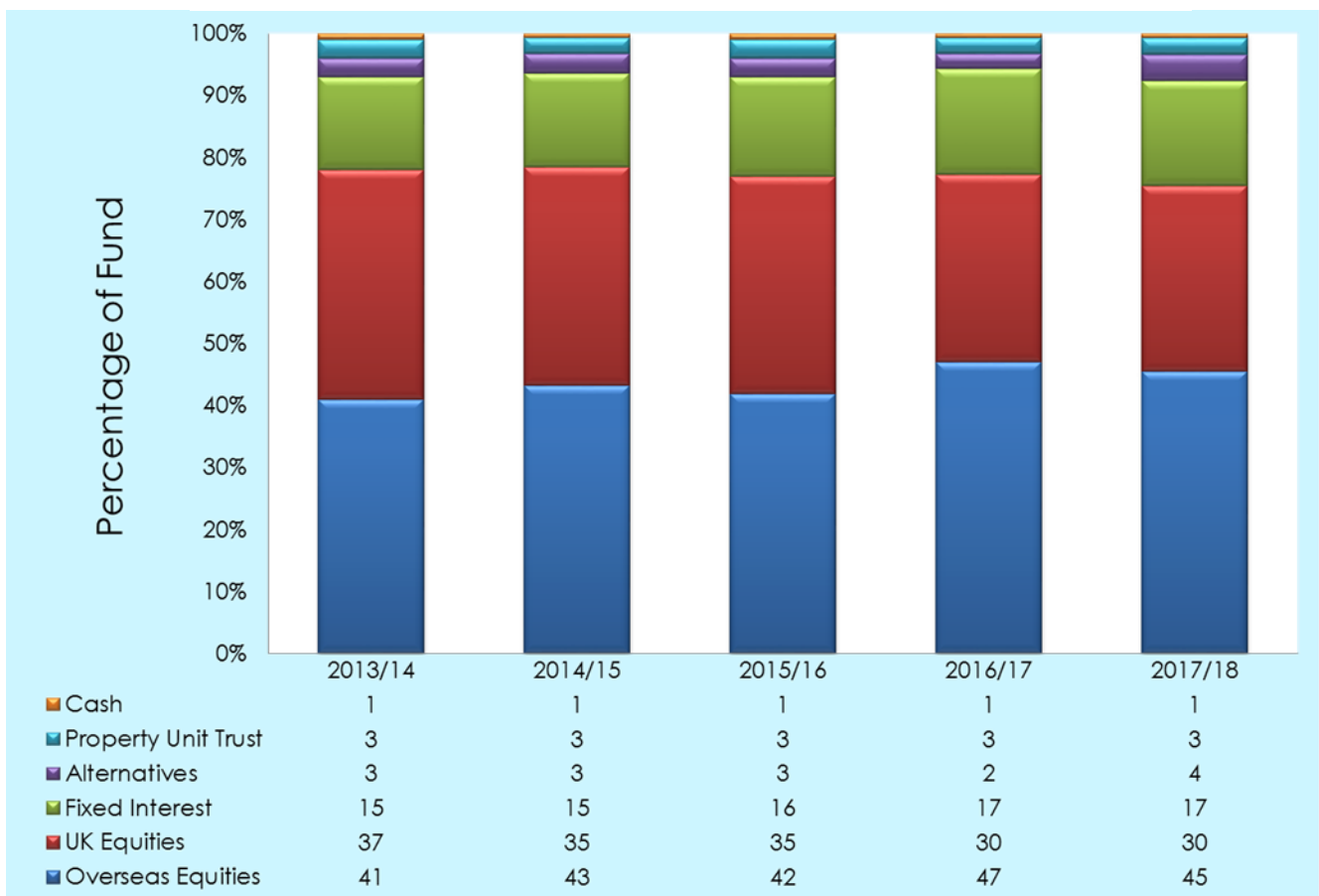
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# Appendix 1

## Ten Year Valuation of Investments



## Tactical Asset Allocation



## Appendix 2

### Top Ten UK Equity Segregated Holdings as at 31 March 2018

Company	Bid Market Value £
Royal Dutch Shell	35,986,414
BP	30,457,364
British American Tobacco	22,658,535
GlaxoSmithKline	18,870,230
Rio Tinto	17,845,598
Unilever	17,682,628
Prudential	17,008,044
HSBC Holdings	16,855,402
Vodafone Group	13,675,319
Lloyds Banking Group	13,592,645

## Ten Year Summary of Statistics

Revenue Account	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Contributions	105,720	113,894	110,304	101,652	101,028	109,666	104,655	103,450	107,205	114,118
Transfer Values Received	6,672	12,603	7,265	7,824	4,942	7,946	5,318	9,277	5,573	5,704
Investment Income and Other	18,096	16,043	17,099	21,448	20,659	26,095	20,800	17,772	19,283	21,318
<b>Total Income</b>	<b>130,488</b>	<b>142,540</b>	<b>134,668</b>	<b>130,924</b>	<b>126,629</b>	<b>143,707</b>	<b>130,773</b>	<b>130,499</b>	<b>132,061</b>	<b>141,140</b>
Pensions and Other Benefits	69,411	76,190	81,491	84,538	88,856	95,175	102,179	109,229	108,881	111,419
Transfer Values Paid	3,499	8,875	8,512	22,965	6,303	3,177	49,692	9,377	7,138	7,553
Refunds of Contributions	13	15	5	2	5	8	149	239	248	250
Fees and Other	4,199	4,667	5,810	6,032	6,642	8,709	9,403	9,205	8,933	9,366
<b>Total Expenditure</b>	<b>77,122</b>	<b>89,747</b>	<b>95,818</b>	<b>113,537</b>	<b>101,806</b>	<b>107,069</b>	<b>161,423</b>	<b>128,050</b>	<b>125,200</b>	<b>128,588</b>
Net Surplus for Year	53,366	52,793	38,850	17,387	24,823	36,638	(30,650)	2,449	6,861	12,552
Net Profit/(Loss) on Sale of Investments	(936)	(20,183)	20,631	40,620	14,317	119,325	75,822	30,736	99,726	80,416
Unrealised Change in Market Value	(310,662)	430,997	89,520	(52,621)	218,496	1,124	150,940	(99,529)	387,623	(1,776)
<b>Increase/(Decrease) in the Fund</b>	<b>(258,232)</b>	<b>463,607</b>	<b>149,001</b>	<b>5,386</b>	<b>257,636</b>	<b>157,087</b>	<b>196,112</b>	<b>(66,344)</b>	<b>494,210</b>	<b>91,192</b>
<b>Investment Assets</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Book Cost at 31 March	1,114,650	1,144,901	1,203,604	1,279,958	1,302,617	1,449,212	1,538,838	1,540,889	1,635,895	1,734,570
Market Value at 31 March	1,042,438	1,501,677	1,649,900	1,673,634	1,914,788	2,062,483	2,303,073	2,205,596	2,700,194	2,785,140
<b>Membership</b>										
Contributors	22,143	21,667	21,196	20,550	20,582	22,435	22,880	23,607	22,788	23,991
Pensioners	12,610	13,091	13,576	13,910	14,296	14,820	15,204	15,816	16,388	16,848
Number of Preserved Benefits	9,735	10,577	11,378	12,189	13,180	14,359	15,153	16,058	18,068	18,455
<b>Total</b>	<b>44,488</b>	<b>45,335</b>	<b>46,150</b>	<b>46,649</b>	<b>48,058</b>	<b>51,614</b>	<b>53,237</b>	<b>55,481</b>	<b>57,244</b>	<b>59,294</b>

### Points of Contact



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Or visit the website:-

[www.gwentpensionfund.co.uk](http://www.gwentpensionfund.co.uk)