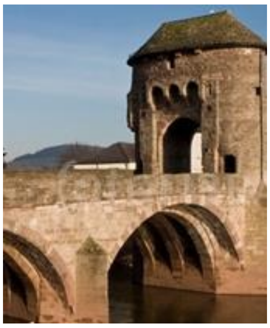
Greater Gwent (Torfaen) Pension Fund
Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen)
Adroddiad Blynyddol a Chyfrifon

2018/2019

Nigel Aurelius, CPFA
Assistant Chief Executive Resources


Index

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 2019.

Signed by:

Nigel Aurelius, CPFA
Assistant Chief Executive (Resources)
25 June 2019

CHAIRS INTRODUCTION

Welcome to this year's Pension Fund Annual Report and Accounts. I am delighted to have the opportunity to provide an introduction to this year's Pension Fund Annual Report after what has been another key year for the Fund across the full range of our activities. I would like to highlight three particular areas in which the Members of both the Pension Committee and Pensions Board have been specifically engaged.

Governance

In 2018/19, the Fund's Pension Committee met regularly, and has continued its focus 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. The investments arena has been dominated by global events but the Fund has been active in looking how it can reduce investment risk whilst at the same time considering pooling developments alongside our responsible investing approach. It is pleasing that the diversified approach taken towards the Funds' investments has continued to provide positive returns despite the difficult market conditions.

Pooling

The Greater Gwent (Torfaen) Pension Fund is a key partner, along with the other seven Local Government Pensions Funds in Wales, in the Wales Pension Partnership (WPP). This is the all Wales collective investment pooling arrangement which is being progressed in accordance with UK Central Government requirements. I join other Fund Chairmen on the Joint Governance Committee to govern the WPP and our regulated third party operator. Each Fund maintains its own funding requirements and investment strategy but then uses a collective investment arrangement to implement its investment requirements, thereby aiming to achieve economies of scale in investment management fees through a combined Welsh LGPS Pool of approaching £17bn. Early signs are encouraging. The work around this is substantial and already the Fund has invested all its passive arrangements via a collaborative Welsh approach and most recently launched Global Equity sub funds earlier this year. The Torfaen Fund has therefore to date already placed over 30% of its assets within collaborative arrangements and this work will continue into next year.

Responsible Investing

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 at both an all Wales and at a Fund level. In that context it is important to note that the Fund is undertaking more work than ever in this area and expects all its managers to operate within industry standards through, for example, membership of the UNPRI (United Nations supported Principles for Responsible Investment). In addition, the Fund itself is a member of the LAPFF (Local Authority Pension Fund Forum) and I was successful this year in being elected to the Executive of the Forum. 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 but the Fund is looking further, conscious of the demands of climate change and is actively looking at ways it can, as a Fund reduce its carbon footprint. This will require a sustained plan of work over the next few years.

Chair of Pensions Committee
Councillor Glyn Caron

CHIEF OFFICERS INTRODUCTION

Administration

1.1 This year has seen increasing governance and reporting requirements across the Fund whilst at the same time the drive for improved cost efficiencies and transparency has continued via increased performance reporting for the Pensions Regulator and the collective investment pooling arrangements. Overall membership of the Fund has increased during the year by 1.5% to 60,214 as at 31st March 2019. What is noticeable is that active membership has remained flat whilst non active (pensioners and deferred members) has increased by 2.8%. The net effect is that active contributors have now fallen to 40% of the total fund membership with 29% of the total membership drawing pension benefits and a further 31% having deferred benefits.

1.2 Workloads have therefore, not surprisingly, continued to increase in most areas with over 13,000 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 and settled well following staff changes.

1.3 The team has also been extremely successful in signing members up for the 'My Pension Online' service with almost 18,000 or around 30% of members now 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 26 employers using the service covering over 96% of the active membership.

Investments

1.4 In the last 12 months, the Fund has had to consider how best to adjust its overall investment approach to not only progress its way through a difficult and uncertain investment environment both globally and closer to home with Brexit but to also take advantage of the new investment opportunities being presented to the Fund through the Wales Pension Partnership collective investment pooling arrangements. During 2018/19 there has been much turbulence in the market place with the quarter through to December 2018 proving very difficult with a severe market correction, the largest in the last 10 years. Despite this, the Fund was successful over the course of the full year to report a positive investment return of 5.11% with an increase in its market value from £2,790 million to £2,929 million. Our investment performance return for the year was however an underperformance against our customised benchmark (6.23%) of 1.12%. Longer term performance as shown elsewhere within this report still however remains positive against benchmark for reporting periods up to 10 years.

1.5 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.

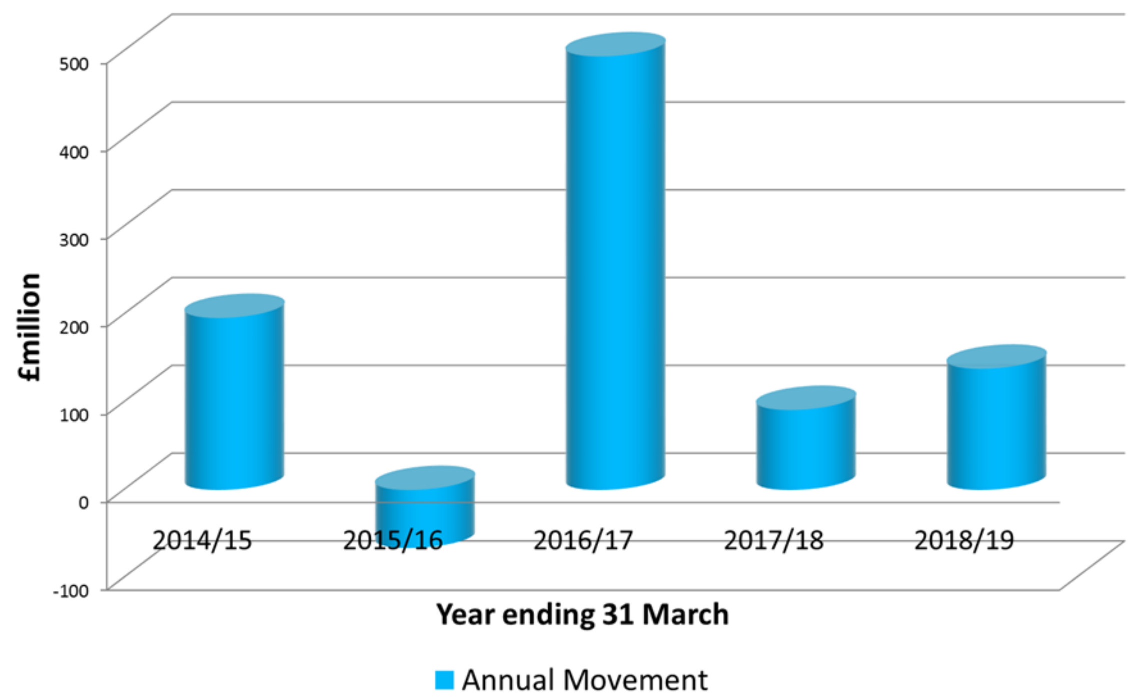
Assistant Chief Executive (Resources)
Nigel Aurelius

OVERVIEW

1. 2018/2019 in summary

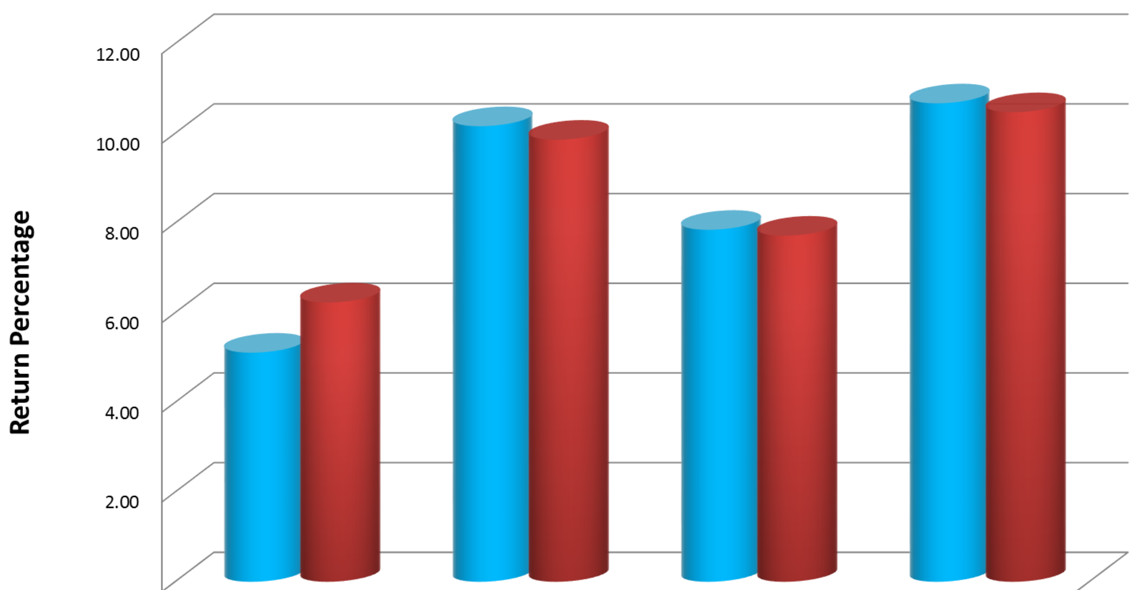
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
60,214	£2.9bn	£118.602m	£118.047m

Annual Movement in the Net Assets of the Fund



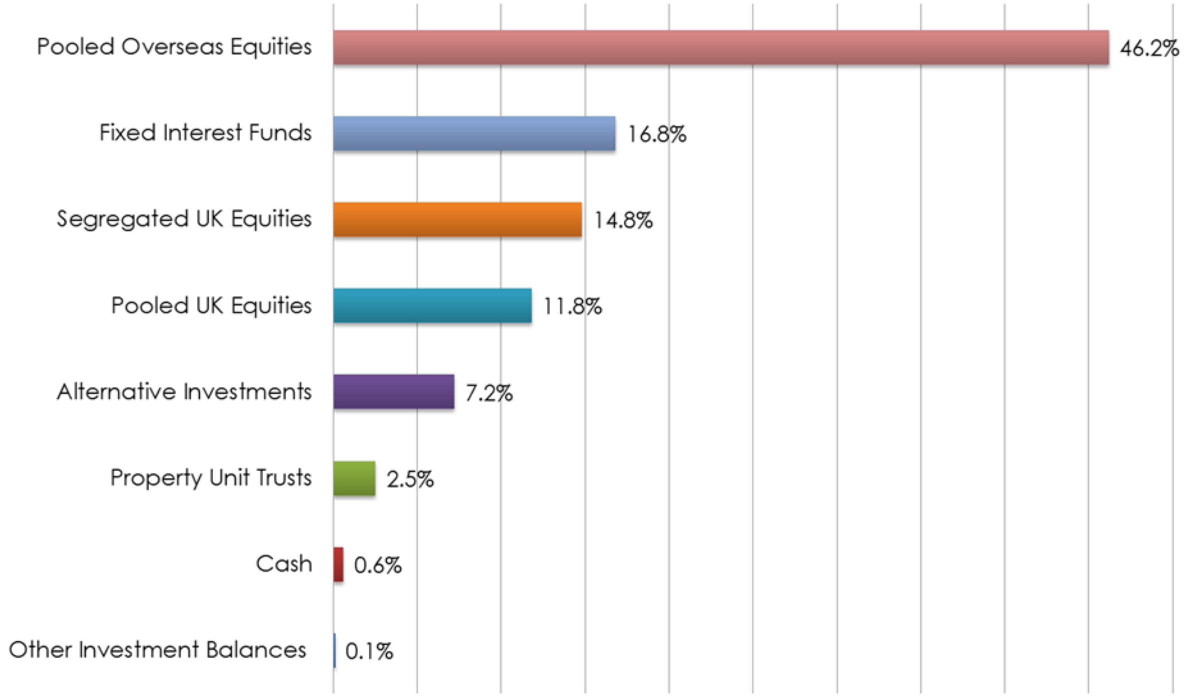
2. Investments

Periodic Performance to 31 March 2019



	1 Year	3 Years	5 Years	10 Years
Fund	5.11	10.16	7.85	10.67
Benchmark	6.23	9.86	7.72	10.47

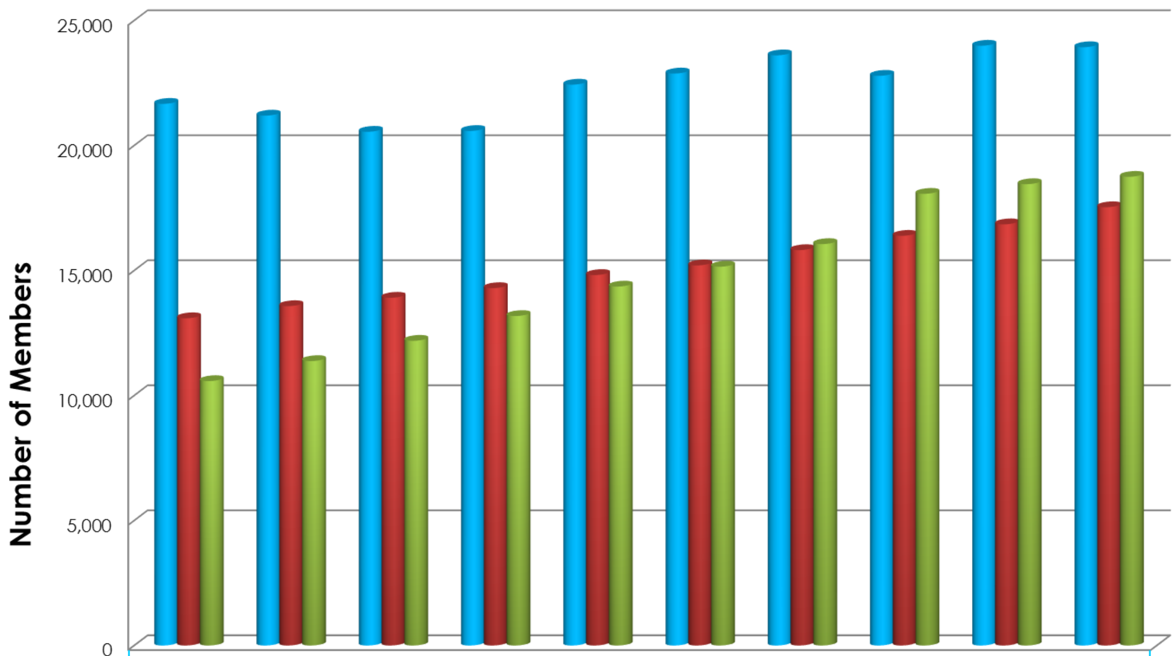
Portfolio distribution as at 31 March 2019



3. Membership

Contributing Members	Members in Receipt of Pension	Members with Deferred Benefits
23,932	17,533	18,749

Split of Fund Membership as at 31 March



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Contributors	21,667	21,196	20,550	20,582	22,435	22,880	23,607	22,788	23,991	23,932
Pensioners	13,091	13,576	13,910	14,296	14,820	15,204	15,816	16,388	16,848	17,533
Deferred benefits	10,577	11,378	12,189	13,180	14,359	15,153	16,058	18,068	18,455	18,749

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), and 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 50.

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 operates within the Council's constitutional arrangements.

1.3 This committee deals with all matters relating to the Fund. As at 31 March 2019 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

Administrator
Nigel Aurelius, Assistant Chief Executive (Resources)

Head of Pensions
Graeme Russell
Tel: 01495 742625
E-mail: graeme.russell@torfaen.gov.uk

Pension Manager
Joanne Griffiths
Tel: 01495 766280
E-mail: joanne.griffiths@torfaen.gov.uk

External Investment Advisors
Aoifinn Devitt, Independent Consultant
Elizabeth Carey CFA, Independent Consultant

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 Investment
Invesco Perpetual
Lazard Asset Management
Aberdeen Standard Investments
Russell Investments

Fund Custodian
Bank of New York Mellon

Wales Pension Partnership FCA Authorised Operator
Link Asset Services

Wales Pension Partnership Investment Management and Advisory Services
Russell Investments

Fund Auditor as at 31 March 2019
Wales Audit Office

Bankers to the Fund as at 31 March 2019
Lloyds Bank
1 Gwent Square
New Town Centre
Cwmbran, South Wales
NP44 1XN

AVC Providers to the Fund as at 31 March 2019
Standard Life
Clerical Medical
Equitable Life

If you need more information you can write to:-

Pensions Section
Torfaen County Borough Council
Civic Centre
Pontypool
Torfaen NP4 6YB

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

2. Local Pension Board Annual Report

This section constitutes the Annual Report of the Local Pension Board 2018/2019 and was agreed by the Pension Board at its meeting on 24 April 2019.

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 during 2018-19 were:

Independent Chair

Ian Coleman (4)

Employee Representatives

Bob Campbell (3)
Jan Davies (1)
Ian Reese (3)
Anthea Wellington (4)
John Wright (4)

Employer Representatives

Steve Harford (3)
Rhian Hayden (1)
Clive Rogers (3)
Meirion Rushworth (2)
Jane Waters (2)

Note: The numbers in brackets indicate the number of Pension Board meetings attended during 2018-19.

Ian Reese and Clive Rogers were appointed to the Pension Board with effect from July 2018 and both have attended every meeting since their appointments.

The Pension Board met on four occasions during 2018-19: 25 April 2018, 25 July 2018, 24 October 2018 and 23 January 2019. The meeting on 25 July 2018 was not 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.

2.3 Developments During 2015-18

- The establishment and initial meetings of the Pension Board during 2015-16 coincided 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.

- During 2016-17, the Administering Authority had 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, to be known as the Wales Pension Partnership (WPP). On 28 February 2017 the Council approved an Inter Authority Agreement (IAA) covering the WPP.

- 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.

- During 2017-18, following on from the approval of the IAA, Carmarthenshire CC was appointed as Host Authority for the WPP. A selection questionnaire in May 2017 for the appointment of an operator 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 Link Fund Solutions as the Operator. This recommendation was approved by the 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.

2.4 A Review of Activity in 2018-19

- During 2018-19, the Pension Board has continued to provide support to the Greater Gwent (Torfaen) Pension Fund by reviewing the governance and administration arrangements of Torfaen Council and the Pensions Committee. However, in addition, the Board has spent increasing time reviewing the governance and administration arrangements of the WPP as these begin to impact on the Greater Gwent (Torfaen) Pension Fund.

- The following list represents a brief summary of some of the specific issues which the Administering Authority has had to address during the year.

    - Implementation of the General Data Protection Regulations on 25 May 2018
    - Implementation of the LGPS Amendment Regulations on 19 April 2018
    - Extensive work to reconcile Guaranteed Minimum Pensions
    - Developments in the implementation of the cost cap
    - Agreement on 10 September 2018 to a set of Responsible Investment Principles as recommended by the Responsible Investment Working Group
    - Growing local, national and global interest in climate change
    - Preparations for the actuarial valuation due at 31 March 2019

- Developments at the WPP during the year which have been kept under review by the Pension Board have included

  - The development of the governance and administration arrangements for the WPP
  - Approval received from the FCA for the operation of an Authorised Contractual Scheme
  - Launching of the Global Equities sub funds on 11 January 2019
  - Arrangements for the appointment of Transition Managers
  - Agreement in principle to stock lending
  - Agreement of reporting arrangements due to commence in April 2019
  - Creation of an initial work plan for 2019-20
  - Commitment to the creation of a business plan and operational policies in 2019-20

- In 2018-19 there was a financial budget for the Pension Board of £25,000 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.

2.5 **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. This 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) **WPP**
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 Wales Pension Partnership. 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 2019-20. 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.

2.6 **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 2018-19 Pension Board members were encouraged to attend an update for Local Pension Boards in Wales from CIPFA and Barnett Waddingham; trustee training provided by the Local Government Association (LGA) on the fundamentals of the LGPS; the Local Authority Pension Fund Forum; and governance training provided by the LGA Local Government Pensions Committee. Members of the Responsible Investment Working Group received two presentations from Engaged Tracking. 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.

2.7 **Workplan**

A work plan is kept under review and covers the following areas:

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

2.8 **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.

Thanks are also expressed to the Officers of Torfaen Council who have supported the Pension Board.

3. Member meeting attendance 2018/2019

	Pensions Committee meetings attended	Pension Board meetings attended
Number of meetings during the year 2018/19	**4**	**4**
Pensions Committee		
Councillor Glyn Caron (Chair)	4	
Councillor Huw Bevan	3	
Councillor Joanne Gauden	4	
Councillor Jon Horlor	4	
Councillor Peter Jones	3	
Councillor Raymond Williams	4	
Local Pension Board		
Ian Coleman (Chair)		4
Employee Representatives		
Bob Campbell		3
Jan Davies		1
Ian Reese (appointed July 2018)		3
Anthea Wellington		4
John Wright		4
Employer Representatives		
Steve Harford		3
Rhian Hayden		1
Clive Rogers (appointed July 2018)		3
Meirion Rushworth		2
Jane Waters		2

4. Risk management

4.1 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.

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
Governance and Operational Risks		
Decision making	Accountability and documentation of decisions	The Fund's primary decision making body, the Pensions Committee, operates within the Council's constitutional processes.
	Scrutiny and review	Additional layer of scrutiny, review, challenge and support is provided through the 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.

Risk Area / Type	**Risk Detail**	**Risk Mitigation Measures**
	Accounting	Officers of the Fund's investment team and accountancy section independently maintaining complete accounting records relating to the investment activity of external managers and to the income flows arising from Fund assets.
Knowledge and Skills	Training and Development	Member and officer training plans are in place with appropriate attendance at training and development events to aid education and keep abreast of current thinking and developments.
	Review of training undertaken and future requirements.	Formal review of member training needs and training attended at each Pensions Committee meeting.
Third Party	External Investment Management	The appointment directly by the Council of a number of regulated external investment managers with control and risk issues addressed within individual Investment Management Agreements and their individual Statement of Internal Control documentation.
	Security of assets	The appointment directly by the Council of a regulated Global Custodian with control and liability issues addressed in a custody agreement.
	Appropriate advice	The appointment of external actuary, Investment Consultant and an independent investment advisor and the engagement with internal and external legal advisors as appropriate.
Compliance	Adherence to the 1997 LGPS Governance Regulations and the 2008 additional requirement to produce a Governance 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.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Investment Risk		
Investment Strategy	Decisions	The Pensions Committee recognises that there will be investment risk but also the need to keep this to a minimum without compromising the investment returns required to meet funding objectives.
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. The development of the WPP will support diversification and help mitigate the potential risk.
Compliance	Operating within legal and procedural requirements	Restricting external investment manager activity in accordance with prevailing LGPS investment regulations via their Investment Management Agreements.
Performance and Risk control	Benchmarks Monitoring Review	The selection of appropriate investment benchmarks; performance targets and variance parameters to monitor and control the blend of risk and return deployed. The use of third parties to independently measure and report on investment performance and investment risk. 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, together with the WPP Joint Governance Committee for those sub funds operated via WPP.
Specific areas of investment risk	Market risk (asset price/interest rate/currency)	Diversification by asset type/regions/characteristics and investment managers. Extensive and risk aware appointment and monitoring procedures in place.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Specific areas of investment risk	Credit Risk (the use of investment counterparties)	Ensuring appropriate selection, diversification and monitoring of Fund counterparties. Review of exposure to investment manager, credit and counterparty risk by the review of the managers' annual internal control reports to ensure that managers exercise reasonable care and due diligence in its activities for the Pension Fund, such as in the selection and use of brokers. Managing the risk of cash investments via a formally approved annual Cash Management Strategy and using an external Treasury Management advisor to aid officers in the monitoring of the associated counterparty risk.
	Liquidity Risk (ensuring that member benefits can be met as required)	Fund officers monitor cash flow to ensure cash is available as required to meet benefit payments. Maintaining a large proportion of cash investments within money market funds allowing same day access to cash deposited without penalty. Although low available cash interest rates mean that the Fund will look to keep cash levels to a minimum and invest in higher returning assets, these assets are predominantly held in liquid, marketable pooled fund investment vehicles or readily tradable shares.
	Investment Risk Sensitivity Analysis and Reporting	Detailed sensitivity analysis, taking account of investment strategy and third party analysis, is updated and published within each Pension Fund Annual Report.
Compliance	Adherence to the requirement of the 2016 LGPS Investment Regulations and the requirement to demonstrate compliance with a revised set of sound investment practice (Myners) Principles.	Traffic light system included within Statement of Investment Principles/Investment Strategy Statement to allow detailed monitoring against the six principles of good investment practice.

4.2 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.

5. Financial performance

5.1 The fund account (page 48) indicates a net increase in the net assets of the scheme available to fund benefits during the year of £138.2 million for 2018/19, this follows a £91.19 million increase in the Fund in 2017/18. The summarised figures are shown in the table below.

Fund Account 31 March 2019	£000
Employees/employers contributions	118,047
Payments and refunds	(118,868)
Net transfer values	(1,296)
Net return on investments	149,819
Other income/expenses	(9,546)
Net increase/(decrease) in the Fund	**138,156**

5.2 Contributions to the Fund from members and employers have increased by £3.929 million from £114.118 million in 2017/18 to £118.047 million in 2018/19.

5.3 Transfer values received have increased from £5.704 million to £6.280 million and transfer values paid out have increased from £7.553 million to £7.576 million.

5.4 Payments to beneficiaries in respect of pensions have increased by £7.183 million from £111.419 million in 2017/18 to £118.602 million in 2018/19.

5.5 The net assets of the Fund are represented primarily by investments (see below and page 63). Appendix 1 (page 85) illustrates the movement in the market value of investments since March 2010 and the tactical asset allocation.

Net Assets 31 March 2019	£000	£000
Bonds	491,427	
UK equities	776,979	
Overseas equities	1,348,312	
Property unit trusts	73,717	
Alternative investments	212,800	
Cash	16,364	
Other investment balances	3,983	2,923,582
Investment liabilities		-
Current assets		11,453
Current liabilities		(6,059)
Net Assets of the Fund		**2,928,976**

5.6 **Timeliness of receipt of contributions**

The table below sets out the percentage of contributions received from employers on or before the due date during 2018/2019. 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.

	2018/2019
Percentage of contributions received on or before the due date	99.8%

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

5.7 Forecasts

The following tables show the forecasts and outturn for the fund account and net asset statement for the 3 years to 31 March 2020. 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. Investment income is expected to decrease as further assets are moved into Wales Pension Partnership investments which accumulate income rather than distributing it. Income distributions will be reinvested and reflected in the unit price of the pooled fund to increase market value, rather than dividends being paid out.

Fund Account	**2017/2018**		**2018/2019**		**2019/2020**
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Income					
Contributions receivable	(108,790)	(114,118)	(112,644)	(118,047)	(117,160)
Transfers in	(3,923)	(5,704)	(4,603)	(6,280)	(6,785)
Other income		(1)		(4)	
Investment income	(19,639)	(21,317)	(22,501)	(27,211)	(9,756)
Total income to the Fund	**(132,352)**	**(141,140)**	**(139,748)**	**(151,542)**	**(133,701)**
Spending					
Benefits payable	114,931	111,419	114,601	118,602	120,311
Transfers out and refunds	5,216	7,803	6,238	7,842	7,083
Management expenses	8,919	9,366	10,086	9,550	10,384
Total spending for the Fund	**129,066**	**128,588**	**130,925**	**135,994**	**137,778**
Profit and losses on disposal of investments and changes in the market value of investments	**(131,242)**	**(78,640)**	**(134,713)**	**(122,608)**	**(143,541)**
Net (increase)/decrease in the Fund	**(134,528)**	**(91,192)**	**(143,536)**	**(138,156)**	**(139,464)**

Net Asset Statement	**2017/2018**		**2018/2019**		**2019/2020**
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Equities	2,203,504	2,099,027	2,217,806	2,125,291	2,247,781
Government bonds	232,281	233,488	236,523	242,995	245,425
Corporate bonds	237,385	238,413	243,420	248,432	253,152
Property	68,915	71,374	74,015	73,717	76,887
Cash and alternatives	89,351	142,838	148,089	233,147	243,878
Net Investment Assets	**2,831,436**	**2,785,140**	**2,919,853**	**2,923,582**	**3,067,123**

The 2019/2020 forecasts for total investment assets are based on the actual figures for 31st March 2019, multiplied by the forecast long term returns for each asset class as provided by the Fund's Actuary.

Expected return on assets	Long term performance assumptions (20 years) as at 31 March 2019
Cash	2.5%
UK Equities	5.7%
Overseas Equities	5.8%
Government Bonds (medium term)	1.0%
Corporate Bonds (medium term)	1.9%
Property	4.3%
Alternatives – Absolute Return	4.8%
Alternatives – Direct Lending	5.4%

5.8 **Operational expenses**

	2017/2018		2018/2019		2019/2020
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Administrative costs	1,231	1,225	1,306	1,216	1,348
Investment management expenses	6,744	7,492	7,979	7,656	7,807
Oversight and governance costs	944	649	801	678	1,229
Total	**8,919**	**9,366**	**10,086**	**9,550**	**10,384**

Included in oversight and governance is an indicative budget for the cost of our involvement in the Wales Pension Partnership collaboration across Wales via investment pooling. In 2018/19 we incurred costs for our share of the professional fees incurred in the setting up of the WPP. 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.

5.9 **Analysis of pension overpayments**

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

INVESTMENT POLICY AND PERFORMANCE REPORT

1. Investment objectives

1.1 From an investment perspective this report reflects on a year that has seen some periods of positive market progression but also major market uncertainty and volatility, predominantly towards the end of 2018 which saw the largest market quarterly falls within the last 10 years. The final quarter saw some recovery, however, and over the year as a whole the Fund has still seen positive returns from almost all the asset classes and regions in which it invests, resulting in an overall investment return for the year of +5.11%. Though returns have varied considerably between different asset classes from US equities (+almost 18%) to Emerging Markets (-almost 4%) with all others in between, the diversification approach followed by the Fund has enabled positive progress overall once again. This approach is designed to spread investment risk as far as is possible within the constraints of the returns 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 41). Investment management policy, principles and arrangements are detailed within the Investment Strategy Statement (ISS) (see page 38). The ISS 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 Within their consideration of the Investment Strategy, the Pensions Committee made the decision in March 2018 to review and formalise the long term strategic direction to generally continue to reduce the Fund's exposure to equities and add to alternative investments. The Fund has now introduced a 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.

1.6 Up to the point where the Fund began to place investments into the WPP sub funds, the only new investments made during the year have been with existing managers. As at the reporting date, the Fund's assets outside the WPP therefore remain primarily with five external fund managers namely BlackRock, Fidelity Worldwide Investment, Invesco Perpetual, Lazard Asset Management and Aberdeen Standard Investments.

1.7 Prior to the launch of WPP sub funds, towards the end of Q3'18 the Fund implemented a modest re-alignment of investments around the overall agreed strategic direction as previously considered and agreed by the Pensions Committee. The approach adopted was to reduce active UK equities to 14% of the total Fund, as per the strategic allocation, and increase exposure to alternatives. On 11th September we transferred £45 million from UK equities to the Invesco Global Targeted Returns Fund. This reallocation of assets continued in Q4 with a further £45 million transferred from UK equities to the Fidelity Multi Asset Income Fund on 2nd October. This helped provide a degree of protection against the falls in equity markets during October 2018. Both of these multi asset funds were already held by the Fund and their performance is monitored regularly by officers and investment advisors. There is agreement in place for a further transfer of £30m away from UK equities and the destination and timing of this switch is under active consideration at present.

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, Link Asset Services has been appointed to administer the pooling arrangements. Each Fund retains responsibility for its own funding requirements and investment strategy but then uses the WPP to implement its investment requirements thereby aiming to achieve economies of scale in fees through a combined Welsh LGPS Pool of approaching £17bn. Work is ongoing 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. The Fund transferred £343.7m into Global Equity sub funds with the WPP on 11th January 2019 and further tranches of monies are planned for the next year. 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 further progress within the WPP following the current year which has been more focussed on ensuring the necessary foundations are in place.

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 2019 (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 2019 (%)
UK Equities				
UK Equities	Passive	BlackRock	14.0	11.8
UK Equities	Active	Lazard	14.0	14.8
Overseas Equities				
US Equities	Passive	BlackRock	8.0	9.8
Global Equities	Active	WPP	12.0	12.3
European Equities	Active	BlackRock	14.0	14.5
Far East Equities	Active	Invesco	6.0	6.8
Emerging Markets	Active	Fidelity	2.0	2.8
Bonds				
Government Bonds	Active	BlackRock	8.0	8.3
Corporate Bonds	Active	BlackRock	8.0	8.5
Alternative Investments				
Multi Asset Fund	Active	Aberdeen Standard	2.2	2.2
Multi Asset Fund	Active	Invesco	2.2	2.2
Multi Asset Fund	Active	Fidelity	2.8	2.8
Other	Active	M&G	-	-
Other	Active	TBA	2.8	-
Other				
Cash/Accruals	Active	TCBC/Lazard	1.0	0.7
Property Unit Trusts	Active	TCBC	3.0	2.5
Total			**100**	**100**

2.2 The table shows that variances to strategy and actual allocations are not material. Variances are regularly monitored by officers and the Pensions Committee and are primarily due to regional market performance fluctuations which see allocations increase during the year relative to some other allocations. There are also some variances evident following the decision of Pensions Committee to formally revise the Fund's Strategic Asset Allocation at its last meeting prior to year-end held in March 2018. 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%.

  The report also noted that a 50/50 apportionment of UK equities between active and passive is deemed a better balance of exposure, and whilst some changes to effect this have already been made, there is still some further change required.

As a result, the year-end allocations show an overall 1.2% underweight to UK Equities and, within that, the passive allocation is 2.2% underweight whilst the active allocation is 0.8% overweight. This imbalance will be addressed during 2019/20 to make the appropriate re-allocation in accordance with the Fund's strategic asset allocation (SAA). Year-end allocations to overseas equities are generally in line with SAA requirements with the main variance above 1% being US Equities where, the strength of the US economy has pushed that market higher in both absolute terms but also relative to other regional equity markets.

- Wales Pension Partnership – The WPP launched two sub funds for global equities in January 2019. The Fund has placed its global equity allocation into the Global Opportunities sub fund which targets a +2% excess return gross of fees. This is a dynamic sub fund using Russell Investments to manage a number of underlying managers, some providing a global skill set whilst others act in a complementary manner with regional funds. Russell are ultimately responsible for performance of the sub fund and all its component parts. Russell will change the manager line up as required in a timely way to provide the best means of achieving outperformance. Underlying managers within this sub fund currently include: Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ and Oaktree. This fund was launched on the 11th January 2019 and so has yet to complete its first full quarter of operation as at 31st March 2019.

- Alternative Investments – The Alternative Investments allocation should be viewed in its entirety with the goal to build a blend of alternative products towards the strategic asset allocation of 14%. Year-end allocations across the Fund's alternative investments, including property and multi asset funds, are building towards the SAA requirements. The key steps in 2018/19 towards this goal have been to move £90m or about 3% of the Fund (in two tranches of £45m) from UK equities into multi asset funds. The outstanding variance relates to the additional overall allocation of 2.7% to other alternative investments that is yet to be made. This will be progressed during 2019/20 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 low levels. The revised March 2018 SAA has taken cash down to 1%. Though there is no material variance between tactical and strategic allocations, the Fund will continue to monitor interest rates and the Fund's cash flow routinely and then report to Pensions Committee each year within the Cash Management Strategy report.

2.3 At 31 March 2019 the net investment assets of the Fund (measured at bid-price market value) were administered as follows:-

Investments at Market Value	**£000**	**%**	**Cash & Other Balances £000**	**%**	**Net Investment Assets £000**	**%**
WPP	359,817	12.3	-	-	359,817	12.3
BlackRock	1,543,010	52.9	1	-	1,543,011	52.9
Lazard	433,228	14.8	12,087	0.4	445,315	15.2
Invesco	263,953	9.0	-	-	263,953	9.0
Fidelity	163,613	5.6	-	-	163,613	5.6
Aberdeen Standard	64,612	2.2	-	-	64,612	2.2
TCBC	75,002	2.5	8,259	0.3	83,261	2.8
Total	**2,903,235**	**99.3**	**20,347**	**0.7**	**2,923,582**	**100**

3. Investment performance

3.1 The table below shows, at a total fund level, the Fund's investment performance over historical periods, measured to 31 March 2019, versus the Fund's bespoke investment benchmark:-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
Greater Gwent (Torfaen)	+5.11	+10.16	+7.85	+10.67
Strategic Benchmark	+6.23	+9.86	+7.72	+10.47
Out/(Under) Performance	**-1.12**	**+0.30**	**+0.13**	**+0.20**

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 2019:-

Annualised % Performance	1 Year	3 Years	5 Years	10 Years
UK Equities	4.36	9.06	5.48	11.16
US Equities	17.86	17.28	16.29	16.98
European Equities	2.47	10.96	8.02	11.38
Asia (ex-Japan) Equities	1.92	18.71	13.76	12.77
Emerging Market Equities	-3.71	12.12	9.59	8.59
Global Equities	5.34	13.77	9.06	n/a
Government Bonds	4.07	3.75	5.56	5.87
Corporate Bonds	4.20	4.86	5.60	8.30
Property	5.86	7.09	9.45	8.10
Alternatives	1.30	1.31	2.11	n/a
Cash and Other	-2.05	-0.39	-0.02	0.43
Total	**5.11**	**10.16**	**7.85**	**10.67**

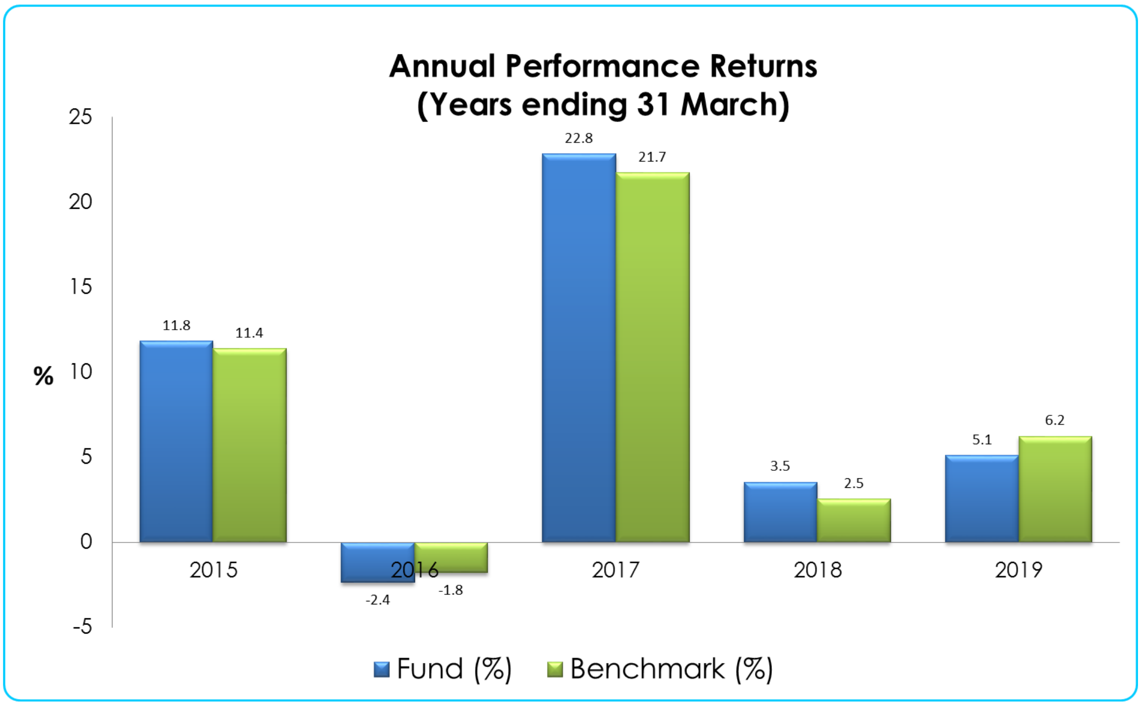
Performance data supplied by BNY Mellon Asset Servicing

3.3 The Fund has participated in an investment performance service prepared by BNY Mellon Asset Servicing. In the financial year ending 31 March 2019 the Fund made an overall positive investment return of +5.11% compared with +6.23% for the benchmark return.

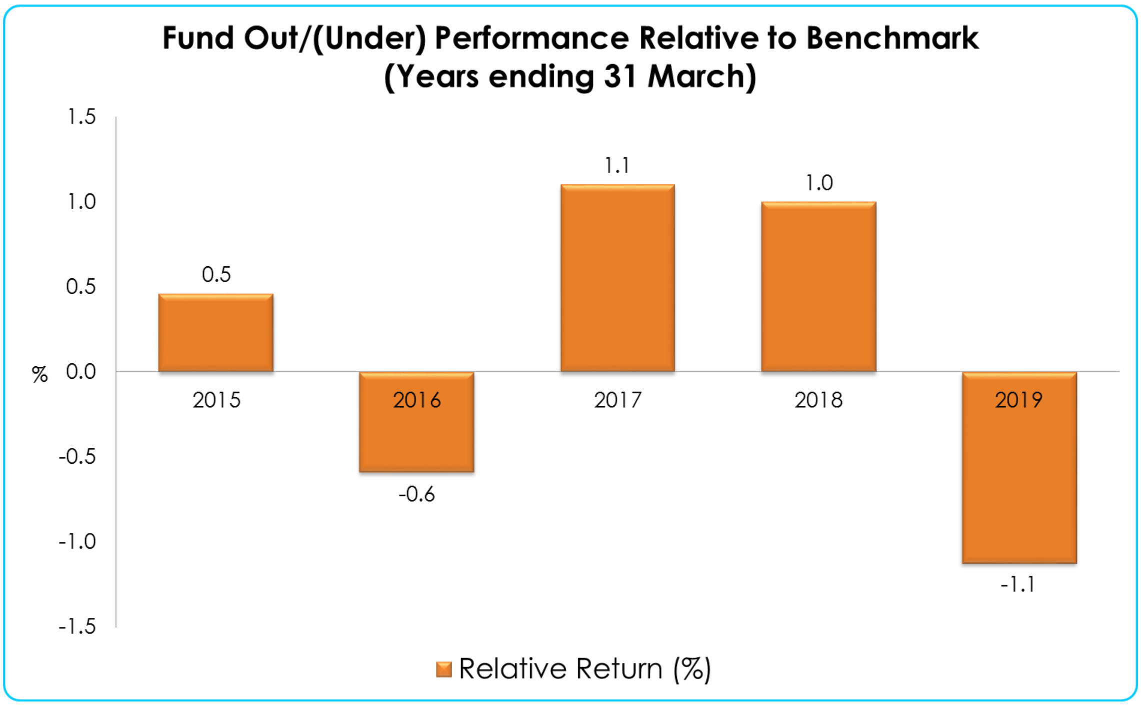
3.4 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's Strategic Asset Allocation (SAA) weightings. Following the decision of Pensions Committee to formally revise the Fund's SAA in March 2018, these weightings are currently 28% UK equities, 30% overseas equities, 12% global equities, 16% bonds, 3% UK property unit trusts, 10% alternative investments and 1% cash.

3.5 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



The consolidated performance of all the above asset classes and regions in which the Fund invests has been positive in absolute terms for the Fund's investment performance. Investment performance return for the year was however an underperformance against our customised benchmark (6.23%) of 1.12%. Longer term performance as shown elsewhere within this report still however remains positive against benchmark for reporting periods up to 10 years.

4. How did our managers perform?

4.1 In addition to investment performance from the markets themselves the Fund generally looks to add additional investment returns across the majority (almost 75%) of its asset allocation via active investment management, where the Fund's investment managers look to out-perform the respective market returns. This however cannot be guaranteed and whilst in most years and over longer time periods the Fund has been successful in this regard, there will on occasions be shorter time periods where active investment management fails to add value. 2018/19 has been one of those less successful periods and although our managers (with the exception of Fidelity in Emerging Markets) achieved positive absolute returns, our active management generally failed to reach benchmark (market) returns.

In aggregate, the Fund's active management has therefore under-performed the market return noted above of +6.23% by -1.12% during the period resulting in an overall investment return for the Fund of +5.11% for the Fund.

4.2 The table below details both market (benchmark) and performance returns and shows that strong absolute performance has been evident in Global Equities (BlackRock) and US Equities (Blackrock) but at the opposite end of the spectrum Emerging Markets (Fidelity) has struggled to even get into positive return territory. The majority of asset classes have however been within a positive investment return range of +3% to +7% and this level of market performance has then been adversely affected by the relative manager performance which has struggled to achieve positive returns against the market.

Longer term, performance numbers continue to remain positive against the market returns but at this point, the Fund is already able to take advantage of the developments within the Wales Pension Partnership. This has resulted in our existing global equity monies of £343m being transferred to a new manager arrangement via the WPP in January 2019 with further equity classes likely to change during 2019/20. The key Government driver for this is to reduce investment manager costs but it is hoped that the bigger prize could be in more consistent investment performance.

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

Asset Class / Region	Manager	Share of Fund at Year end %	Fund Performance for Year %	Benchmark Performance for Year %	Relative Performance for Year %
Equities					
UK (Passive)	BlackRock	11.8	6.43	6.36	**+0.07**
UK (Active)	Lazard	14.8	2.87	6.36	**-3.49**
US (Passive)	BlackRock	9.8	17.86	17.72	**+0.14**
European (Active)	BlackRock	14.5	2.47	2.95	**-0.48**
Asia (ex-Japan)	Invesco	6.8	1.92	3.89	**-1.97**
Emerging Markets	Fidelity	2.8	-3.71	0.05	**-3.76**
Global (Active)	WPP*	12.3	n/a	n/a	**n/a**
Bonds					
Gilts	BlackRock	8.3	4.07	3.71	**+0.36**
Corporate Bonds	BlackRock	8.5	4.20	3.68	**+0.52**
Other					
Alternatives	Aberdeen Standard GARS	2.2	0.37	0.91	**-0.54**
	Fidelity MAI	2.8	5.45	0.91	**+4.54**
	Invesco GTR	2.2	-0.90	0.91	**-1.81**
Property	Various	2.5	5.86	4.78	**+1.08**
Cash and other investment balances	Various	0.7	-2.05	0.50	**-2.55**
CONSOLIDATED		**100**	**5.11**	**6.23**	**-1.12**

Performance data supplied by BNY Mellon Asset Servicing

* Wales Pension Partnership (WPP) data is not available for 2018/19 as assets were transferred out from BlackRock during January 2019

The following shows the external investment fund managers that manage the Fund assets outside of the Wales Pension Partnership:-

Mandates managed by external Fund Managers as at 31 March 2019	
BlackRock • UK and US Equity Funds (passively managed funds invested through a collaboration arrangement of all 8 LGPS funds in Wales) • European Equity Fund • Gilt and Corporate Bond Funds • (Global equity active and passive pooled funds held until 11 January 2019 when assets were transferred to WPP)	BLACKROCK
Lazard Asset Management • Segregated UK equities	LAZARD ASSET MANAGEMENT
Invesco Perpetual • Asia (ex-Japan) equity fund • Multi asset fund - Global Targeted Returns Pension Fund	Invesco Perpetual
Fidelity Worldwide Investment • Emerging market equity fund • Multi asset fund – Multi Asset Income Fund	Fidelity™ WORLDWIDE INVESTMENT
Aberdeen Standard Investments • Multi asset fund - Global Absolute Return Strategies	AberdeenStandard Investments

ADMINISTRATION REPORT

1. Summary of activity of the service in the year

1.1 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 shows the work outstanding as at 1st April 2018, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2019.

	Work outstanding 1 April 2018	New	Total	Completed	Work in progress 31 March 2019
Retirements processed	363	1,656	2,019	1,596	423
Deferred processed	633	1,596	2,229	1,908	321
Retirement estimates	467	3,147	3,614	3,050	564
Deaths processed	160	587	747	628	119
Transfers in/out	2,062	2,506	4,568	2,231	2,337
New Starters	1,147	3,652	4,799	4,188	611
Total	**4,832**	**13,144**	**17,976**	**13,601**	**4,375**

The following table illustrates the average monthly new work and completed work in the year to 31st March 2019 compared with the previous year.

	Average monthly new work received in year to 31/03/2018	Average monthly new work received in year to 31/03/2019	Average monthly work completed in year to 31/03/2018	Average monthly work completed in year to 31/03/2019
Retirements processed	108.33	138	109.92	133
Deferred processed	142.41	133	177.5	159
Retirement estimates	214.83	262.25	217.17	254.16
Deaths processed	51.41	48.91	53.5	52.33
Transfers in/out	230.58	208.83	206.33	185.91
New Starters	395.08	304.33	364.42	349
Total	**1,142.64**	**1,095.32**	**1,128.84**	**1,133.40**

An analysis of the core work completed during the year, shows the following trends:

- The number of cases completed during 2018/2019 has increased compared to 2017/2018.

- The number of new starter cases received within the section has decreased during 2018/2019. The reason for this is that during 2017/2018 a number of local authorities auto re-enrolled their staff into the Local Government Pension Scheme which increased the number of new starters the Fund received during that year. During 2018/2019 the number of new starters received by the Fund has reverted back to its average numbers.

- The number of retirements processed and retirement estimates cases received during 2018/2019 has significantly increased. The reason for this is twofold, firstly, two of our employers carried out a Workforce Analysis exercise, and secondly, the fund received an increase in the number of deferred members requesting payment of their pension from age 55. This was a result of the Local Government Pension Scheme (Amendment) Regulations 2018.

- The number of deferred cases outstanding as at 31st March 2019 has significantly fallen between 1st April 2018 and 31st March 2019. This is as a result of a concentrated effort by the Pension Section to process deferred benefits in preparation for the 2019 Actuarial Valuation.

1.2 **Other Activity**

In addition to our core service we have also undertaken the following work:-

- The pension fund worked closely with the Torfaen County Borough Council, LGA and other Local Government Pension Funds to apply the General Data Protection Regulations (GDPR). During 2018, the Fund published a Privacy Notice, to provide information to members about the data that the fund holds about them, and their rights in relation to it, and the safeguards that are in place to protect it. The Fund also produced a Memorandum of Understanding, which it shared with all its Employers. Both of these documents are available on the Fund's website. The Fund also wrote to all its members in May 2018 informing them of the changes to the regulations.
- The Fund has completed the GMP Reconciliation exercise. The aim of the GMP Reconciliation Exercise was to ensure that pension schemes hold the correct information regarding members' contracted-out service by reconciling all of its GMP records with HMRC by December 2018. This has been completed on time and all work was carried out in house.
- The Fund has reviewed all its processes, procedures and documentation in line with the 'The Local Government Pension Scheme (Amendment) Regulations', and 'The Local Government Pension Scheme (Miscellaneous Amendments) Regulations', and have written to all its members informing them of these changes.
- An internal audit of the Pension Fund was carried out in March 2019 in line with Torfaen's annual internal audit plan for the financial year 2018/2019. The audit covered pension payments, new members, contributions, transfers in and out, reconciliation and user access. The auditor report provided a full assurance to management. According to the auditor '*internal control environment is sound and designed to achieve the system objectives. No evidence of controls being inconsistently applied or operating unsatisfactory. Absolute assurance that the system/ process is reliable.*'
- The pension fund has facilitated training for employers, including the production of newsletters and bulletins.
- The Fund has participated in Club Vita to provide a bespoke analysis of the longevity of the members of the Greater Gwent (Torfaen) Pension Fund.
- The Fund continues to collaborate with the other seven Local Government Pension funds within Wales to improve the communication and administration of the system.
- The Fund participates in the LGA Communication sub group to assist in developing LGPS Scheme wide communications.

1.3 **Future Challenges**

- The next actuarial valuation of the pension fund will be carried out as at 31st March 2019, and will set the employer contribution rate for the next three years commencing the 1st of April 2020. Work is already underway to data cleanse records within the administration system, and to clear down back logs to ensure that timely and accurate data can be provided to the actuary.

- Public sector pension schemes are required to operate a cost cap mechanism that measures the cost and any change in the cost of the pension scheme. For the LGPS there are two mechanisms used; one used by HM Treasury and for the LGPS a bespoke cost cap process designed to capture more specifically the impact of LGPS reforms. Results published early this year showed the cost cap had been breached and as a result some draft proposals emerged on potential changes to improve benefits in the scheme. However within days of these proposals, the Government announced a pause in the cost cap process for public service pension schemes in light of its application to appeal the McCloud judgement which related to transitional arrangements for certain public sector pension schemes in 2014/15 with the introduction of career average schemes. The outcome of the McCloud judgment, in relation to the cost cap, has therefore provided uncertainly to the Fund. The results of the appeal could lead to changes to the public service pension schemes, and depending on the extent and cost of these changes, there could be an impact on the outcome of the cost cap. Depending on the timing and outcome to this appeal, this could also impact the 2019 valuation, and depending on the extent and cost, an interim valuation may be needed to reset employer contribution certificates.
- Future legislative changes provide challenges to the Fund, the Fund will continue to develop its policies to meet these challenges and continue to work with scheme employers and our colleagues in other LGPS Funds on a national basis to comply with these new requirements.

1.4 **Technology and pension administration system developments**

The Fund is committed to developing and utilising technology to develop its pension administration service. During 2018/2019, the Fund carried out the following technology and pension administration system developments:

- During 2018/2019, 26 out of 61 employers submitted all data to the fund on a monthly basis via the Employer Self Service Module (ESS). This equates to 96% of the total active membership. By receiving monthly data from employers, the Fund is able to update member's records on a regular basis. It also enables the Fund to rectify data throughout the year, and it improves the member's experience, by enabling them to view real time information concerning their pension account.
- The Fund is dedicated to getting all employers to submit monthly data to the Fund to ensure that data is received in a timely manner, and to improve the accuracy of data. The Fund will continue to work with its employers during 2019/2020 to increase the number of employers providing monthly data to the Fund.
- The Fund has proactively increased the number of members it has signed up to My Pensions Online (MPO) by working with its employers to advertise MPO and requiring new members to sign up to the service to access some of their pension information.
- Next year, the Fund will concentrate its efforts on increasing the number of pensioners who are signed up to MPO. In addition to being able to inform the Fund of any changes to personal circumstances, MPO will enable pensioners to view their monthly payslips and P60s online.
- During the next year, the Fund will also switch to on-line communication with its members, via MPO, rather than the standard postal way. This will enable members to receive information quicker, will reduce the outgoing costs for the Fund, and will enable data to be transmitted securely to members.

1.5 **Data Quality**

1.5.1 In November 2018, the pension fund completed the Pension Regulator's new requirement for an annual return. As part of the return, the Pension Regulator asked every scheme to report on the completeness of their common and scheme specific data. Common data is the basic information held about members, for example, name, address, date of birth etc. Scheme specific data includes information such as salary, service history and employee and employer contributions history. The Fund carried out this exercise in September 2018. The results are as follows:

Data	Results
Common Data	96%
Scheme Specific Data	81%

1.5.2 The Fund strives to improve the data that it holds within its pension administration system, and works closely with employers to ensure accurate and timely data is received. Current data gaps tend to relate to older records but based on the results of the Pension Regulator's annual return, the Fund has developed a data improvement plan.

1.5.3 The data improvement plan provides the Fund with a plan and set of actions to be carried out to improve the accuracy of the data that it holds. These actions will be carried out by the pension fund to rectify records, and improve its results in preparation for the next data audit.

1.5.4 The Fund has already embarked on an address cleansing exercise to find addresses for members who have moved away. The Fund is also currently using Hyman's data validation portal to cleanse its data in preparation for the 2019 valuation.

2. Key Performance Data

2.1 **Performance Indicators**

2.1.1 **Table 1 - key performance information**

Process	Number of cases outstanding at start of period	Number of new cases commenced in year	Number of cases completed in year	Number of cases outstanding at year end	% Completed in year
Deaths	160	587	628	119	84.07
Retirements	363	1,656	1,596	423	79.05
Deferment	633	1,596	1,908	321	85.60
Transfer in	474	424	558	340	62.14
Transfer out	99	652	625	126	83.22
Refund	231	1,381	1,372	240	85.11
Divorce	27	171	165	33	83.33
Member estimate	428	2,424	2,319	533	81.31
Joiners	1,147	3,652	4,188	611	87.27
Aggregation	1,489	1,430	1,048	1,871	35.90
Total	**5,051**	**13,973**	**14,407**	**4,617**	**75.73**

2.1.2 **Table 2 – key performance indicators**

Process	KPI	%	Number of cases completed	Legal requirement	%	Number of cases completed
Retirements – letter notifying estimate of retirement benefits	15 days	100	670	2 months	100	670
Retirements – letter notifying actual retirement benefits	15 days	97.39	560	2 months	100	575
Deferred into pay – process and pay lump sum retirement grant	15 days	98.65	585	2 months	100	594
Transfer out – letter detailing transfer out quote	20 days	65.71	251	2 months	88.22	337
Refund – process and pay a refund	10 days	82.20	711	2 months	91.33	790
Divorce quote – letter detailing cash equivalent value and other benefits	45 days	83.22	119	3 months	97.9	140
Joiners – notification of date of enrolment	40 days	90.30	3,462	2 months	93.27	3,576

2.1.3 The performance indicator data relates to pension benefit administration. The data for these indicators have been taken from the pension administration system, Altair, using workflow reports.

2.1.4 Each process the Fund carries out in relation to benefit calculations has a corresponding workflow process(es) within Altair. The workflow reports measure the amounts of time between two stages within the process to report the performance indicator.

2.1.5 It was not possible to report on all the suggested best practice performance indicators this year, as the final reporting requirements and guidance for the annual report were not published until March 2019. In order to utilise workforce reporting for performance indicators processes have to be configured at the beginning of the year to collect this data.

2.1.6 The Fund has made changes to some of its workflow processes to ensure that this data can be collected for the 2019/20 annual report and the Fund is working with other pension funds, and Aquila Heywood, to gather this information in preparation for next year.

2.1.7 The Fund is committed to improving the performance levels of the fund, and over the forthcoming year will be reviewing the performance indicators on a regular basis to improve its performance levels.

2.2 Financial Indicators

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

	31 March 2019 Number of members	2018/2019 Total expenses £000	2018/2019 Cost per member £
Membership as at 31 March 2019			
Contributors	23,932		
Pensioners	17,533		
Deferred benefits	18,749		
Total scheme members	**60,214**		
Administrative costs		1,216	**20.19**
Investment management expenses		7,656	**127.15**
Oversight and governance costs		678	**11.26**
Total management expenses		**9,550**	
Total cost per scheme member including investment costs			**158.60**
Total cost per scheme member excluding investment costs			**31.45**

The following table shows the total cost per scheme member for prior years compared to the average cost for Welsh LGPS pension funds using SF3 data:

Process	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	Wales 2017/2018
Investment management expenses						
Total Cost (£'000)	6,816	7,753	7,466	7,055	7,492	73,652
Total Membership (number)	51,614	53,237	55,481	57,244	59,294	358,750
Sub cost per member (£)	132.06	145.63	134.57	123.24	126.35	205.30
Administration costs						
Total Cost (£'000)	1,201	995	1,131	1,108	1,225	9,851
Total Membership (number)	51,614	53,237	55,481	57,244	59,294	358,750
Sub cost per member (£)	23.27	18.69	20.38	19.36	20.66	27.46
Oversight and governance costs						
Total Cost (£'000)	692	655	608	770	649	3,398
Total Membership (number)	51,614	53,237	55,481	57,244	59,294	358,750
Sub cost per member (£)	13.40	12.30	10.96	13.45	10.95	9.47
Total cost per member £	**168.73**	**176.62**	**165.91**	**156.05**	**157.96**	**242.23**

2.3 Staffing

2.3.1 Staff numbers (FTE) and staff to Fund member ratios

As at 31/03/2019 there were 25.56 full time equivalent (FTE) members of staff in the pension section, with 11.75 responsible for pure pension administration (benefits).

2.3.2 The table below shows the 5 year trend of LGPS administration staff to fund ratio.

Year	Fund membership	LGPS administration staff	Staff to fund member's ratio
2018/2019	60,214	11.75	5,124
2017/2018	59,294	12.00	4,941
2016/2017	57,244	10.53	5,436
2015/2016	55,481	11.00	5,043
2014/2015	53,237	12.00	4,436

2.3.3 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
Pension administration staff (benefits)	11.75	12,304	1,047

2.3.4 The information for the 'staff numbers (FTE) and staff to fund member ratio' has been taken from the pension section's staffing structure and the total number of members.

2.3.5 The information for the 'average cases per member of staff' have been taken from the pension section's staffing structure and workflow reports.

3. Other Information

3.1 Retirements during the year

This table provides a summary of the number of retirements within the Fund during 2018/2019.

Reason for leaver	Number of pensioners
Early Retirement	60
Normal Retirement	125
Redundancy/ Efficiency	87
Ill Health	48
Late Retirement	68
Flexible Retirement	32
Total	**420**

3.2 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 some outstanding liabilities).

	Active	Ceased	Total
Scheduled Body	35	7	42
Deemed Body	1	1	2
Admitted Body	25	18	43
Total	**61**	**26**	**87**

4. How the Service is delivered

4.1 Key areas of technology used

4.1.1 The pension fund uses the pension administration system Altair, which is provided and hosted by Aquila Heywood. Aquila Heywood provide regular updates to the system to ensure that it keeps in line with changes in regulations and other legislation. The Fund uses the following Altair modules: GMP Reconciliation, Pensioner Payroll, Workflow and Image.

4.1.2 The Fund's member and employer online service, My Pension Online (MPO) and Employer Self Service (ESS), is provided by Civica. ESS enables employers to send information securely to the pension fund, upload spreadsheets, including monthly returns, starters and changes, and complete e-forms including termination forms, changes and estimate requests. MPO enables members to see their pension account on-line, view the value of the pension that they have built up, check the information that we hold for them is correct, and inform the Fund of any changes in personal circumstances, such as changes to name, address and email address. MPO also has the facility to enable active members to run estimates to see how changes might affect their pension, for example retiring early, changing hours, or swapping yearly pension for a one off lump sum payment.

4.1.3 The Fund uses Tell Us Once and ATMOS to identify members who have died.

4.1.4 The Fund participates in the National Insurance Database in order to comply with LGPS governing regulations. It enables the Fund to discover whether a member who dies has any other periods of membership elsewhere in the LGPS to ensure that the correct death benefit can be calculated and paid to the deceased member's dependant.

4.2 Key information sources

4.2.1 The Fund has its own website, http://gwentpensionfund.co.uk which is hosted by Hymans. The website contains information for active, deferred, pensioner and dependant members. The website also has links to the employer and members self-service modules, and contact details for the Fund. The Fund offers two helpdesk options for members. One relates to member's benefit queries, and the other for member's queries regarding MPO.

4.3 Staffing

4.3.1 There are 26 posts on the establishment list of the pension administration section, including the Pension Manager and Operations Manager. This equates to 22.34 full time equivalent members of staff. There are an additional 4 members of staff (3.22 full time equivalents) covering pension investment and the wider governance function. The pension section comprises of 4 teams.

4.3.2 <u>The Payroll Team</u>
The Payroll team have averaged 3.44 fte staff during the year. They 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.

4.3.3 <u>The Benefits Team</u>
The Benefits and Communication team have averaged 9.75 fte staff during the year. They are responsible for processing and checking the full range of benefit calculations including retirements, early leaver deferred benefits, transfers in and out of the pension fund, refunds, estimated calculations, annual allowance, additional voluntary contributions and additional pension contributions. They are also responsible for providing advice and guidance to scheme employers and members in relation to LGPS Regulations and related legislation.

4.3.4 The Systems Team

The Systems team have averaged 5.51 fte staff during the year. The Systems team are responsible for data quality and data cleansing, as well as processing the Monthly and Year End files and electronic data exchange between the employer and the pension fund.

4.3.5 The Communications Team

The Communications team have averaged 1.64 fte staff during the year. The Communications team is 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.

4.3.6 Contact details for the pension fund are available on the website: http://gwentpensionfund.co.uk/greater-gwent-torfaen-pension-fund/about-us/contact-details/

4.4 Accuracy and confidentiality of personal data

4.4.1 The pension section has robust systems and processes in place to protect the safety and security of data held by the Fund. The Fund adheres to the General Data Protection Regulations, which came into force on 25th May 2018. A copy of the Fund's privacy notice is available on the website: http://gwentpensionfund.co.uk/media/3748/privacy-notice.pdf

4.5 Internal Dispute Resolution Procedure

4.5.1 The pension section operates a two stage internal dispute resolution procedure which can be found on the website. The website also contains links to the Pension Advisory Service and the Pensions Ombudsman: http://gwentpensionfund.co.uk/media/4226/dispute-procedure-guide.pdf

During 2018/2019 the Fund dealt with 4 Stage 2 Appeals. All four appeals were not upheld by the pension fund.

4.6 Policy and guidance for employing bodies or members

4.6.1 The Fund's Policy and Guidance document for granting admitted body status is available on our website: https://gwentpensionfund.co.uk/greater-gwent-torfaen-pension-fund/about-us/forms-and-publications/

FUND POLICIES

1. Investment Strategy Statement

1.1 Background

The 2016 LGPS investment regulations require administering authorities to prepare, publish and review from time to time a written Statement recording the investment policy of the Pension Fund. (Investment Strategy Statement-ISS). The ISS documents and puts into effect the Fund's principal powers to invest in accordance with the investment regulations, but 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 42 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 and more recent developments in respect of the Wales Pension Partnership so an updated version will be brought to Pensions Committee for their consideration and published during 2019 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 bodes
- 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 the vast majority of the Fund's investments. The residual 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 70 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 Wales pension Partnership. 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. 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. This aspect within the statement currently requires updating.

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 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) but it should be noted that this is an area under active review by the Funds Responsible Investor Working Group.

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 Responsible Investment including 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 agreed to re-establish a Responsible Investment Working Group to specifically research and advise on these matters. The Group has met throughout the year with a 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. Work to date 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.
- Considered the emerging position within the WPP
- Sourced third party advisors able to assess the Fund's current carbon exposure and to provide advice on subsequent steps.

From the above consideration and further work the Group will look to develop its beliefs into 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 Local Government Pension Funds are required to produce a Funding Strategy Statement under Section 58 of the Local Government Pension Scheme Regulations 2013. Under the regulations, the administering Authority must prepare, maintain and publish a written statement setting out their Funding Strategy. The Statement includes:-

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

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

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

Further details are contained in the Fund's full Funding Strategy Statement, which reflects the results of the Fund's most recent triennial actuarial valuation, and is available via the link on page 42 of this document.

4. Communications Policy Statement

4.1 The Fund's Communications Policy Statement (CPS) is produced under Section 61 of the LGPS Regulations 2013. It was last 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 Section 57 of the LGPS Regulations 2013 requires the administering authority to publish a pension fund annual report; something we have always done. The regulations also prescribe their content in legislation. Recent Regulation within Wales also provides external auditors with the means to undertake separate audits of LGPS pension funds. Advice from the Ministry for Housing, 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/

Greater Gwent (Torfaen) Pension Fund (“the Fund”) Actuarial Statement for 2018/19

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% likelihood 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.

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 but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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
23 August 2019

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 2019 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 2018/19 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 2019, 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 2018/19.

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:

- 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. This description forms part of my auditor's report.

Anthony J Barrett
For and on behalf of the Auditor General for Wales
1 August 2019

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

Contents	Page Number

Pension Fund Accounts 2018/2019

Fund Account for the Year Ended 31 March 2019

	Note	2017/2018 £000	2018/2019 £000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	(114,118)	(118,047)
Transfers in from other pension funds	8	(5,704)	(6,280)
Other income	12a	(1)	(4)
		(119,823)	(124,331)
Benefits	9	111,419	118,602
Payments to and on account of leavers	10	7,803	7,842
		119,222	126,444
Net (additions)/withdrawals from dealings with members		**(601)**	**2,113**
Management expenses	11	9,366	9,550
Net (additions)/withdrawals including fund management expenses		**8,765**	**11,663**
Returns on investments			
Investment income	12	(21,407)	(27,232)
Taxes on income	13a	90	21
Profit and losses on disposal of investments and changes in the market value of investments	14a	(78,640)	(122,608)
Net return on investments		**(99,957)**	**(149,819)**
Net (increase)/decrease in the net assets available for benefits during the year		**(91,192)**	**(138,156)**
Opening net assets of the scheme		**(2,699,628)**	**(2,790,820)**
Closing net assets of the scheme		**(2,790,820)**	**(2,928,976)**

Net Assets Statement for the Year Ended 31 March 2019

	Note	2017/18 £000	2018/19 £000
Investment assets	14	2,785,140	2,923,582
Investment liabilities	14	-	-
Total net investments		**2,785,140**	**2,923,582**
Current assets	20	11,236	11,453
Current liabilities	21	(5,556)	(6,059)
Net assets of the Scheme available to fund benefits at 31st March		**2,790,820**	**2,928,976**

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 42.

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 61 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.

Fund Membership

	Active Members 31/03/18	Active Members 31/03/19
Administering Authority		
Torfaen CBC	2,983	2,996
Current Scheduled Bodies		
Blaenau Gwent CBC	2,777	2,651
Caerphilly CBC	6,826	6,777
Monmouthshire CC	3,002	3,118
Newport City Council	4,187	4,244
Valuation Panel	4	4
Coleg Gwent	706	693
Coleg Gwent Training	4	3
Chepstow Town Council	10	9
Brynmawr Town Council	1	1
Chief Constable (Gwent)	728	790
Police & Crime Commissioner (Gwent)	14	21
Silent Valley Waste Disposal	3	3
Caldicot Town Council	3	3
Nantyglo & Blaina Town Council	2	2
Monmouth Town Council	4	4
Gwent Cremation Committee	10	10
Cwmbran Community Council	8	7
Pontypool Community Council	9	8
Tredegar Town Council	2	2
Rogerstone Community Council	5	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	2
Langstone Community Council	1	1
Caerwent Community Council	1	1
Llanfoist Fawr Community Council	1	1
BTM CC	1	1
Abertillery & Llanhillith Community Council	1	1
Abergavenny Town Council	1	2
Croesyceiliog & Llanyrafon Community Council	1	3
Shared Resource Service	199	206
Llanbradach & Pwll-y-pant Community Council	0	1
Deemed Bodies		
Newport Transport	8	5
Admitted Bodies		
Melin Homes	52	47
Careers Wales Gwent	94	97
Citizen Advice Bureau Caerphilly	7	7
Mitie (formerly Ballast)	1	1
Hafod Care	14	12
Archives	14	15
Monmouthshire Housing	179	182
Bron Afon	426	379
Newport City Homes	231	258
Tai Calon	239	222
DRIVE	4	4
Regent Ex Monmouth CC	1	1

Fund Membership

	Active Members 31/03/18	Active Members 31/03/19
Admitted Bodies continued		
Vinci	1	1
Compass Catering	47	36
National Trust	5	4
Barnardo's	2	2
EAS	80	68
Churchill	3	3
Torfaen Leisure Trust	272	242
Borough Theatre	5	0
NPS Newport	32	27
NCS Norse	91	86
Life Leisure	431	396
Newport Live	251	255
Alliance in Partnership	2	1
Gyncoed Catering	0	7
Total Active Membership	23,991	23,932
Total Deferred Members	18,455	18,749
Total Pensioners and Dependants	16,848	17,533
Total Membership	**59,294**	**60,214**

1.3 **Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the Fund website http://gwentpensionfund.co.uk/

1.4 **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 15.2% to 35.8% of pensionable pay.

2. BASIS OF PREPARATION

2.1 The fund account summarises the Fund's transactions for the 2018/19 financial year and its financial position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

2.2 The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 19, page 80.

The accounts have been prepared on a going concern basis.

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.

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

- Interest income from cash deposits is accounted for on an accruals basis.
- Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- 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 24 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 discloses its pension fund management expenses in accordance with the CIPFA guidance 'Accounting for Local Government Pension Scheme Management Expenses (2016)'. All items of expenditure are charged to the Fund on an accruals basis as follows.

- **Administrative expenses**

All staff costs of the pension administration section are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund in accordance with council policy.

- **Oversight and governance costs**

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 21 and in Note 13(b) on page 62.

- **Investment Management Expenses**

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments.

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 and Aberdeen Standard Investments that an element of their fees be performance related.

Where an investment manager's fee invoice 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 2018/19 £0.17m of fees is based on such estimates (£0.409m in 2017/18).

iii) **Taxation**

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

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

3.3 Net assets statement

i) **Financial assets**

Investment assets are included in the financial statements 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 IFRS 13 (see Note 16). 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**

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments. Other financial liabilities classed as amortised cost are carried at amortised cost.

3.4 Wales Pension Partnership

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, Link Asset Services, has been appointed to administer the pooling arrangements. There is no direct investment in the third party and therefore no investment balance. Each Fund retains responsibility for its own funding requirements and investment strategy but then uses the WPP to implement its investment requirements thereby aiming to achieve economies of scale in fees. The costs of setting up and running the WPP are shared by the eight partners (see Note 13b page 62).

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

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS) 19 and relevant actuarial standards. As permitted under the Code, 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 80).

3.6 **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 and Investment of funds) Regulations 2016 but are disclosed for information in Note 22, page 81.

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 78. 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 80. 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 reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	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 £583m. A 0.5% increase in assumed salary inflation would increase the value of liabilities by approximately £102m 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 £442m.
Limited Liability Partnerships (Note 15)	Assets held in the Prudential/M&G UK Companies Financing Funds are valued by the fund administrator using unobservable inputs. 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 £1.285m. 1 year expected volatility of 5.9% could decrease the valuation to £1.209m or increase it to £1.361m.

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 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 2019 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 2018/19 varied between 15.2% 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.

By category

2017/18 £000		2018/19 £000
(25,480)	Employees' normal contributions	(26,320)
(88)	Employees' 50:50 contributions	(123)
(41)	Employees' additional contributions	(81)
(25,609)	**Total employees' contributions**	**(26,524)**
(70,654)	Employers' normal contributions	(75,244)
(15,540)	Employers' deficit recovery contributions	(13,812)
(2,315)	Employers' augmentation contributions	(2,467)
(88,509)	**Total employers' contributions**	**(91,523)**
(114,118)	**Total contributions receivable**	**(118,047)**

By type of employer

2017/18 £000		2018/19 £000
(15,076)	Administering Authority	(16,245)
(85,279)	Scheduled bodies	(87,014)
(211)	Deemed bodies	(207)
(13,552)	Admitted bodies	(14,581)
(114,118)		**(118,047)**

Pension Fund Accounts 2018/2019

Contributions received in 2018/2019 split by employers and employees

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Administering Authority				
Torfaen CBC	(3,497)	(12,748)	(16,245)	16,209
Scheduled Bodies				
Blaenau Gwent CBC	(2,828)	(10,911)	(13,739)	15,760
Caerphilly CBC	(6,812)	(22,639)	(29,451)	28,074
Monmouthshire CC	(3,143)	(11,118)	(14,261)	12,695
Newport City Council	(4,332)	(14,391)	(18,723)	19,202
Valuation Panel	(9)	(42)	(51)	30
Coleg Gwent	(675)	(2,726)	(3,401)	1,677
Coleg Gwent Training	(7)	(28)	(35)	0
Chepstow Town Council	(6)	(25)	(31)	19
Brynmawr Town Council	(1)	(2)	(3)	8
Gwent Police Authority	0	0	0	1,912
Chief Constable (Gwent)	(1,333)	(3,528)	(4,861)	1,415
Police & Crime Comm (Gwent)	(55)	(205)	(260)	44
Gwent Magistrates	0	0	0	428
Silent Valley Waste Disposal	(7)	(34)	(41)	27
Caldicot Town Council	(5)	(17)	(22)	0
Nantyglo & Blaina Town Council	(2)	(13)	(15)	8
Monmouth Town Council	(4)	(15)	(19)	1
Gwent Cremation Committee	(15)	(44)	(59)	37
Cwmbran Community Council	(9)	(56)	(65)	45
Pontypool Community Council	(10)	(46)	(56)	21
Tredegar Town Council	(2)	(12)	(14)	6
Rhymney Valley	0	0	0	1
Rogerstone Community Council	(6)	(24)	(30)	2
Bargoed Town Council	0	(1)	(1)	9
Portskewett Community Council	0	(2)	(2)	1
Shirenewton Community Council	0	(2)	(2)	0
Henllys Community Council	0	(2)	(2)	0
Magor with Undy Com Council	(4)	(21)	(25)	0
Caerwent Community Council	(1)	(2)	(3)	0
Langstone Community Council	(1)	(3)	(4)	0
Llanfoist Fawr Community Council	(1)	(2)	(3)	0
Croesyceiliog & LLanyrafon CC	(1)	(5)	(6)	0
Abergavenny TC	(2)	(9)	(11)	0
BTM Community Council	(1)	(3)	(4)	0
Abertillery & LLanhilleth CC	(2)	(5)	(7)	0
Shared Resource Service	(424)	(1,382)	(1,806)	384
Llanbradach & Pwll-y-pant CC	0	(1)	(1)	0
Former Scheduled Bodies				
Gwent County Council				10,283
Commission for New Towns				694
Deemed Bodies				
Islwyn Transport	0	0	0	163
Newport Transport	(7)	(200)	(207)	1,082

Pension Fund Accounts 2018/2019

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Admitted Bodies				
Big Pit	0	0	0	17
Melin Homes (formerly EVHA)	(114)	(749)	(863)	127
Careers Wales Gwent	(159)	(769)	(928)	663
Citizen Advice Bureau Caerphilly	(14)	(166)	(180)	9
Mitie (formerly Ballast)	0	(11)	(11)	12
CWVYS	0	(3)	(3)	21
Capita Gwent Consultancy	0	0	0	1,544
Hafod Care	(15)	(68)	(83)	278
Archives	(24)	(75)	(99)	44
Monitor	0	0	0	23
OCS Ex Monmouth CC	0	0	0	14
OCS Ex UWN	0	0	0	2
United Response	0	0	0	23
Monmouthshire HA	(319)	(904)	(1,223)	653
Bron Afon	(743)	(2,237)	(2,980)	1,288
Newport City Homes	(511)	(1,465)	(1,976)	761
Tai Calon	(418)	(1,443)	(1,861)	1,236
Manpower UK Ltd	0	0	0	3
DRIVE	(7)	(17)	(24)	26
Regent Ex Mon CC	(1)	(2)	(3)	9
Regent Ex Monmouth Cluster	0	0	0	3
Regent Ex Chepstow Cluster	0	0	0	18
Regent Ex Abergavenny Cluster	0	0	0	1
Vinci	(2)	(6)	(8)	1
Compass Catering Newport	(21)	(100)	(121)	170
Compass Catering St Albans	0	0	0	4
National Trust	(6)	(23)	(29)	15
Barnardo's	(2)	(5)	(7)	20
Education Achievement Service	(241)	(808)	(1,049)	366
Caterlink NCC Caerleon	0	0	0	21
Caterlink NCC Newport High	0	0	0	4
Churchill	(2)	(11)	(13)	7
Monwell Ltd	0	0	0	58
Torfaen Leisure Trust	(106)	(309)	(415)	61
Borough Theatre	0	0	0	5
NCS – Norse	(105)	(566)	(671)	339
NPS – Newport	(55)	(243)	(298)	109
Life Leisure	(231)	(678)	(909)	233
Newport Live	(224)	(591)	(815)	145
Alliance in Partnership	(1)	(5)	(6)	20
Glyncoed Catering	(1)	(5)	(6)	12
Totals	**(26,524)**	**(91,523)**	**(118,047)**	**118,602**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

2017/18 £000		2018/19 £000
(5,704)	Individual transfers in from other schemes	(6,280)
(5,704)		**(6,280)**

9. BENEFITS PAYABLE

By category

2017/18 £000		2018/19 £000
64,546	Pensions - statutory	67,422
21,634	Pension increases	23,474
21,116	Commutation of pensions and lump sum retirement benefits	22,698
3,113	Lump sum death benefits	3,375
1,010	Additional allowances	1,633
111,419		**118,602**

By type of employer

2017/18 £000		2018/19 £000
15,808	Administering Authority	16,209
85,814	Scheduled Bodies	92,783
1,275	Deemed Bodies	1,245
8,522	Admitted Bodies	8,365
111,419		**118,602**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £000		2018/19 £000
215	Contributions returned to employees	260
35	Payments in lieu of graduated pension contributions	6
1,485	Group transfers out to other schemes	0
6,068	Individual transfers out to other schemes	7,576
7,803		**7,842**

11. MANAGEMENT EXPENSES

2017/18 £000		2018/19 £000
1,225	Administrative costs	1,216
7,492	Investment management expenses	7,656
649	Oversight and governance costs	678
9,366		**9,550**

a) Investment management expenses

2017/18 £000		2018/19 £000
5,968	Management fees	6,219
218	Performance related fees	-
142	Custody fees	143
1,164	Transaction costs	1,294
7,492		**7,656**

Management fees paid to investment managers are broadly based on the market value of the investments under their management. Estimated performance fees are accrued to the year in which out-performance was earned. No performance fees were payable in 2018/19.

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

12. INVESTMENT INCOME

2017/18 £000		2018/19 £000
(18,760)	Income from equities	(22,569)
(739)	Pooled investments – unit trusts and other managed funds	(2,664)
(1,864)	Pooled property investments	(1,907)
(44)	Interest on cash deposits	(92)
(21,407)		**(27,232)**

a) Other income

2017/18 £000		2018/19 £000
(1)	Miscellaneous income	(4)
(1)		**(4)**

13. OTHER FUND ACCOUNT DISCLOSURES

a) Taxes on income

2017/18 £000		2018/19 £000
90	Withholding tax - equities	21
90		**21**

b) Wales Pension Partnership

2017/18 £000		2018/19 £000
	WPP oversight and governance costs	
72	Set up costs	40
-	Host Authority costs	20
-	Operator and other services fees	45
	WPP investment management expenses	
-	Fund manager fees	160
72		**265**

Included in the management expenses in Note 11 is the cost of our involvement in the Wales Pension Partnership (WPP) collective investment pooling arrangement. The Fund incurs costs for its 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, together with the prospect of improved investment performance. 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 21.

Investment management expenses and fees payable to Link Asset Services for 2018/19 are the latest available estimates as at the time of producing the annual report.

14. INVESTMENTS

Value at 31.03.18 bid price £000		Value at 31.03.19 bid price £000
	Investment assets	
510,076	Equities	433,228
2,181,429	Pooled investments	2,396,290
71,374	Pooled property investments	73,717
19,099	Cash deposits	16,364
3,162	Investment income due	3,983
2,785,140	**Total investment assets**	**2,923,582**
-	**Total investment liabilities**	**-**
2,785,140	**Net investment assets**	**2,923,582**

a) Reconciliation of movements in investments

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

Period 2018/19	Market Value 31 March 2018 £000	Purchases during the year £000	Sales during the year £000	Change in value during the year £000	Market Value 31 March 2019 £000
Equities	**510,076**	227,462	(299,081)	(5,229)	**433,228**
Pooled investments	**2,181,429**	437,687	(343,385)	120,559	**2,396,290**
Pooled property investments	**71,374**			2,343	**73,717**
	2,762,879	665,149	(642,466)	117,673	**2,903,235**
Other investment balances:					
• Cash deposits	**19,099**			4,935	**16,364**
• Investment income due	**3,162**				**3,983**
Net investment assets	**2,785,140**	**665,149**	**(642,466)**	**122,608**	**2,923,582**

Period 2017/18	Market Value 31 March 2017 £000	Purchases during the year £000	Sales during the year £000	Change in value during the year £000	Market Value 31 March 2018 £000
Equities	**497,996**	205,891	(184,708)	(9,103)	**510,076**
Pooled investments	**2,116,552**	57,393	(72,058)	79,542	**2,181,429**
Pooled property investments	**66,456**			4,918	**71,374**
	2,681,004	263,284	(256,766)	75,357	**2,762,879**
Other investment balances:					
• Cash deposits	**15,387**			3,283	**19,099**
• Investment income due	**3,803**				**3,162**
Net investment assets	**2,700,194**			**78,640**	**2,785,140**

b) Analysis of investments

Major Asset Class	31 March 2018 £000 Bid Price		%	31 March 2019 £000 Bid Price		%
Segregated Equities						
UK						
Quoted	510,076	**510,076**	**18.3**	433,228	**433,228**	**14.8**
Unquoted Pooled funds – additional analysis						
UK						
Unit Trusts						
Gilt Fund	227,184			235,705		
Corporate Bond Fund	144,001	**371,185**	**13.3**	144,091	**379,796**	**13.0**
Unitised Insurance Policies						
UK Equities Fund	322,983	**322,983**	**11.6**	343,751	**343,751**	**11.8**
Other Managed Funds						
M&G Limited Partnership	1,753	**1,753**	**0.1**	1,285	**1,285**	**-**
Overseas						
Unit Trusts						
Gilt Fund	6,304			7,290		
Corporate Bond Fund	94,412			104,341		
Global Equities Fund	120,990	**221,706**	**8.0**	-	**111,631**	**3.8**
Unitised Insurance Policies						
European Equities Fund	412,537			422,747		
US Equities Fund	241,893			285,085		
GARS Fund	64,372			64,612		
Global Targeted Returns Fund	20,069	**738,871**	**26.5**	64,701	**837,145**	**28.7**
Other Managed Funds						
Global Equities Fund	212,348			359,817		
Far East Equities Fund	194,118			199,252		
Emerging Markets Equities Fund	84,082			81,411		
Multi Asset Income Fund	34,383	**524,931**	**18.8**	82,202	**722,682**	**24.7**
Unquoted Pooled Property Investments						
UK Property Unit Trusts	71,374	**71,374**	**2.6**	73,717	**73,717**	**2.5**
Cash Deposits						
Liquidity Funds/Cash at Fund Managers	5,407			8,592		
Cash on deposit with financial institutions	13,692	**19,099**	**0.7**	7,772	**16,364**	**0.6**
Other Investment Balances and Liabilities						
Other investment balances	3,162	**3,162**	**0.1**	3,983	**3,983**	**0.1**
Net Investment Assets	**2,785,140**	**2,785,140**	**100**	**2,923,582**	**2,923,582**	**100**

During 2018/19, the Fund transitioned assets with BlackRock to the Wales Pension Partnership.

c) Investments analysed by fund manager

Fund Manager	% of total fund	Market value 31 March 2019 £000	Portfolios held (actively managed unless otherwise stated)
Russell Investments (WPP)	12.3	359,817	Global Opportunities Fund
Assets held by Wales Pension Partnership	**12.3**	**359,817**	
BlackRock	11.8	343,751	UK Equities Fund (Passive)
	9.8	285,085	US Equities Fund (Passive)
	14.5	422,747	European Equities Fund
	8.3	242,995	Gilt Fund
	8.5	248,432	Corporate Bond Fund
	-	1	Cash
Assets held by BlackRock	**52.9**	**1,543,011**	
Lazard Asset Management	14.8	433,228	UK Equities (Segregated)
	0.3	8,591	Cash
	0.1	3,496	Other Investment Balances
Assets held by Lazard	**15.2**	**445,315**	
Invesco Perpetual	6.8	199,252	Far East Equities Fund
	2.2	64,701	Global Targeted Returns Fund
Assets held by Invesco	**9.0**	**263,953**	
Fidelity Worldwide Investment	2.8	81,411	Emerging Markets Equities Fund
	2.8	82,202	Multi Asset Income Fund
Assets held by Fidelity	**5.6**	**163,613**	
Aberdeen Standard Investments	2.2	64,612	GARS Fund
Assets held by ASI	**2.2**	**64,612**	
Investment Fund Managers	**97.2**	**2,840,321**	
Torfaen County Borough Council	2.5	73,717	UK Property Unit Trusts
	0.3	7,772	Cash
	-	1,285	M&G Limited Partnership
	-	487	Other Investment Balances
Administering Authority	**2.8**	**83,261**	
Net Investment Assets	**100**	**2,923,582**	

d) Summary of investments analysed by fund manager

Market Value 31 March 2018 £000	%		Market Value 31 March 2019 £000	%
		Investments managed by the Wales Pension Partnership:		
-	-	Wales Pension Partnership	359,817	12.3
-	**-**		**359,817**	**12.3**
		Investments managed outside of the Wales Pension Partnership:		
1,782,652	64.0	BlackRock	1,543,011	52.9
518,041	18.6	Lazard Asset Management	445,315	15.2
214,187	7.7	Invesco Perpetual	263,953	9.0
118,465	4.2	Fidelity Worldwide Investment	163,613	5.6
64,372	2.3	Aberdeen Standard Investments	64,612	2.2
87,423	3.2	Administering Authority	83,261	2.8
2,785,140	**100**		**2,563,765**	**87.7**
2,785,140	**100**	**Net Investment Assets**	**2,923,582**	**100**

The following investments represent more than 5% of the net assets of the Fund. All of these companies are registered in the United Kingdom.

Security	Market value 31 March 2018 £000	% of total fund	Market value 31 March 2019 £000	% of total fund
Blackrock Ascent Life European Equity Fund	412,537	14.8	422,747	14.5
WPP Global Opportunities Fund	-	-	359,817	12.3
Blackrock Aquila Life UK Equity Fund	322,983	11.6	343,751	11.8
Blackrock Aquila Life US Equity Fund	241,893	8.7	285,085	9.8
Blackrock Core Plus UK Corporate Bond Fund	238,413	8.6	248,432	8.5
Blackrock Core Plus UK Gilt Fund	233,488	8.4	242,995	8.3
Blackrock BSF Systematic Global Equity Fund	212,348	7.6	-	-
Invesco Perpetual Asian Equity Fund	194,118	7.0	199,252	6.8

15. FAIR VALUE – BASIS OF VALUATION

Investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. There has been no change in the valuation techniques used during the year.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Pooled investments – unit trusts, unitised insurance policies, other managed funds and property funds	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 required
Limited Liability Partnerships	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 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Limited Liability Partnerships	5.9%	1,285	1,361	1,209
Total		**1,285**	**1,361**	**1,209**

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.

Values at 31 March 2019	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	433,228	2,468,722	1,285	2,903,235
Net investment assets	**433,228**	**2,468,722**	**1,285**	**2,903,235**

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

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 2018 £000	Transfers into level 3 £000	Transfers out of level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31 March 2019 £000
Limited Liability Partnerships	1,753	-	-	-	-	(468)	-	1,285
	1,753	**-**	**-**	**-**	**-**	**(468)**	**-**	**1,285**

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.

Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
31 March 2018				31 March 2019		
£000	£000	£000		£000	£000	£000
			Financial Assets			
510,076			Equities	433,228		
2,181,429			Pooled investments	2,396,290		
71,374			Pooled property investments	73,717		
	19,099		Cash		16,364	
3,162			Other investment balances	3,983		
	11,236		Debtors		11,453	
2,766,041	**30,335**					
			Financial liabilities			
		(5,556)	Creditors			(6,059)
2,766,041	**30,335**	**(5,556)**	**Total**	**2,907,218**	**27,817**	**(6,059)**

b) Net gains and losses on financial instruments

31 March 2018		31 March 2019
£000		£000
	Financial assets	
75,357	Fair value through profit and loss	117,673
-	Amortised cost – realised gains on derecognition of assets	-
3,283	Amortised cost – unrealised gains	4,935
	Financial liabilities	
-	Fair value through profit and loss	-
-	Amortised cost – realised losses on derecognition of assets	-
	Amortised cost – unrealised losses	
78,640	**Total**	**122,608**

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

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. promised benefits payable to members). Investment risk management across the Fund is therefore aimed to minimise the risk of an overall reduction in the value of the Fund whilst maximising the opportunity for gains across the whole portfolio.

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

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

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

Overall procedures for managing risk

The principle powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 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.

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 £138.4 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 statutory Investment Strategy Statement (ISS) requires each fund to implement its own prudential framework, 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.

Other price risk

Other 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.

Other price risk – sensitivity analysis

In consultation with its actuary, the Fund has determined that the following movements in market price risk are reasonably possible for 2019/20, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same:

Asset type	Potential 1 Year market movement (+/-)
UK equities	16.63%
Overseas equities	16.92%
Government bonds	9.72%
Corporate bonds	10.50%
Pooled property investments	14.33%
Alternative investments (absolute return)	12.52%
Alternative investments (direct lending)	5.90%
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	5.7%
Overseas Equities	5.8%
Government bonds (medium term)	1.0%
Corporate bonds (medium term)	1.9%
Property investments	4.3%

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 2018/19 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 2019 £000	Potential market movements %	Potential value on increase £000	Potential value on decrease £000
Cash and cash equivalents	**16,364**	**0.55**	**16,454**	**16,274**
Investment portfolio assets:				
UK equities	776,979	16.63	906,191	647,767
Overseas equities	1,348,312	16.92	1,576,446	1,120,178
Government bonds	242,995	9.72	266,614	219,376
Corporate bonds	248,432	10.50	274,517	222,347
Pooled property investments	73,717	14.33	84,281	63,153
Alternative investments (absolute return)	211,515	12.52	237,997	185,033
Alternative investments (direct lending)	1,285	5.90	1,361	1,209
Investment income due	3,983	0.55	4,005	3,961
Total assets available to pay benefits	**2,923,582**	**11.90***	**3,271,488**	**2,575,676**

Asset type	Value as at 31 March 2018 £000	Potential market movements %	Potential value on increase £000	Potential value on decrease £000
Cash and cash equivalents	**19,099**	**0.55**	**19,204**	**18,994**
Investment portfolio assets:				
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
Total assets available to pay benefits	**2,785,140**	**12.55***	**3,134,675**	**2,435,605**

*Total Fund volatility figure

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent 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 2018 £000s	As at 31 March 2019 £000s
Cash on deposit with financial institutions	13,692	7,772
Cash held by Managers	5,407	8,592
Bonds	471,901	491,427
Total	**491,000**	**507,791**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points (1%) from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Changes in interest rates do not impact on the value of cash held but they will affect the interest income received on those balances. An increase in the interest rates results in a decrease in the value of the bond portfolio and vice versa.

Exposure to interest rate risk	**Value as at 31 March 2019** £000	**Impact of increase +1%** £000	**Impact of decrease -1%** £000
Cash on deposit with financial institutions	7,772	7,772	7,772
Cash held by Managers	8,592	8,592	8,592
Government Bonds	242,995	240,565	245,425
Corporate Bonds	248,432	245,948	250,916
Total change in assets available	**507,791**	**502,877**	**512,705**

Exposure to interest rate risk	**Value as at 31 March 2018** £000	**Impact of increase +1%** £000	**Impact of decrease -1%** £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	231,153	235,823
Corporate Bonds	238,413	236,029	240,797
Total change in assets available	**491,000**	**486,281**	**495,719**

Exposure to interest rate risk	**Interest receivable 2018/19** £000	**Value on increase +1%** £000	**Value on decrease -1%** £000
Cash on deposit with financial institutions	89	90	88
Cash held by Managers	3	3	3
Bonds	-	-	-
Total change in assets available	**92**	**93**	**91**

Exposure to interest rate risk	**Interest receivable 2017/18** £000	**Value on increase +1%** £000	**Value on decrease -1%** £000
Cash on deposit with financial institutions	44	44	44
Cash held by Managers	-	-	-
Bonds	-	-	-
Total change in assets available	**44**	**44**	**44**

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.

Assets exposed to currency risk	**Value as at 31 March 2018** £000	**Value as at 31 March 2019** £000
Overseas equities	1,265,968	1,348,312
Overseas government bonds	6,304	7,290
Overseas corporate bonds	94,412	104,341
Global Absolute Return Strategies Fund (GARS)	64,372	64,612
Global Targeted Returns Fund	20,069	64,701
Multi Asset Income Fund	34,383	82,202
Total overseas assets	**1,485,508**	**1,671,458**

Currency risk sensitivity analysis

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	**Asset value as at 31 March 2019** £000	**Potential change in exchange rates** %	**Value on increase** £000	**Value on decrease** £000
Overseas equities	1,348,312	10.0	1,483,143	1,213,480
Overseas government bonds	7,290	10.0	8,019	6,561
Overseas corporate bonds	104,341	10.0	114,776	93,907
GARS Fund	64,612	10.0	71,073	58,151
Global Targeted Returns Fund	64,701	10.0	71,171	58,231
Multi Asset Income Fund	82,202	10.0	90,422	73,982
Total change in assets available	**1,671,458**	**10.0**	**1,838,604**	**1,504,312**

Assets exposed to currency risk	**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
Total change in assets available	**1,485,508**	**10.0**	**1,634,059**	**1,336,957**

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

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

The Pension Fund's Cash Management Strategy 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. The Fund has experienced no defaults from fund managers, brokers or bank accounts. The Fund's cash holding under its treasury management arrangements at 31 March 2019 was £7.8 million (31 March 2018 was £13.7 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	**Rating (Fitch Long Term)** (at 31 March 2019)	**Balances as at 31 March 2018** £000	**Balances as at 31 March 2019** £000
Money Market Funds			
Standard Life	AAA	7,000	
Invesco Perpetual	AAA	6,800	6,000
Blackrock Inst	AAA		1,000
Bank Current Accounts			
TCBC Pension Fund		(108)	772
Total		**13,692**	**7,772**

c) Liquidity risk

Liquidity risk is the risk that the 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 Fund monitors its cash flow to ensure that cash is available when needed.

The 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 2019, 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 broadly positive with contributions (including dividend income) 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 broadly 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 2018/19 financial year.

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

The key risk is that the pension fund will need to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The pension fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

18. FUNDING ARRANGEMENTS

18.1 In line with the Local Government Pension Scheme Regulations 2013, the Fund's Actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation is due to take place as at 31 March 2019.

The key elements of the funding policy are:

1) to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
2) to ensure that employer contribution rates are as stable as possible
3) to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and
5) 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.

18.3 The Fund, through its governance arrangements and discussion with the appointed Actuary, produce a Funding Strategy Statement which focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities.

18.4 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.

18.5 The contribution rates for the unitary councils with effect from 1 April 2018 are as follows:-

Blaenau Gwent	Greater of a) 18.1% plus £1,819,000or b) 22.5%
Caerphilly	Greater of a) 18.4% plus £2,195,000 or b) 20.5%
Monmouth	Greater of a) 18.6% plus £1,514,000 or b) 22.1%
Newport	Greater of a) 18.1% plus £1,316,000 or b) 20.2%
Torfaen	Greater of a) 18.3% plus £2,110,000 or b) 22.2%

Full details of the contribution rates payable can be found in the 2016 Actuarial Valuation report and the Funding Strategy Statement in the 'Funding' section on the Fund's website: http://gwentpensionfund.co.uk/greater-gwent-torfaen-pension-fund/about-us/forms-and-publications

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.

18.6 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.

18.7 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.

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

	Funding Target	Normal Cost
	2016	**2016**
Discount Rate	4.0%	4.0%
Pensionable pay increases	2.6%	2.6%
Pension increases	2.1%	2.1%

18.9 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 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Discount Rate (Return on investments)	2.7% per annum	2.4% per annum
Rate of Salary increases	2.8% per annum	2.9% per annum
Rate of increase in pensions	2.4% per annum	2.5% 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 decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.7% p.a.). The expected long-term rate of CPI inflation (RPI-CPI gap) has increased slightly during the year, resulting in the assumption for pension increases also increasing slightly (2.5% p.a. verses 2.4% p.a.).

19.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2018 was estimated as £4,569 million. The impact of the changes in financial assumptions between 31 March 2018 and 31 March 2019 as described above is to increase the liabilities by £420 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 a further £197 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 2019 is therefore £5,186 million.

20. CURRENT ASSETS

31 March 2018 £000		31 March 2019 £000
	Short term debtors	
2,090	Contributions due - employees	2,076
6,731	Contributions due - employers	7,296
8,821		9,372
1,190	Group transfer value receivable (joiners)	794
965	Early retirement costs	857
249	Fund manager fee rebates	260
11	Sundry debtors	170
11,236		**11,453**

a) Funding of early retirement costs

During 2018/19, the cost to the Pension Fund of early retirements arising in that year was £2,491,872, 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 2018/19 and in future financial years for early retirements known as at 31 March 2019. These are summarised in the following table:-

	£000	£000
Instalments falling due in 2018/19 in respect of:		
Prior Years	373	
Current Year	2,343	2,716
Balances b/f 1 April 2018	965	
Payments Received in 2018/19	(2,575)	
Reversal of previous instalments due	(897)	(2,507)
Instalments due for 2019/20	300	
Instalments due for 2020/21 & later years	348	648
2018/19 Debtor		**857**

The instalments due for 2018/19 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2018/19.

21. CURRENT LIABILITIES

31 March 2018 £000		31 March 2019 £000
(3,550)	Benefits payable	(3,926)
(1,788)	Investment management expenses	(1,716)
(10)	Transfer value payable (leavers)	-
(208)	Sundry creditors	(417)
(5,556)		**(6,059)**

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.

Market value 31 March 2018 £000		Market value 31 March 2019 £000
	AVC provider	
4,077	Standard Life	3,938
1,892	Clerical Medical	1,616
894	Equitable Life	517
6,863		**6,071**

Contributions received 31 March 2018 £000		Contributions received 31 March 2019 £000
	AVC provider	
436	Standard Life	472
213	Clerical Medical	196
2	Equitable Life	1
651		**669**

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 2018 £000		31 March 2019 £000
	Payments on behalf of:-	
9	Central Government	9
8,723	Other Local Authorities	8,741
25	Other entities and individuals	22
8,757		**8,772**

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 60). Related parties to the Pension Fund include all employers within the Fund and members of the Torfaen Pensions Committee. There have been no financial transactions between any of these parties and the Fund apart from the routine contributions and benefits payable that are defined by statutory regulation and are therefore not within the direct control of any party.

24.2 **Governance**

Four members of the Pension Fund Committee are active members of the Pension Fund, with one of those members also being in receipt of a pension. Each member of the Pension Committee is required to declare their interest 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 2017/18 and 2018/19 is set out below for their time apportioned to the Fund.

31 March 2018 £000		31 March 2019 £000
48	Short-term benefits	52
644	Post-employment benefits	118
7	Termination Benefits	0
699		**170**

25. CONTINGENT LIABILITIES

Public Sector Pension Schemes are required to operate a cost cap mechanism that measures the overall cost and any change in the cost of the pension scheme. For the LGPS there are two mechanisms used; one used by HM Treasury and for the LGPS a bespoke cost cap process designed to capture more specifically the impact of LGPS reforms. When calculated, if the cost cap breaches the Government determined parameters (2% of pay in either direction), then changes to scheme design including benefits and/or employee contributions have to be made to bring it back to within the target cost range. The LGPS's separate cost management process is completed prior to finalisation of the HMT public sector cost cap calculation. This is carried out by the Scheme Advisory Board (SAB).

Results published early in 2019 showed the cost cap had been breached and as a result some draft proposals emerged on potential changes (improvements) to the scheme. These improvements would have increased the overall cost of the scheme by about ½% of payroll and hence form a potential liability on the Fund since it was planned that such improvements would be operative from 1st April 2019.

However, within days of these proposals being published, the Government announced a pause in the Cost Cap process for public service pension schemes in light of its application to appeal the McCloud judgement to the Supreme Court. These changes have therefore been put on hold, pending the outcome of the McCloud case.

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes. In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS.

At the end of June 2019, the Government's request to appeal was rejected and so transitional arrangements in place in 2014/15 when public sector pension schemes changed from final salary to career average will need to be revised with the requirement to offer more members enhanced benefits (increased levels of protection) thereby overcoming the age challenge in the McCloud case. The Government Actuaries Department (GAD) has advised that the estimated cost is in the region of 3.2% of active member liabilities based on a given set of actuarial assumptions.

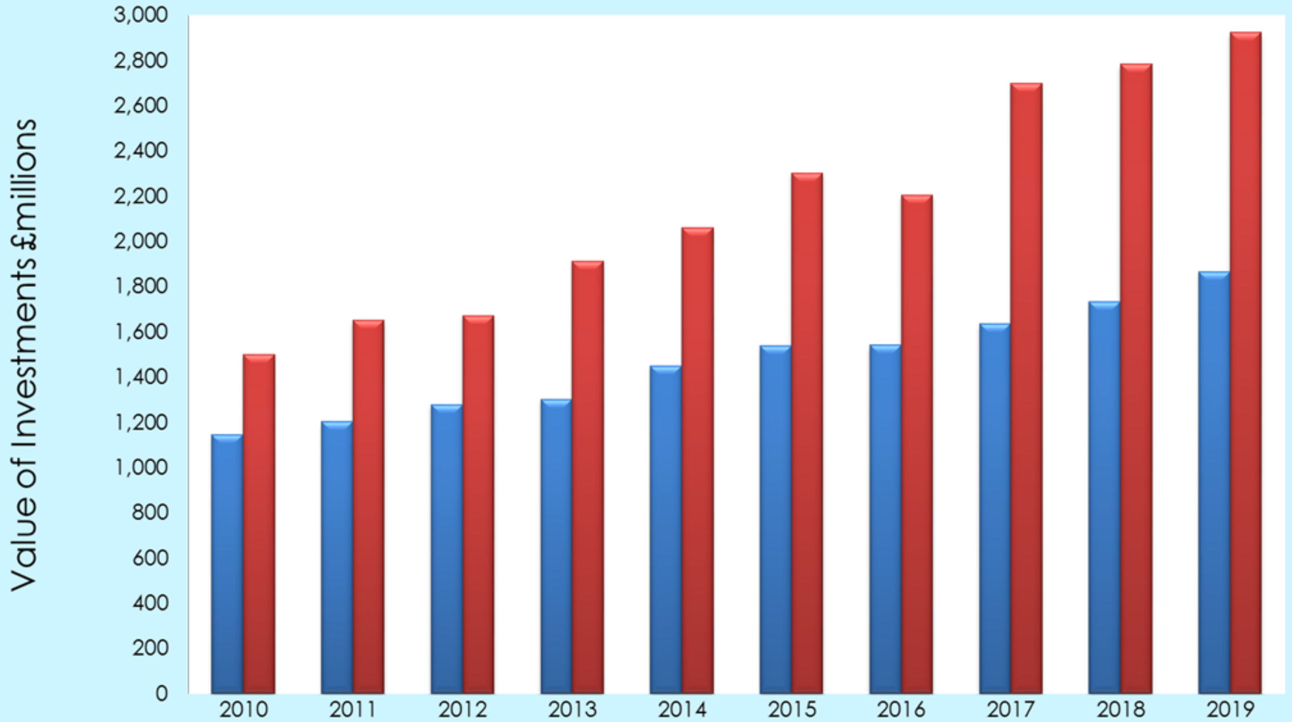
The Fund Actuary has adjusted the GAD estimate to better reflect the Pension Funds local assumptions, particularly salary increases and withdrawal rates and has thus updated the IAS26 assessment for the Fund in order to include an allowance for the McCloud ruling i.e. an estimate of the potential increase in past services benefits arising from this case. This has increased the figure for liabilities by £17.7million or 0.34%. No adjustment has been reflected in the present value of promised future retirement benefits in Note 19 to reflect this.

The McCloud case will impact the 2019 valuation. If any material changes cannot be accounted for within the timescales of the 2019 valuation, then depending on their extent and cost, an interim valuation may also be required to reset employer contribution certificates.

Appendices

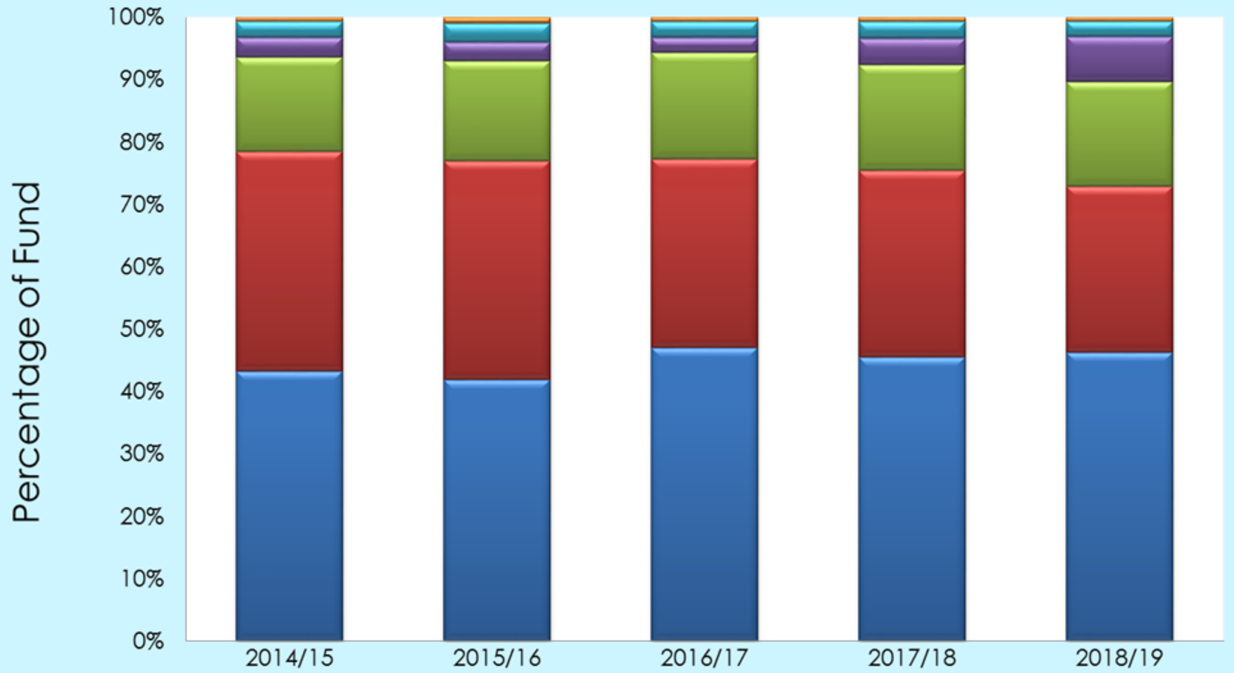
Appendix 1

Ten Year Valuation of Investments



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Book Cost	1,145	1,204	1,280	1,303	1,449	1,539	1,541	1,636	1,735	1,868
Market Value	1,502	1,650	1,673	1,915	2,062	2,303	2,206	2,700	2,785	2,924

Tactical Asset Allocation



	2014/15	2015/16	2016/17	2017/18	2018/19
Cash	1	1	1	1	1
Property Unit Trust	3	3	3	3	3
Alternatives	3	3	2	4	7
Fixed Interest	15	16	17	17	17
UK Equities	35	35	30	30	27
Overseas Equities	43	42	47	45	46

Ten Year Summary of Statistics

Revenue Account	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	2018/19 £000
Contributions	113,894	110,304	101,652	101,028	109,666	104,655	103,450	107,205	114,118	118,047
Transfer Values Received	12,603	7,265	7,824	4,942	7,946	5,318	9,277	5,573	5,704	6,280
Investment Income and Other	16,043	17,099	21,448	20,659	26,095	20,800	17,772	19,283	21,318	27,215
Total Income	**142,540**	**134,668**	**130,924**	**126,629**	**143,707**	**130,773**	**130,499**	**132,061**	**141,140**	**151,542**
Pensions and Other Benefits	76,190	81,491	84,538	88,856	95,175	102,179	109,229	108,881	111,419	118,602
Transfer Values Paid	8,875	8,512	22,965	6,303	3,177	49,692	9,377	7,138	7,553	7,576
Refunds of Contributions	15	5	2	5	8	149	239	248	250	266
Fees and Other	4,667	5,810	6,032	6,642	8,709	9,403	9,205	8,933	9,366	9,550
Total Expenditure	**89,747**	**95,818**	**113,537**	**101,806**	**107,069**	**161,423**	**128,050**	**125,200**	**128,588**	**135,994**
Net Surplus for Year	52,793	38,850	17,387	24,823	36,638	(30,650)	2,449	6,861	12,552	15,548
Net Profit/(Loss) on Sale of Investments	(20,183)	20,631	40,620	14,317	119,325	75,822	30,736	99,726	80,416	117,298
Unrealised Change in Market Value	430,997	89,520	(52,621)	218,496	1,124	150,940	(99,529)	387,623	(1,776)	5,310
Increase/(Decrease) in the Fund	**463,607**	**149,001**	**5,386**	**257,636**	**157,087**	**196,112**	**(66,344)**	**494,210**	**91,192**	**138,156**

Investment Assets	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Book Cost at 31 March	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	1,867,699
Market Value at 31 March	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	2,923,582

Membership										
Contributors	21,667	21,196	20,550	20,582	22,435	22,880	23,607	22,788	23,991	23,932
Pensioners	13,091	13,576	13,910	14,296	14,820	15,204	15,816	16,388	16,848	17,533
Number of Preserved Benefits	10,577	11,378	12,189	13,180	14,359	15,153	16,058	18,068	18,455	18,749
Total	**45,335**	**46,150**	**46,649**	**48,058**	**51,614**	**53,237**	**55,481**	**57,244**	**59,294**	**60,214**