



**TORFAEN
COUNTY
BOROUGH**



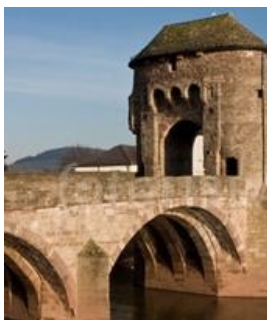
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Greater Gwent (Torfaen) Pension Fund Annual Report & Accounts

Cronfa Bensiwn Gwent Fwyaf (Torfaen) Adroddiad Blynyddol a Chyfrifon

2020/2021

Nigel Aurelius, CPFA
Assistant Chief Executive Resources



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Statement of Responsibilities for the Pension Fund Accounts

The Council's responsibilities as Administering Authority

The Council is required to:

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

The Assistant Chief Executive (Resources)'s Responsibilities

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

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

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

The Assistant Chief Executive (Resources) has also:

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

The Assistant Chief Executive (Resources)'s Certificate

I certify that the Pension Fund accounts give a true and fair view of the financial position of the Greater Gwent (Torfaen) Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2021.

Signed by:



Nigel Aurelius, CPFA
Assistant Chief Executive (Resources)
Date: 15 November 2021

CHAIRS INTRODUCTION



Chair of Pensions Committee
Councillor Glyn Caron

Welcome to the Annual Report and Accounts of the Greater Gwent (Torfaen) Pension Fund. It is my pleasure to present, on behalf of my fellow Members, the Annual Report for 2020/21.

The Pensions Committee is responsible for overseeing the management of the Pension Fund, including investment management and administration. Whilst the subject of Pensions may not always be the hot topic of conversation, for those working in the area of pensions, it is ever changing, increasingly challenging and never ceases to provide surprise and uncertainty. This year has been no exception.

During the year the value of the Pension Fund increased by £830 million to £3,550 million, an increase of over 30.5% on the prior year position. Despite the volatility affecting markets globally during early 2020 a prolonged period of recovery has occurred, and the Fund's investment strategy has helped to support such a significant retrieval during the year.

Away from investments this year followed 2019/20 with further proposed changes to the scheme, with the most noticeable change being the Restriction on Public Sector Exit Payment Regulations 2020 which proposed an "Exit Cap" on public sector workers exit payments. Despite only coming into effect in November 2020 and within a matter of months a dramatic revocation of this directive was announced in February 2021, with HMT suggesting that "unintended consequences" could occur as a result of the proposed changes. Thankfully a good outcome for many hard working and devoted public sector workers who would have undoubtedly been adversely affected by these changes.

Wales Pension Partnership (WPP)

The Pension Fund continues to work very closely with the WPP to gain efficiencies through pooling of assets. During the year the Pension Fund transitioned £558M of assets into the WPP's Fixed Income offerings, resulting in a year-end pooling allocation of 42% of total assets, with a further 23% pooled through passive holdings under the All Wales Pooling Collaboration, a collective arrangement pre-dating the pooling initiative.

In addition to the transition of assets, the Pension Fund has also significantly contributed towards the WPP's enhanced governance framework during the year. This has involved the development of Conflicts of Interest, Climate Risk, Risk Register, Training and Proxy Voting Policies. In addition, there has been a much greater focus on Responsible Investment and the ongoing development of long-term Private Market's solutions to meet the needs of the eight constituent Pension Fund's. The forward-looking work plan for both the Fund and the WPP during 2021/22 will be to further establish these two key areas of priority on behalf of all scheme members.

Pooling

The Wales Pension Partnership (WPP) is the all Wales collective investment pooling arrangement which implements the investment requirements of all 8 LGPS funds in Wales, once each has determined its own investment strategy. The aim is to achieve economies of scale in investment management fees together with improved investment returns. This year has seen further work and the Fund has placed its UK equities into the Pooling arrangements.

Extensive work has also been taking place to develop a range of policies that support the wider governance arrangements of the Pool. The Torfaen Fund has to date already placed almost half of its assets within collaborative arrangements with further moves planned for next year in respect of Fixed Interest and other equity classes.

Responsible Investing

I mentioned last year that the Fund is undertaking more work than ever in the area of Responsible Investing and 2019/20 has seen further tangible progress towards our goal to reduce carbon emissions across the Fund by moving all our passive, index tracker funds (almost £600m) into a low carbon product designed to reduce emissions on that part of the Fund by 80%. Notwithstanding this step, and conscious of the demands of climate change, the Fund continues to look at ways it can further reduce its carbon footprint which remains an ongoing priority into the future.

In what has been a challenging year for everyone my sincere condolences go to the family and friends of the late Councillor Raymond Williams who sadly passed away in December 2020. Councillor Williams was a serving member of the Pensions Committee and a well-respected colleague with a long-standing commitment to public service. Alongside my colleagues on the Committee I would like to express my gratitude to his services over many years.

CHIEF OFFICERS INTRODUCTION



Assistant Chief Executive (Resources)

Nigel Aurelius

This year has been very challenging both from an organisational and service delivery standpoint. Despite the level of unprecedented challenge and uncertainty that has resulted from the pandemic, I am pleased to confirm that there has not been a significant impact on the ability to deliver both the administration and management services of the Fund during the last year. The Administration team has worked even more diligently to ensure the administering of the benefits of members and the payments to our pensioners has continued to be timely and accurate, despite operating within a home working environment.

Membership numbers have again increased during the year by 1.3% to 61,942 as at 31st March 2021, with active (+1.4%), deferred (+0.3%) and pensioner (+2.3%) membership all increasing. The net effect is that active contributors remain at about 40% of the total fund membership with the balance split fairly equally between pensioners and deferred benefits. The 'My Pension Online' (MPO) service now has 24,830 (40.1%) of scheme members signed up with 53% of active members using the service. 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 'MPO'. The Team has also continued to work closely with employers, to encourage the use of Employer Self Service and the roll-out of the new "I-Connect" online service will continue throughout 2021/22. Further details of the administration key performance indicators can be found within the Administration Report.

Following the immediate shock of the pandemic on global markets and the Fund's own investments, a period of sustained recovery has followed resulting in strong investment returns during the year. My role, as well as that of my colleagues tasked with managing the Fund on behalf of its stakeholders, is to manage the short-term with focus on the long-term. The value of the Fund as at 31st March 2021 was £3,550m, an increase of £830m since 1st April 2020 and over £1,884m increase in the last 10 years. Further details of investment performance can be found within the Investment Policy and Performance Report.

Despite the challenges of the last year the Fund has continued to work positively in collaboration with colleagues across Wales serving the continued development of the Wales Pension Partnership (WPP). A further £558m of assets were transitioned during the period taking the total level of assets within the pool, including passive equity allocations developed under a pre-pooling collaboration, to 64.6%. Aside from investment pooling the WPP has further established its governance framework in collaboration with the support of all funds and specialist advisors. A variety of policy documents have now been published and training sessions offered for all stakeholders, together with the establishment and ongoing support of Robeco, the WPP's appointed Voting and Engagement advisor. Further details of the work of the WPP during the period can be found within the Asset Pooling section of the annual report.

I would like to thank all the staff of the Pension Fund for their commitment and hard work towards delivering a quality service, especially during the current challenging environment. Staff continue to place the scheme members first and this is clearly valued by our members, together with those charged with the governance of the Fund.

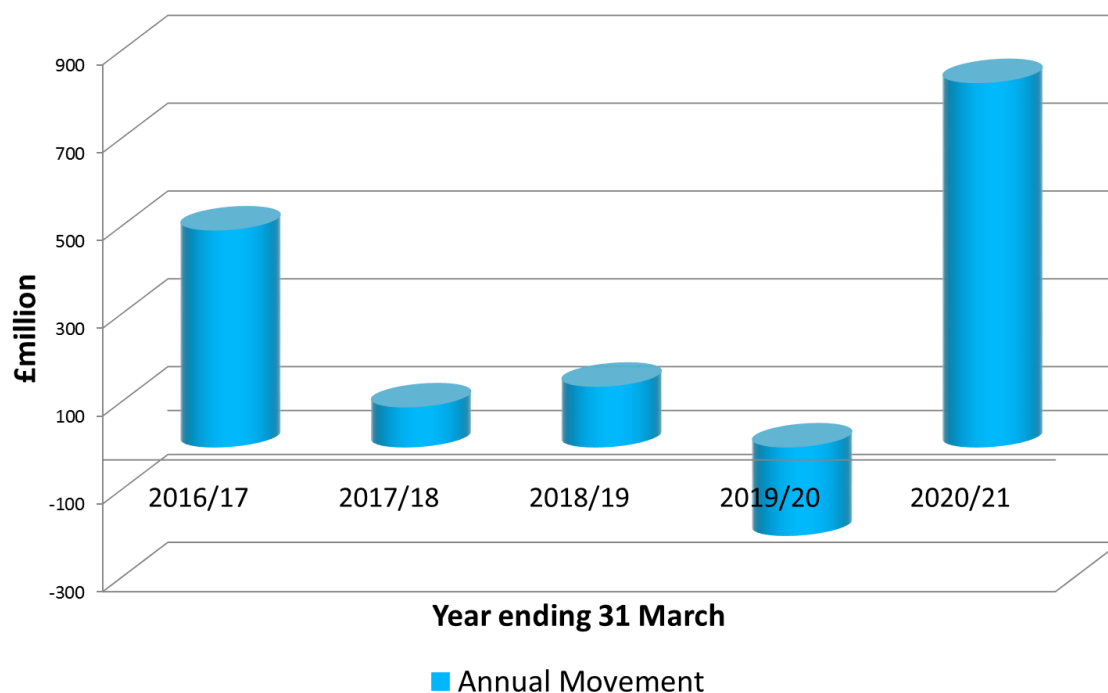
Pension Fund Annual Report 2020/2021

OVERVIEW

1. 2020/2021 in summary

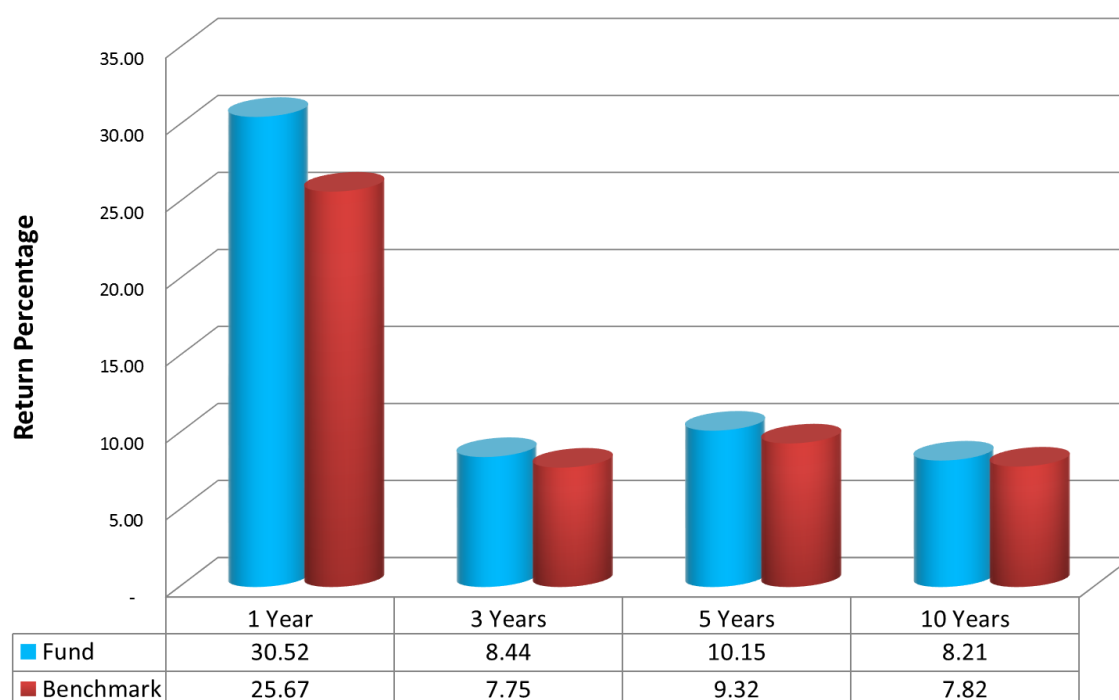
Total Scheme Members	Net Assets of the Fund	Payments to Pensioners	Total Contributions
61,942	£3.6bn	£123.182m	£130.301m

Annual Movement in the Net Assets of the Fund

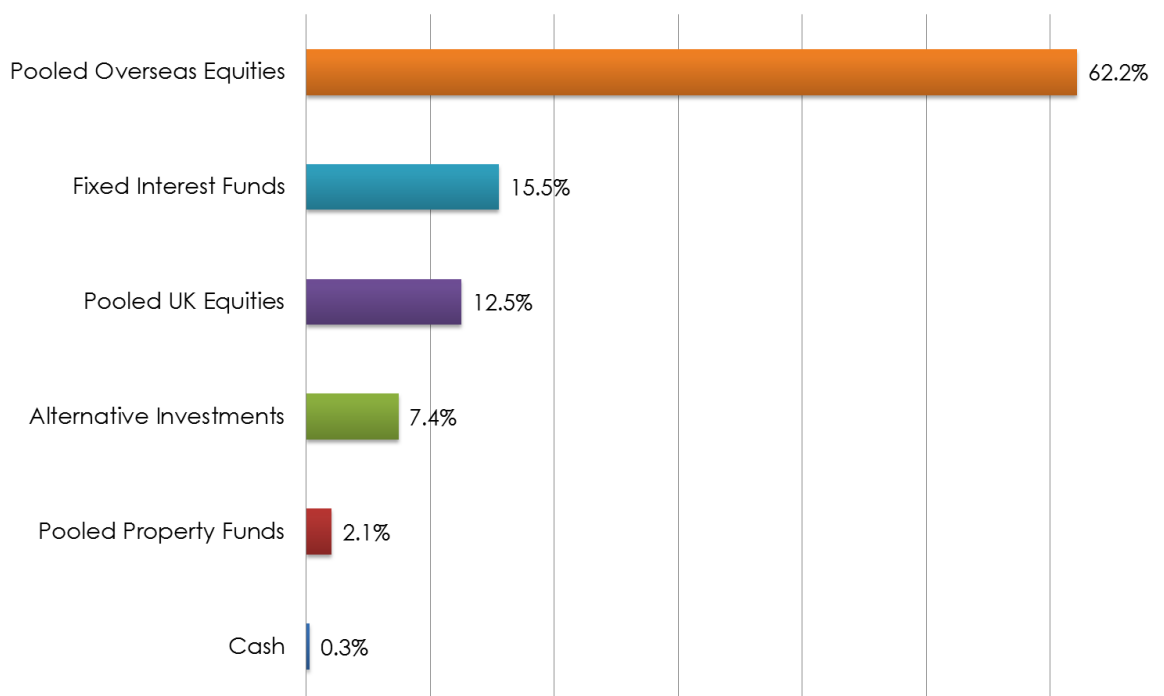


2. Investments

Periodic Performance to 31 March 2021



Portfolio distribution as at 31 March 2021



3. Membership

Contributing Members

24,539

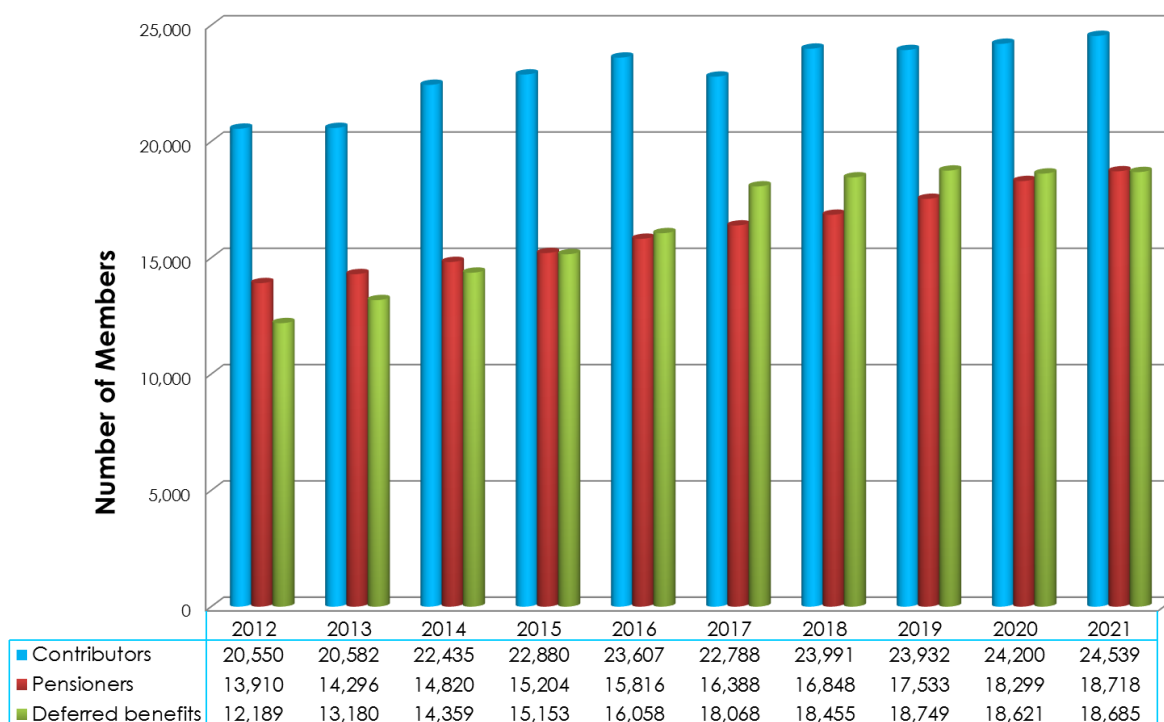
Members in Receipt of Pension

18,718

Members with Deferred Benefits

18,685

Split of Fund Membership as at 31 March



GOVERNANCE AND FINANCIAL PERFORMANCE REPORT

1. Scheme management and advisors

- 1.1 The Greater Gwent (Torfaen) Pension Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) (The 2013 Regulations), 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 67.
- 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 2021 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 Ron Burnett
Councillor Veronica Crick JP
Councillor Jon Horlor
Councillor Peter Jones

Administrator

Nigel Aurelius, Assistant Chief Executive (Resources)



Investments Manager

Alexander Bull
Tel: 01495 742626
E-mail: alexander.bull@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)

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
Aberdeen Standard Investments
Russell Investments
Gresham House

Fund Custodian

Northern Trust

Wales Pension Partnership FCA Authorised Operator

Link Fund Solutions

Wales Pension Partnership Investment Management and Advisory Services

Russell Investments
Hymans Robertson (Oversight & Governance Advisor)
Burgess Salmon (Legal Advisor)
Robeco Institutional Asset Management B.V. (Voting & Engagement Provider)

Fund Auditor as at 31 March 2021

Audit Wales

Bankers to the Fund as at 31 March 2021

Lloyds Bank
1 Gwent Square
New Town Centre
Cwmbran, South Wales
NP44 1XN

AVC Providers to the Fund as at 31 March 2021

Standard Life
Clerical Medical
Utmost Life and Pensions (previously 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 2020/2021 and was agreed by the Pension Board on 21 April 2021.

2.1 Background

The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting, as required under the Act, 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 2020-21 were:

Independent Chair

Ian Coleman

Employee Representatives

Bob Campbell

Ian Reese

Anthea Wellington

John Wright

Vacancy

Employer Representatives

Steve Harford

Rhian Hayden

Clive Rogers

Meirion Rushworth

Jane Waters

The Pension Board met online on two occasions during 2020-21; 28 October 2020 and 27 January 2021. The meetings which were originally scheduled for April and July 2020 did not take place due to issues arising from the Covid-19 pandemic.

The Board has operated throughout 2020-21 with only four employee representatives. Efforts to recruit a fifth employee representative have proved unsuccessful to date.

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 2015-2020

- 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 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.
- During 2018-19, the Pension Board reviewed the governance and administration arrangements of the WPP as these began to impact on the Greater Gwent (Torfaen) Pension Fund.
- The Pension Board also reviewed progress on the following specific issues during 2018-19:
 - Implementation of the General Data Protection Regulations on 25 May 2018
 - Implementation of the LGPS Amendment Regulations on 19 April 2018
 - Agreement to a set of Responsible Investment Principles as recommended by the Responsible Investment Working Group
- Specific developments at the WPP during 2018-19 which were kept under review by the Pension Board included:
 - Approval from the FCA for the operation of an Authorised Contractual Scheme
 - Launching of the Global Equities sub funds in January 2019
 - Arrangements for the appointment of Transition Managers
- The following issues were reviewed and monitored by the Pension Board during 2019-20:
 - The actuarial valuation as at 31 March 2019
 - Contributing and responding to the Scheme Advisory Board Good Governance Report
 - Reviewing TPR Engagement Report on Governance and Administration Risks
 - Agreement of a Responsible Investment Policy Framework as recommended by the Responsible Investment Working Group

- Agreement of a Climate Change Policy as recommended by the Responsible Investment Working Group
 - Appointment of Northern Trust as the custodian
 - Agreement of a revised strategic asset allocation
 - Agreement of a revised Funding Strategy Statement from 1 April 2020
 - Developments with the implementation of the cost cap and the effect of the McCloud judgement
 - Implementation of quarterly reviews of the risk register
 - Continuing work to reconcile Guaranteed Minimum Pensions
- Developments at the WPP during 2019-20 which were kept under review by the Pension Board included:
 - Introduction of new reporting arrangements
 - Agreement of a Responsible Investment Policy
 - Agreement of a Communications Plan
 - Establishment of regular meetings of the Pension Board Chairs with the WPP
 - Agreement to stock lending
 - Launch of the UK equities fund in September 2019
 - Appointment of Hymans Robertson as Governance and Oversight Advisor in December 2019

2.4 A Review of Activity in 2020-2021

- During 2020-21, 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 as the Administering Authority, the Pensions Committee and the Wales Pension Partnership as they impact on the Greater Gwent (Torfaen) Pension Fund.
- The following list represents a brief summary of some of the issues which the Pension Board has reviewed and monitored during the year:
 - A quarterly review of the Pension Fund Risk Register, making suggestions for change as appropriate
 - Agreement of a revised Investment Strategy Statement from July 2020
 - Agreement of an implementation plan to increase alternative investments
 - Increasing commitment of resources to understanding and managing the risks presented by cyber security, including participation in training events
 - Developments with the attempts by the Government to restrict exit payments
 - Agreement of a revised Communications Policy
 - Agreement of a revised Governance Policy and Compliance Statement
 - Developments with the resolution of issues raised by the McCloud judgement
 - The challenges to service delivery arising from the Covid-19 pandemic
- Developments at the WPP during the year which have been kept under review by the Pension Board have included
 - Agreement of a Conflicts of Interest and Procedure Policy
 - Agreement of a Climate Risk Policy
 - Agreement of a Risk Policy and Risk Register
 - Launch of the fixed income fund in July 2020
 - Agreement of a revised Responsible Investment Policy
 - Agreement of a revised Communications Policy

- In 2020-21 there was a 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 having spent approximately £9,400 during 2020/21. The primary reason for this was due to the lockdown environment where the majority of training events were held online at reduced costs and expenses incurred as a result of travel were minimal. 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 all of the scheme documents which are required to be in place and is satisfied with the content, and arrangements for review, of all documents. However, the Board has requested that work be undertaken to produce a Pensions Administration Strategy.

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. The Pension Board on 26 February 2020 agreed that the risk register should be reviewed quarterly.

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, continues to be a key interest for the Pension Board. The Board will be looking to continue to make a relevant and positive contribution to support the development of the WPP.

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. The Chair of the Pensions Committee is usually in attendance at meetings of the Pension Board.

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 by, and comments from, the Board on any issues.

2.6 Training

Each member of the Pension Board has to have a working knowledge and understanding of the operation of the LGPS. During 2020-21, Pension Board members were encouraged to attend a wide range of online seminars and training courses, and webinars which have been offered during the Covid-19 pandemic. In addition, the WPP has arranged for the provision of a number of online training sessions.

During 2020/21 the Fund participated in an assessment of training needs in the form of the Hymans Robertson National Knowledge Assessment (NKA). The NKA invited responses from all members of the Fund, who were one of eighteen to participate. The outcome of this assessment determined some areas of knowledge weakness which the Board have sought to address through the development of a training policy and plan of future events directly relevant to targeting these weaknesses. Training 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 my colleagues on the Pension Board, who have volunteered their time and energy to serve on the Board, for their ongoing support.

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

3. Member meeting attendance 2020/2021

	Pensions Committee meetings attended	Pension Board meetings attended
Number of meetings during the year 2020/21	4	2
Pensions Committee		
Councillor Glyn Caron (Chair)	4	
Councillor Huw Bevan	2	
Councillor Ron Burnett (from January 2021)	-	
Councillor Veronica Crick JP	4	
Councillor Jon Horlor	3	
Councillor Peter Jones	3	
The Late Councillor Raymond Williams (to December 2020)	2	
<p>The Pension Board met online on two occasions during 2020-21. The meetings which were originally scheduled for April and July 2020 did not take place due to issues arising from the Covid-19 pandemic.</p>		
Local Pension Board		
Ian Coleman (Chair)		2
Employee Representatives		
Bob Campbell		2
Ian Reese		2
Anthea Wellington		2
John Wright		2
Employer Representatives		
Steve Harford		2
Rhian Hayden		1
Clive Rogers		-
Meirion Rushworth		1
Jane Waters		2

4. Risk management

4.1 Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For the Greater Gwent (Torfaen) Pension Fund, those risks will come from a range of sources including the long-term investment strategy, the funding position, investment performance, benefits administration, membership changes, communications and financial systems. Broadly, these can be categorised as either Finance or Investment, Administration or Governance risks. The availability of good information is essential in order to ensure the complete and effective identification of significant risks and the ability to monitor them accordingly.

4.2 The Fund's approach to risk is informed by the Pensions Committee, the Local Pension Board, its advisors and officers of the Fund. 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 which is monitored and reviewed on a regular basis by both the Pensions Committee and Local Pension Board. Risks are assessed in terms of their potential impact should they occur and in terms of the likelihood of them occurring. Each risk is initially scored assuming that no mitigating controls exist and is then scored again on the basis of the mitigation in place. The full Risk Register is publicly available via Committee agenda papers.

4.3 A summary of the Funds most significant risks which have been considered during the 2020/21 financial year are shown in the table below.

Risk Area / Type	Risk Detail	Risk Mitigation Measures
Finance & Investment Risk		
Inappropriate long-term investment strategy	The risk that the Fund fails to meet funding objectives in the long-term to fund pension liabilities	<ul style="list-style-type: none"> • Regular investment performance monitoring • At least a triennial review of the Fund's funding strategy
Failure to deliver investment returns in line with actuarial expectations	The risk that the Fund's funding level could deteriorate in the short-term, increasing the pressure on employer contribution rates to fund pension liabilities	<ul style="list-style-type: none"> • The Fund ensures it continues to invest in a broad and diverse mix of assets across a range of global markets • The Fund challenges the actuarial assumptions recommended to the Fund to ensure it remains prudent in the long-term

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<p>Investment pooling with the Wales Pension Partnership (WPP) fails to deliver long-term investment returns</p>	<p>The WPP fails to deliver long-term investment returns above and beyond what the Fund could have been expected to return had pooling not occurred</p>	<ul style="list-style-type: none"> • Substantial governance arrangements have been established and implemented • The WPP and Constituent Authorities take appropriate professional advice on all investment considerations • Performance monitoring arrangements in place to monitor all portfolios
<p>Inadequate consideration of Environmental, Social and Governance (ESG) risks within the Fund's investments</p>	<p>Failure to incorporate ESG into investment processes as well as broader responsible investment considerations could result in public pressure, political criticism as well as the risk of substantial financial losses as a result of holding stranded assets in the various portfolios</p>	<ul style="list-style-type: none"> • The Fund's Responsible Investment Working Group (RIWG) meets quarterly and considers a broad range of ESG issues and makes recommendations to Pensions Committee accordingly • The Fund has established and developed its own Responsible Investment (RI) and Climate Change policies in response to emerging challenges. The revised Strategic Asset Allocation has ESG focus embedded in its approach • All future investment opportunities will have an integral ESG assessment that will need to satisfy the Fund's Responsible Investment policy framework in order for recommendations to progress to implementation stage
<p>Insufficient Fund cash flow to meet liabilities as they fall due.</p>	<p>Negative cash flow would require the use of investment income to the cost of providing pension benefits rather than being reinvested. There is also the risk of forced selling of assets to meet short-term cash flow needs, potentially in adverse market conditions</p>	<ul style="list-style-type: none"> • The Fund regularly manages its cash flow position and maintains up to 1% of total investment assets as a cash holding in-house • The cash strategy is regularly considered during any investment strategy review as well as during the triennial valuation process
<p>Failure to adhere to the requirement of the LGPS regulations and comply with the Myners' Investment Principles</p>	<p>Risk of inefficient management of the Fund by the Administering Authority</p>	<ul style="list-style-type: none"> • Compliance is regularly considered and subject to annual review in the Investment Strategy Statement (ISS) and Governance and Compliance Statement

Pension Fund Annual Report 2020/2021

Risk Area / Type	Risk Detail	Risk Mitigation Measures
<u>Administration Risk</u>		
A serious cyberattack, leading to disruption to the discharge of Administering Authority functions	Compromised data as a result of a cyberattack could lead to its potential misuse, resulting in a number of consequences including a reputational risk to the Fund	<ul style="list-style-type: none"> Business continuity measures in place and frequently reviewed by ICT The Council operates a firewall which protects the Council's IT facilities from external threats, and provides a control mechanism for access to internal Council data A full disaster recovery plan and a Business Continuity plan for Altair pension administration software is in place and tested/updated annually Provision of training for officers and members on at least an annual basis, utilising both internal and external training providers to ensure a comprehensive overview
Failure to pay pensions and lump sums on time.	<p>Financial difficulty for members who are financially dependent on the Fund to pay benefits</p> <p>Reputational risk to the Pension Fund</p> <p>Risk of additional costs to employers where interest is payable as a result of late payment</p>	<ul style="list-style-type: none"> A robust and thorough workflow procedure is in place and carried out within Altair pensions administration system Independent checking at senior officer level to mitigate the risk of error The Fund participates in a National Fraud Initiative The Fund uses Western Union to carry out annual checks on overseas pensioners External/Internal Audit of the process at least annually
Failure to issue Annual Benefit Statements (ABS) to active and deferred members by 31 July	<p>Reputational risk to the Fund and complaints from members</p> <p>Breach of the regulations resulting in possible fines</p>	<ul style="list-style-type: none"> Robust procedure in place to ensure deadline can be met on an annual basis Frequent cleansing of membership data to ensure accuracy in the production and distribution of Annual Benefit Statements (ABS) per the regulations and timescales
Non-compliance with legislation and failure to correctly implement new legislation and regulations	<p>Reputational risk to the Fund</p> <p>Inaccurate calculations resulting in incorrect benefit payments being made</p>	<ul style="list-style-type: none"> In-house training provided to staff External training/guidance issued in respect of regulation change

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Risk Area / Type	Risk Detail	Risk Mitigation Measures
Fund Governance Risk		
Lack of relevant expertise, knowledge, skills and resources at officer and member level in relation to administering the LGPS	<p>Insufficient knowledge, experience, skills or resource to ensure statutory responsibilities are met</p> <p>Failure to provide an acceptable level of service to stakeholders</p>	<ul style="list-style-type: none"> Established governance structure operating within the Council's constitutional process A scheme of delegation to allow senior officer decision-making if required Scrutiny, compliance and monitoring of Fund activity carried out quarterly by the Local Pension Board The Fund subscribes to CIPFA knowledge and skills framework and promotes training opportunities for all of its members and officers The appointment and use of appropriately qualified external advisors Subject to both internal and external audit testing of Fund operations on at least an annual basis
Failure to comply with LGPS and other statutory regulations in terms of policy and reform	<p>Incorrect benefit payments being made</p> <p>Failure to comply with governance standards or HMRC tax requirements</p> <p>Poor customer feedback leading to a loss in confidence of the service provided</p> <p>Increased risk of IDPR and Ombudsman appeals and TPR fines, all of which would have a reputational impact on the Fund</p>	<ul style="list-style-type: none"> External training received by the LGA and other providers In-house training provided for all staff Fund officers remain abreast of emerging sector developments through attendance at conferences, networking, circulars and bulletins

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<p>Insufficient resource to input effectively input into the development of the Wales Pension Partnership (WPP)</p>	<p>The management of the Pension Fund is adversely affected due to key officers concentrating on the pooling proposal, resulting in under-performance and failure to meet statutory obligations</p> <p>The pooling arrangement is not fit for purpose, resulting in increased risk exposure and criticism of Central Government in their pursuit for well established, functional asset pools</p>	<ul style="list-style-type: none"> The Wales Pension Partnership (WPP) is now well established with external advisors appointed to oversee and manage the infrastructure and intellectual capital required to ensure this partnership is a success A robust governance framework has been established and is fully operational Representation of the Pension Fund at WPP level is shared amongst the Head of Pensions/Investment Manager, the Deputy Chief Executive of Resources and the Chair of Pensions Committee as a JGC member The establishment of focused sub-groups assists in the granular consideration of important issues which feeds back into the broader Officer Working group (OWG) work plan
<p>The use of "Third Party" external services within Fund operations</p> <p>Also referred to as "Other Provider Risk" within Funding Strategy Statements</p>	<p>Fund assets at risk through:</p> <ul style="list-style-type: none"> a) Poor external investment management experience b) Security of Assets c) Inappropriate advice 	<p>This risk relates to areas such as transitions, custody and stock lending. The Fund measures and manages these Other Provider risks through:</p> <ul style="list-style-type: none"> A process of regular scrutiny and engagement 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

4.4 Control assurance reports

The Fund has outsourced the following functions of the Fund:

- a. Investment management;
- b. Custodianship of assets;

As these functions are outsourced, the Fund is exposed to third party risk and this is also acknowledged on the Risk Register (risk FG5). A range of investment managers are used to diversify manager risk. To mitigate the risks regarding investment management and custodianship of assets, the Fund obtains independent internal controls assurance reports from the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal controls highlighted by the assurance reports are reviewed. The Council's internal audit service undertakes planned programmes of audits of all Fund operations on a phased basis and the review of internal controls assurance reports is within the scope of these audits.

4.5 Internal Audit commentary

The role, operation and standards placed on the function of Internal Audit is clearly articulated within the Council's Annual Governance Statement. This also extends to the role of the Audit Committee who oversee the annual audit work plan of both the Council and the Fund.

During 2020/21, the Fund was subject to two internal audit reviews in accordance with the annual work plan which covered both the Governance and Investment functions where it was awarded "Substantial" and "Full" assurance respectively. At the conclusion of these audits, the Head of Internal Audit prepared an audit report with recommendations (where applicable) for management review and comment. These reports were then presented to Local Pension Board for their consideration and comment, with management providing subsequent updates on progress against recommendations issued.

A copy of these reports can be found within the publicly available minutes:

[Agenda for Local Pension Board on Wednesday, 28th October, 2020, 10.00 am | Torfaen County Borough Council](#) / [Agenda for Local Pension Board on Wednesday, 21st July, 2021, 10.00 am | Torfaen County Borough Council](#)

5. Financial performance

5.1 The fund account (page 65) indicates an increase in the net assets of the scheme available to fund benefits during the year of £829.6 million for 2020/21, this follows a £201.4 million decrease in the Fund in 2019/20. The summarised figures are shown in the table below.

Fund Account 31 March 2021	
	£000
Employees/employers contributions	(130,301)
Payments and refunds	123,360
Net transfer values	1,687
Net return on investments	(835,454)
Other income/expenses	11,069
Net (increase)/decrease in the Fund	(829,639)

5.2 Contributions to the Fund from members and employers have increased by £0.511 million from £129.790 million in 2019/20 to £130.301 million in 2020/21.

5.3 Transfer values received have fallen from £7.939 million in 2019/20 to £3.932 million in 2020/21 and transfer values paid out have fallen from £6.512 million to £5.619 million.

5.4 Payments to beneficiaries in respect of pensions have remained constant at £123.185 million in 2019/20 compared to £123.182 million in 2020/21.

5.5 The net assets of the Fund are represented primarily by investments (see below and page 81). Appendix 1 (page 101) illustrates the movement in the market value of investments since March 2011 and the tactical asset allocation.

Net Assets 31 March 2021		
	£000	£000
Fixed Income	551,496	
UK equities	444,185	
Overseas equities	2,206,863	
Pooled property funds	73,305	
Alternative investments	264,057	
Cash	9,540	
Other investment balances	590	3,550,036
Investment liabilities		-
Current assets		12,572
Current liabilities		(5,368)
Net Assets of the Fund		3,557,240

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 2020/21. 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.

	2020/2021
Percentage of contributions received on or before the due date	99.94

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

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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 2021. Contributions and payments are based on current expectations, the administration and investment management expenses are based on current budgets, and the net investment income and change in market value are based on the long-term forecast returns for each asset class.

Fund Account	2019/2020		2020/2021		2021/2022
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Income					
Contributions receivable	(117,160)	(129,790)	(128,226)	(130,301)	(132,965)
Transfers in	(6,785)	(7,939)	(7,365)	(3,932)	(3,412)
Other income	-	(9)	-	-	-
Investment income	(9,756)	(18,884)	(5,813)	(31,446)	(23,560)
Total income to the Fund	(133,701)	(156,622)	(141,404)	(165,679)	(159,937)
Spending					
Benefits payable	120,311	123,185	125,758	123,182	123,336
Transfers out and refunds	7,083	6,784	7,021	5,797	6,189
Management expenses	10,384	10,503	11,116	11,069	11,326
Total spending for the Fund	137,778	140,472	143,895	140,048	140,851
Profit and losses on disposal of investments and changes in the market value of investments	(143,541)	217,525	(114,323)	(804,008)	(176,194)
Net (increase)/decrease in the Fund	(139,464)	201,375	(111,832)	(829,639)	(195,280)

Net Asset Statement	2019/2020		2020/2021		2021/2022
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	2,247,781	1,871,455	1,970,326	2,651,048	2,804,809
Government bonds	245,425	269,530	268,991	274,208	276,950
Corporate bonds	253,152	255,386	258,706	277,288	281,725
Property	76,887	73,020	75,649	73,305	76,384
Cash and alternatives	243,878	250,239	260,281	274,187	286,362
Net Investment Assets	3,067,123	2,719,630	2,833,953	3,550,036	3,726,230

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The 2021/2022 forecasts for total investment assets are based on the actual assets under management for 31st March 2021, 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 2021
Cash	2.0%
UK Equities	5.8%
Overseas Equities	5.8%
Government Bonds (medium term)	1.0%
Corporate Bonds (medium term)	1.6%
Property	4.2%
Alternatives - Absolute Return	4.5%
Alternatives - Private Credit	4.9%
Alternatives - Infrastructure	5.9%

5.8 Operational expenses

	2019/2020		2020/2021		2021/2022
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Administrative costs	1,348	1,280	1,386	1,433	1,479
Investment management expenses	7,807	8,176	8,600	8,608	8,638
Oversight and governance costs	1,229	1,047	1,131	1,028	1,210
Total	10,384	10,503	11,117	11,069	11,327

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. A key aim of the pooling arrangement is to generate economies of scale, making savings in terms of external fund management fees paid as a result of collective investment. 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.

Management fees paid to investment managers are broadly based on the market value of the investments under their management and are therefore forecast to increase in line with the assets.

ASSET POOLING

1. Investment Pooling – Wales Pension Partnership (WPP)

- 1.1 The Greater Gwent (Torfaen) Pension Fund is a participating scheme in the All Wales investment pool formally referred to as the Wales Pension Partnership (WPP). The existing governance structure and basis by which it operates was set out in the July 2016 submission to government and has since been extensively considered and developed. The final arrangements are set out in an Inter Authority Agreement approved by both the Pensions Committee and Administering Authority's full Council in March 2017. The objective is to deliver:
- material cost savings for participating funds whilst improving or maintaining investment performance after fees
 - robust governance arrangements to oversee the Pool's activities
 - a framework by which Constituent Authorities explore the benefits of wider pooling solutions and potential direct investments
 - an investment framework that achieves the best outcomes for key stakeholders; the Constituent Authorities
- 1.2 The WPP pool consists of all eight LGPS funds in Wales including Dyfed (Host Authority), Swansea, Cardiff, Greater Gwent (Torfaen), Rhondda Cynon Taff, Powys, Clwyd and Gwynedd. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for all Welsh funds which pre-dated the Government's pooling initiative.
- 1.3 Collective investment management offers the potential for savings in investment fees, opportunities to broaden investment portfolios through the increased variety of investment offerings, enhanced voting and engagement activity as well as access to shared knowledge and best practice. Whilst the WPP is responsible for providing collaborative investment solutions, each constituent authority remains responsible for setting their own investment strategy.

2. Governance Arrangements of the WPP

- 2.1 The WPP operates via a joint governance committee represented by all eight constituent authorities who have collectively appointed Link Fund Solutions as the FCA authorised operator. Link operate a collective investment vehicle for the sole use of the partnership. In addition, Link have appointed Russell Investments to provide the necessary investment management and advisory services, Northern Trust act as the pool Custodian and Depositary, Hymans Robertson as oversight and governance advisor, Burges Salmon provide legal services and Robeco Asset Management provide voting and engagement services.
- 2.2 The arrangements in place between Constituent Authorities and the pool are as follows:
- The Joint Governance Committee (JGC) is made up of one representative from each of the eight Constituent Authorities, typically the Pension Committee chair or deputy
 - The Officer Working Group (OWG) is made up of senior officer representation from each of the eight Constituent Authorities
- 2.3 Further details of the role and involvement of administering authorities in the governance arrangements of the pool, as well as a suite of WPP policies, can be found on the WPP website:

<https://www.walespensionpartnership.org/>

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3. Pooling Progress

- 3.1 As at 31 March 2021, the WPP had pooled the following investments on behalf of all of its Constituent Authorities and the respective Assets under Management are set out below:

Pooled Investments	2019/20 £000	2020/21 £000
LF Wales PP Global Opportunities Equity Fund	1,880,213	2,624,492
LF Wales PP UK Opportunities Equity Fund	479,817	674,460
LF Wales PP Global Growth Equity Fund	1,960,548	3,061,322
LF Wales PP Global Fixed Income Funds*	-	3,039,903
Total Pooled Investments	4,320,578	9,400,177

*consists of five underlying sub-funds

- 3.2 These actively managed funds are held in an Authorised Contractual Scheme (ACS) structure operated by Link Fund Solutions and managed by Russell investments, with a number of underlying managers appointed to manage each sub-fund.
- 3.3 **Investment assets split between Greater Gwent (Torfaen) Fund and the Wales Pension Partnership (WPP)** (summary of note 14b)

Investments managed by the Wales Pension Partnership (WPP)	31 March 2021 £000	%
LF Wales PP Global Opportunities Equity Fund	485,367	13.7
LF Wales PP UK Opportunities Equity Fund	444,185	12.5
LF Wales PP Global Credit Fund	277,288	7.8
LF Wales PP Global Government Bond Fund	274,208	7.7
Investments managed outside of the Wales Pension Partnership (WPP)	2,068,988	58.3
Total Investment Assets	3,550,036	100

The above table is an extract taken from note 14b to the accounts and summarises the Greater Gwent (Torfaen) Pension Fund's investment in the WPP, together with confirmation of the assets that remain under the direct oversight of the Fund. During the year, £558,218,258 of the Fund's assets transitioned to the WPP portfolios and the table above shows the assets currently managed by the pool as at 31 March 2021.

4. Pooling Costs

- 4.1 Details of the costs incurred by the Greater Gwent (Torfaen) Pension Fund in respect of the WPP are detailed below.

2019/20 £000	WPP Oversight and Governance Costs	2020/21 £000
159	Operator Fees	291
52	Set Up and Oversight Costs	66
21	Host Authority Costs	19
83	Transition Costs (direct)	3
315		379

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4.2 The table reflects the costs incurred in financial year 2019/20 and 2020/21. As the WPP operates a joint governance committee (JGC), with the investment infrastructure and management appointment processes operated by Link Fund Solutions and Russell Investments, the majority of WPP costs incurred by the Fund are in respect of oversight and governance. A summary of the individual categories can be found below:

- I. **Operator Fees** - these are the fees charged by Link Fund Solutions as the FCA authorised Operator to establish and run a collective investment vehicle. The increase in fees between 2019/20 and 2020/21 reflects the increased value of Assets under Management (AuM) during the period, together with the inclusion of new Fixed Income sub-funds.
- II. **Set up and Oversight Costs** - the Fund incurs costs for its share of the professional fees incurred in the setting up and governance of the WPP.
- III. **Host Authority Costs** - Carmarthenshire County Council acts as the Host Authority for the WPP, providing administrative and secretarial support to the JGC and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales.
- IV. **Transition Costs (direct)** - transition management is the process of managing changes to a pension fund's portfolio of assets and the Fund incurs costs when a transition manager is appointed to transfer assets into the WPP.

5. Transition Costs

5.1 In addition to the WPP Oversight and Governance costs shown above, the Fund also incurred costs associated with the transition of its assets into the pool. To date, the Fund has undergone four transitions in relation to the WPP, one in 2018/19 (Global equities), one in 2019/20 (UK equities) and a further two transitions in 2020/21 (Fixed Income). The costs of transitioning assets can be categorised in terms of direct and indirect costs. Direct costs include the costs of appointing a transition manager to undertake the transition, together with any additional oversight of this process undertaken from a research and reflection perspective. Indirect costs are both the explicit and implicit costs of transition, such as commissions, spread and impact and opportunity costs known as Implementation Shortfall. Aside from the direct transition costs disclosed above, the majority of transition costs are directly attributable to the assets undergoing the transition and are therefore deducted from their value, as opposed to a direct charge to the Fund.

	2020/21		Cumulative (2018/19 - 2020/21) £000
	Direct £000	Indirect £000	
Transition Fee	179		262
Tax			767
Other Transition Costs		1,277	7,786
Total Transition Costs	179	1,277	8,815

5.2 All four transitions undertaken to date have involved a number of the eight Welsh LGPS funds and costs have been shared as a proportion of total AUM. The direct and indirect costs included in the table above reflect the proportion attributable to the Greater Gwent (Torfaen) Pension Fund only, with cumulative costs including all four transitions undertaken since inception.

6. Asset Allocation and Performance

6.1 The following table shows how each of the investment mandates have performed during the year, with opening and closing values quoted in thousands of pounds as well as one-year performance included net and gross of fees where available. In addition, the table splits out investments under pooled arrangements with the WPP and those that remain under non-pooled investment arrangements with the Fund's legacy managers as at 31st March 2021.

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Asset Category	Opening Value		Closing Value		1 Year Performance	
	£000	%	£000	%	Gross %	Net %
WPP Managed Investments (Pooled)						
LF Wales PP Global Opportunities Equity Fund	342,702	12.6	485,367	13.7	42.0	41.7
LF Wales PP UK Opportunities Equity Fund	315,993	11.6	444,185	12.5	40.9	40.3
LF Wales PP Global Government Bond Fund*	-	0.0	274,208	7.7	-0.71	-0.81
LF Wales PP Global Credit Fund*	-	0.0	277,288	7.8	0.09	-0.01
Total (Pooled)	658,695	24.2	1,481,048	41.7		
Fund Managed Investments (Non-Pooled)						
BlackRock Ascent Life European Equity Fund (Active)	381,459	14.0	523,783	14.8	N/A	37.31
BlackRock ACS World Low Carbon Tracker Equity Fund (Passive)	590,631	21.7	811,049	22.9	N/A	37.45
Invesco Asian Fund (Active)	167,270	6.2	269,507	7.6	61.93	61.12
Fidelity Institutional Emerging Markets Fund (Active)	73,400	2.7	117,157	3.3	59.5	N/A
Blackrock Government Gilt Fund**	269,530	9.9	-	0.0	N/A	N/A
Blackrock Corporate Bond Fund**	255,386	9.4	-	0.0	N/A	N/A
Standard Life Global Absolute Return Strategies Fund (Active)	65,892	2.4	71,655	2.0	8.7	8.5
Fidelity Multi Asset Income Fund (Active)	100,377	3.7	116,556	3.3	16.6	15.9
Invesco Global Targeted Returns Pension Fund (Active)	65,970	2.4	65,309	1.8	-1.00	-1.61
Invesco Credit Partners (Cayman) II, L.P.***	-	0.0	5,767	0.2	N/A	N/A
Gresham House BSI Infrastructure L.P.***	-	0.0	4,767	0.1	N/A	N/A
M&G UK Companies Financing Funds L.P.	3	0.0	3	0.0	0.00	-0.07
Cash (In-house & with managers)	17,997	0.7	10,130	0.3	0	0
Pooled Property Funds (Active)	73,020	2.7	73,305	2.0	N/A	2.96
Total (Non-Pooled)	2,060,935	75.8	2,068,988	58.3		

* inception to date figures due to part year performance

** part performance not available due to in year transition to WPP

*** performance not available due to nature and timing of mandate

7. Investment Fee Savings / (Costs)

- 7.1 The Greater Gwent (Torfaen) Pension Fund recognises that one of the significant justifications for moving to an LGPS regional pooling environment was to establish scale through combined investment, resulting in fee savings and enhanced asset performance. Whilst we believe this will be the case in the long-term, the Fund experienced cost increases on the first two asset transitions into the pool, with the two more recent transitions undertaken in 2020/21 proving to deliver savings. The Fund has historically been successful in negotiating competitive fees with its investment managers and so many of the cost efficiency benefits that pooling sets out to achieve have already been reflected in prior negotiations.

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7.2 In addition, the Fund recognises the direction of travel and the need to pool all assets in the future. It is mindful of the fact that cost efficiencies are more likely to result from future transitions where the Fund has previously not been as active and so should be better placed to negotiate future savings in these areas. As has proven to be the case in 2020/21, strong outperformance of mandates versus their respective benchmarks will lead to increasing asset valuations needed to meet the cost of pensioner benefits, , offsetting investment management fee cost increases incurred through the initial pooling phase.

7.3 The table below provides a summary of the investment fee savings / (costs) incurred in respect of the assets transitioned to the WPP to date. The table shows an annual fee increase of £0.472m and a cumulative fee increase of £1.594m in respect of the four portfolios under the management of the WPP since inception, as at 31 March 2021.

Investment Fee Savings from Pooling

	Value at 31 March 2021 £000	2020/21 Actual Fee Saving/(Cost) £000	Cumulative Fee Saving/(Cost) £000
Investments managed by the Wales Pension Partnership (WPP):			
LF Wales PP Global Opportunities Equity Fund*	485,367	(366)	(950)
LF Wales PP UK Opportunities Equity Fund*	444,185	(426)	(964)
LF Wales PP Global Credit Fund**	277,288	191	191
LF Wales PP Global Government Bond Fund**	274,208	129	129
		(472)	(1,594)

* Global Equities January 2019, UK Equities September 2019

** Global Government Bond July 2020, Global Credit Fund August 2020 (part year fees)

8. Objectives 2021/22

8.1 Following the launch of a number of sub-funds to date, progress will continue to be made with significant rationalisation of the existing range of mandates. The operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the eight constituent funds and facilitate a significant move of the assets to be pooled.

8.2 In establishing the WPP pool, the focus has been on pooling the most liquid assets, namely equities and fixed income. The next step is to formulate an approach to pooling and managing illiquid assets such as Private Equity, Property, Private Debt/Credit and Infrastructure.

8.3 A high-level transition timetable has been provided below:

Investment Portfolio	Timeline for Launch/Implementation
Tranche 4 – Emerging Markets (Active)	Transition planned Q4 2021
Tranche 5 – Private Market Alternatives	Transition planned 2022-2024
Subsequent Tranches	Asset class and timing to be determined

8.4 In terms of other, non-investment objectives, the WPP hopes to continue to establish its approach as a responsible investor during 2021/22 which will involve oversight and monitoring of its voting policy, the establishment of an engagement framework, Environmental, Social and Governance (ESG) metrics monitoring and reporting output in accordance with the requirements for opt up to UK Stewardship Code and the Taskforce on Climate-Related Financial disclosure (TCFD).

8.5 There will also be a focus on the review and development of additional WPP policies, as well as the provision of timely and relevant training facilitated by the pool for the benefit of its wider stakeholder groups.

Securities Lending

Securities lending commenced in March 2020. Revenue is split on an 85:15 basis between WPP and Northern Trust with all costs for running the securities lending programme taken from Northern Trust's share of the fee split. A minimum of 5% of the nominal quantity of each individual equity holding is held back and a maximum of 25% of total AUM is on loan at any one time. Total revenue of LF Wales Revenue during 2020/21 was £742,416 (gross) / £631,084 (net) with £469,064,784 out on loan as at 31 March 2021. More detailed information can be found in WPP's Annual Return which is published on the WPP website: - <https://www.walespensionpartnership.org/>

9. Pooling Risks

- 9.1 The following risk table identifies two frequently monitored risks from a Fund perspective when managing the arrangements in place through transitioning assets into the WPP. Further details of the risk process in place for the Fund can be located on page 15.

Risk Identified	Potential Consequence	Risk Score Range	Controls/Mitigation
Financial losses experienced during the process of transitioning Fund assets into the Wales Pension Partnership (WPP) pool.	Poorly executed transitions of pension assets could result in high trading costs or loss of Net Asset Value in the short-term.	High	<ul style="list-style-type: none"> The WPP and its constituent authorities take professional and timely advice from its advisors to ensure it is undertaking transition activity within an appropriate market environment. A reconciliation of assets transferred to the pool is undertaken by the investments team following each transition. A detailed report from the appointed transition experts commissioned by the WPP will be produced following each transition to provide added assurance to constituent Funds and their elected members.
Investment pooling with the Wales Pension Partnership (WPP) fails to deliver long-term investment returns.	The WPP fails to deliver long-term investment returns beyond what the Fund would have expected to generate had pooling not occurred. This would result in a longer payback period on the initial investment envisaged, and the likelihood of needing to increase employer contribution rates as a result in order to ensure pension liabilities are fully funded in the future.	High	<ul style="list-style-type: none"> Substantial governance arrangements are in place at both officer (Officer Working Group) and shareholder (Joint Governance Committee) levels. Both the WPP and the constituent authorities take professional external advice on the opportunities for investment through the contractual relationship with Link Fund Solutions and Russell Investment advisors. The WPP, together with constituent authorities, monitor the performance of investments and hold Link and Russell to account as necessary.

- 9.2 Whilst the risk score range attributable to the above is categorised as high, the Fund is comfortable with the level of mitigation in place in which to manage them. The Fund recognises that the process of transitioning assets will continue for a number of years and so this risk will continue to be monitored as appropriate until such time that we feel it can be reduced to an acceptably low level or removed altogether. The risk of the WPP failing to deliver long-term performance remains high as this underpins the justification for pooling collaboration generally. As such, this risk is likely to remain in place for the foreseeable future. However, as the WPP continues to establish itself and the governance arrangements mature it is expected that this level of risk will be reduced to an acceptable level.

INVESTMENT POLICY AND PERFORMANCE REPORT

1. Investment objectives

- 1.1 From an investment perspective, this report reflects on a year of substantial growth for most markets globally with the MSCI All Countries World Index (ACWI) returning +38.94% and the FTSE All Share Index returning +26.71%. All of this despite the draconian actions taken by Governments on a global scale in attempting to contain the coronavirus. Equity valuations have rebounded since March 2020 as if the pandemic wasn't happening. Central Government support has underpinned that recovery despite many economies contracting during the year as a result of lockdown measures imposed. The UK economy contracted by 9.9% in 2020, the largest annual fall ever recorded. In terms of Fixed Income, unprecedented amounts of Central Bank intervention have been observed over the last 12 months since the start of the global pandemic, with historically low (and even negative) interest rates with a period of negative oil prices also occurring due to a substantial reduction in closed-economy demand. World Central Banks including the US Federal Reserve signalled accommodative policies would continue into 2021 to support the recovery and re-opening of economies.
- 1.2 At Fund level, a significant rebound in market performance followed the challenging end to 2019/20 where the Fund returned -14.43%. Performance to the end of June 2020 returned +13.9%, largely eroding prior quarter losses and kicking off the new financial year strongly. This rebound recovery became a recurring theme for the quarters that followed with the Fund reporting a one-year return of +30.52%, significantly ahead of its strategic benchmark return of +25.67%. Though returns have varied considerably between different asset classes, the vast majority returned strong positive performance ahead of respective benchmarks. In terms of equities, the Fund's mandates ranged from +61.03% to +37.31%, with all but one substantially outperforming its respective benchmark. Fixed income assets were subject to transition to the WPP during the year and performance as a result was mixed. Although both mandates outperformed their respective benchmarks, they did return -1.7% and -0.71% respectively. The Fund's exposure to multi-asset funds proved to be a strong diversifier with returns ranging from +15.9% to -1.0%. Assets such as property and cash were flat through the period. Despite the challenges previously noted, the performance that followed during 2020/21 contributed strongly to the longer-term performance of the Fund, with three, five and ten year performance returning +8.44%, +10.15% and +8.21% respectively and all ahead of benchmark. Long-term performance since inception is +6.42% and also ahead of benchmark.
- 1.3 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 that 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.

- 1.4 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 taxpayers, scheduled, resolution and admitted bodies
 - to manage employers' liabilities effectively
 - to ensure that sufficient resources are available to meet all liabilities as they fall due
 - to maximise the returns from investments within reasonable risk parameters
 - to ensure that all statutory payments made from the Pension Fund are at minimal cost to local taxpayers
 - to ensure the Fund has a credible funding plan in place with the aim over the longer term of achieving full funding of all liabilities as they fall due (i.e. 100% funding)
 - to aim for consistent above median investment returns over rolling 3-year periods

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 56). Investment management policy, principles and arrangements are detailed within the Investment Strategy Statement (ISS) (see page 51). 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.

- 1.5 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.
- 1.6 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. During 2019/20, the strategic asset allocation was formally reviewed once again, in accordance with the 2019 triennial valuation findings, and a revised investment strategy was agreed with the long-term strategic direction in mind. The review concluded that, despite a prolonged period of strong investment performance, there was a need to further diversify the portfolio with a revised framework of 56% Equities; 10% Fixed Interest; 34% Alternative Investments.
- 1.7 The Fund continued its journey of pooling its investments with the WPP during 2020/21, successfully transitioning its Fixed Income assets to the WPP in July 2020 in accordance with the transition timetable. As a result of this transition, the Fund terminated its relevant IMA with Blackrock and transferred the proceeds to the WPP. Following advice from officers and advisors the Committee agreed to consciously transition the full extent of its assets to the WPP recognising that this decision would mean that the overall allocation remained overweight the strategic target. However, in recognition of the long-term solutions for the Fund residing within the WPP it was considered advantageous to move 100% of assets at once, benefitting from transition efficiencies and the investment oversight of these assets under two separate mandates within the pool. The overweight fixed income allocations remain a priority area to fund future private market alternatives once available. Further details of the progress made in pooling assets with the WPP, together with performance, costs and savings can be found in the section on Asset Pooling on page 24 of the report.

- 1.8 With the exception of the transition of monies to the WPP, two further investments were made during the year and one adaptation to an existing investment also occurred. In recognition of the ongoing work of the WPP to establish private market alternative solutions and the likely timescales for launch, the Fund proceeded with two investment opportunities of its own during 2020/21, designed to offer moderate exposure to two priority asset classes. In light of this a commitment was made to Gresham House British Strategic Infrastructure Fund (BSIF), an infrastructure fund with a strong focus on renewable and sustainable energy solutions throughout the UK. In addition, a commitment was made to Invesco Credit Partners, a private debt manager with extensive experience of operating within a stressed and distressed credit environment for small to medium size private companies. In addition, and in accordance with the desire to continue to address its climate and responsible investment responsibilities, the Fund made the decision to support the evolution of its existing Blackrock passive fund investment in the World Low Carbon index. Following a period of consultation by Blackrock and active engagement by the Fund and its advisors, a decision was made to transition its full holdings into an evolved index to remove exposure to fossil fuel companies specifically as a result of their failure to meet minimum standards in the form of exclusionary screens. In addition to the carbon reduction benefits that the Fund achieved through this mandate in the prior year, a further carbon emission reduction of 73% versus the MSCI World index was achieved as a result of the Committee supporting this decision, all of which on assets totalling c. 29% of the total Fund. The Fund recognises that this is a further step towards meeting its broader stewardship responsibilities and further details of the work undertaken in the period can be found in the note on Socially Responsible Investment & Corporate Governance on page 53 of the report.
- 1.9 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, Aberdeen Standard Investments and Gresham House.

2. Asset allocation

2.1 During 2019/20, the Pensions Committee undertook a detailed review of the strategic asset allocation as a result of a wider consideration of the Fund's investment strategy. This exercise was considered in parallel with the 2019 triennial valuation, which saw significant improvement in the funding position of the Fund. As a result, a risk-based decision to adjust the strategic asset allocation was taken, in accordance with the long-term investment objective of the Fund, and with the following primary considerations.

- A significant improvement in the funding position of the Fund from 72% in 2016 to 86% in 2019 reduced the need for such high equity exposure in the primary pursuit of investment growth
- An opportunity to streamline equity exposure to reduce the number of portfolios whilst retaining sufficient global exposure, both through active and passive management
- An appetite for reduced volatility whilst improving risk adjusted returns where possible
- Further diversification into alternative investment opportunities in an attempt to reduce risk whilst maintaining or improving investment returns
- A more accommodating asset allocation mix that can take advantage of the opportunities put forward by the Wales Pension Partnership (WPP)

Following an officer recommendation paper that was presented to Pensions Committee in September 2019, the revised strategic asset allocation was approved.

The following table shows the Fund's actual asset allocation to 31 March 2021 against the strategic benchmark that was in place during the period.

Asset Class / Mandate	Approach	Manager	Strategic Allocation (%)	Tactical Allocation 31 March 2021 (%)
UK Equities				
UK Equities	Active	WPP	14.0	12.5
Overseas Equities				
Low Carbon Tracker	Passive	BlackRock	22.0	22.9
Global Equities	Active	WPP	12.0	13.7
European Equities	Active	BlackRock	-	14.8
Asian Equities	Active	Invesco	6.0	7.6
Emerging Markets	Active	Fidelity	2.0	3.3
Fixed Income				
Government Bonds	Active	WPP	5.0	7.7
Corporate Bonds	Active	WPP	5.0	7.8
Alternative Investments				
Multi Asset Fund	Active	Aberdeen Standard		2.0
Multi Asset Fund	Active	Invesco	5.0	1.8
Multi Asset Fund	Active	Fidelity		3.3
Infrastructure Fund	Active	WPP/Gresham House	10.0	0.1
Private Credit Fund	Active	WPP/Invesco Credit Partners/M&G	10.0	0.2
Pooled Property Funds	Active	TCBC	9.0	2.0
Other				
Cash/Accruals	Active	TCBC/Lazard	0.0	0.3
Total			100	100

2.2 The above table shows that variances between strategy and actual allocations are currently mixed, reflecting a period of strategy evolution following the last formal review by the Pensions Committee. The strategy review undertaken by Pensions Committee focused on a reduction in equity allocation in exchange for increased exposure to private market alternatives which the Fund anticipates the material increase in exposure to arise in the form of WPP long-term solutions. Variances are regularly monitored by officers and are reported to the Pensions Committee on a regular basis. The following provides further detail on the actual year-end tactical allocations versus strategic allocations: -

- Equities - The long-term direction of travel is for the Fund to reduce its equity allocations to a target of 56%. Strong market and individual mandate performance during 2020/21 have resulted in a disproportionate increase in equity allocations versus the broader strategy. The European equity allocation is a priority divestment area to support increased exposure to private market alternatives once available. Emerging Market equities in subject to the next tranche of assets due to transition to the WPP in 2022, subject to Pensions Committee approval..
- Global Fixed Income (Bonds) - The long-term strategy of the Fund is to reduce its exposure to Global Fixed Income to a target allocation of 10%. This asset class was subject to transition to the WPP during 2020/21 and the Pensions Committee made a conscious decision to remain overweight its allocation within the WPP, recognising the need to maximise transition efficiencies and retain assets under one Investment Manager. The Fund also retains full flexibility to rebalance its allocation to private market alternatives as they come available on the WPP platform.
- Private Market Alternatives - An area of priority for the Fund, recognising the long-term strategic allocation of 34% having been agreed by the Pensions Committee during the last formal review. The Fund has historically had very minor exposure to alternative asset classes which has been primarily in respect of Property and Multi-Asset investments. The long-term objective is to significantly increase exposure to Private Credit, Infrastructure and Property which the Fund expects to achieve through the WPP offering. The Fund has taken some interim steps to manage strategic allocation risk whilst it waits on the WPP solution through the utilisation of Multi-Asset funds which justifies the moderate overweight position. In addition, following delegated approvals received by the Pensions Committee, the Fund has also pursued two new investments during 2020/21 to gain some moderate exposure to Infrastructure and Private Credit and the relevant Investment Managers have begun drawing down capital accordingly. The Pensions Committee remains cognisant of the nature of private market alternatives and the slower nature of capital drawdown.

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2.3 As at 31 March 2021 the net investment assets of the Fund (measured at bid-price market value) were administered as follows:

Market value 31 March 2021	%	£000	Portfolios held
Investments managed by the Wales Pension Partnership			
Russell Investments	13.7	485,367	Global Opportunities Fund
	12.5	444,185	UK Opportunities Fund
	7.8	277,288	Global Credit Fund
	7.7	274,208	Global Government Bond Fund
Wales Pension Partnership	41.7	1,481,048	
Investments managed outside of the Wales Pension Partnership			
BlackRock	22.9	811,049	Low Carbon Tracker Equities Fund
	14.8	523,783	European Equities Fund
	-	1	Cash
Assets held by BlackRock	37.7	1,334,833	
Invesco Perpetual	7.6	269,507	Asian Equities Fund
	1.8	65,309	Global Targeted Returns Fund
Assets held by Invesco	9.4	334,816	
Fidelity Worldwide Investment	3.3	117,157	Emerging Markets Equities Fund
	3.3	116,556	Multi Asset Income Fund
Assets held by Fidelity	6.6	233,713	
Aberdeen Standard Investments	2.0	71,655	GARS Fund
Assets held by ASI	2.0	71,655	
Lazard Asset Management	-	59	Cash
	-	27	Other investment balances
Assets held by Lazard	-	86	
Investment Fund Managers	55.7	1,975,103	
Torfaen County Borough Council	2.0	73,305	Pooled Property Funds
	0.1	4,767	Gresham House BSI Infrastructure LP
	0.2	5,767	Invesco Credit Partners
	-	3	M&G Limited Partnerships
	0.3	9,480	Cash
	-	563	Other investment balances
Administering Authority	2.6	93,885	
Net Investment Assets	100	3,550,036	

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 2021, versus the Fund's bespoke investment benchmark: -

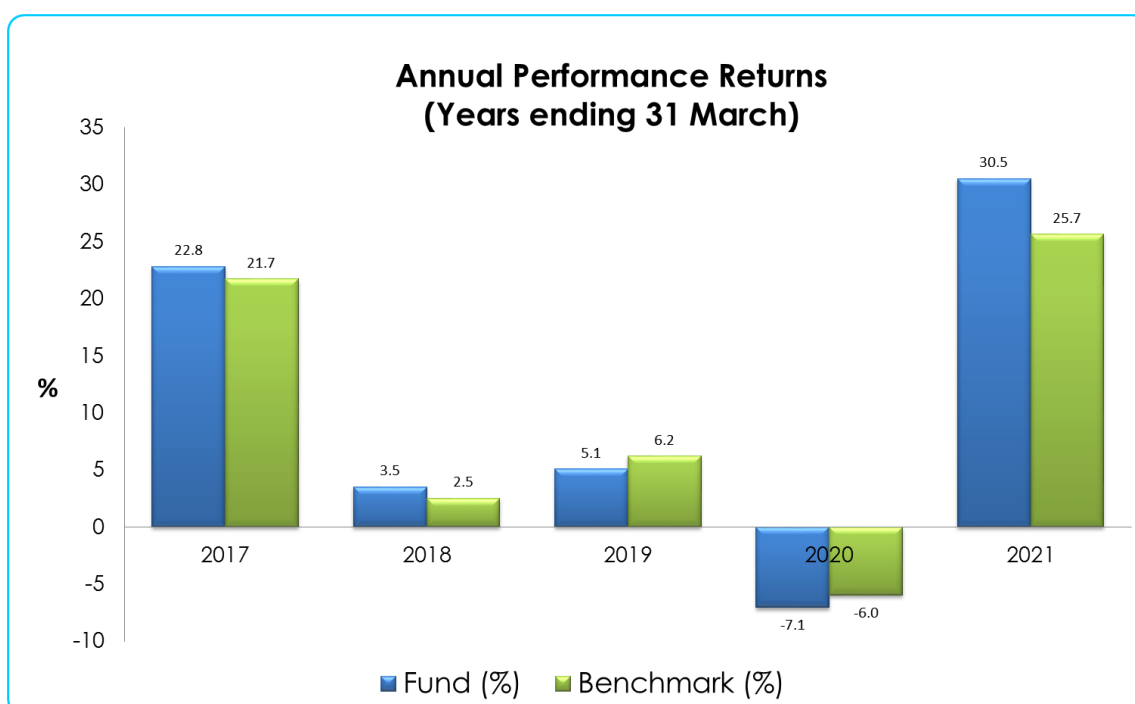
Annualised % Performance	1 Year	3 Years	5 Years	10 Years
Greater Gwent (Torfaen)	30.52	8.44	10.15	8.21
Strategic Benchmark	25.67	7.75	9.32	7.82
Out/(Under) Performance	4.85	0.69	0.83	0.39

3.2 The Fund has participated in an investment performance service prepared by Northern Trust, its global custodian with effect from 1 November 2019. In the financial year ending 31 March 2021 the Fund delivered an investment return of +30.52% compared with +25.67% for the benchmark return.

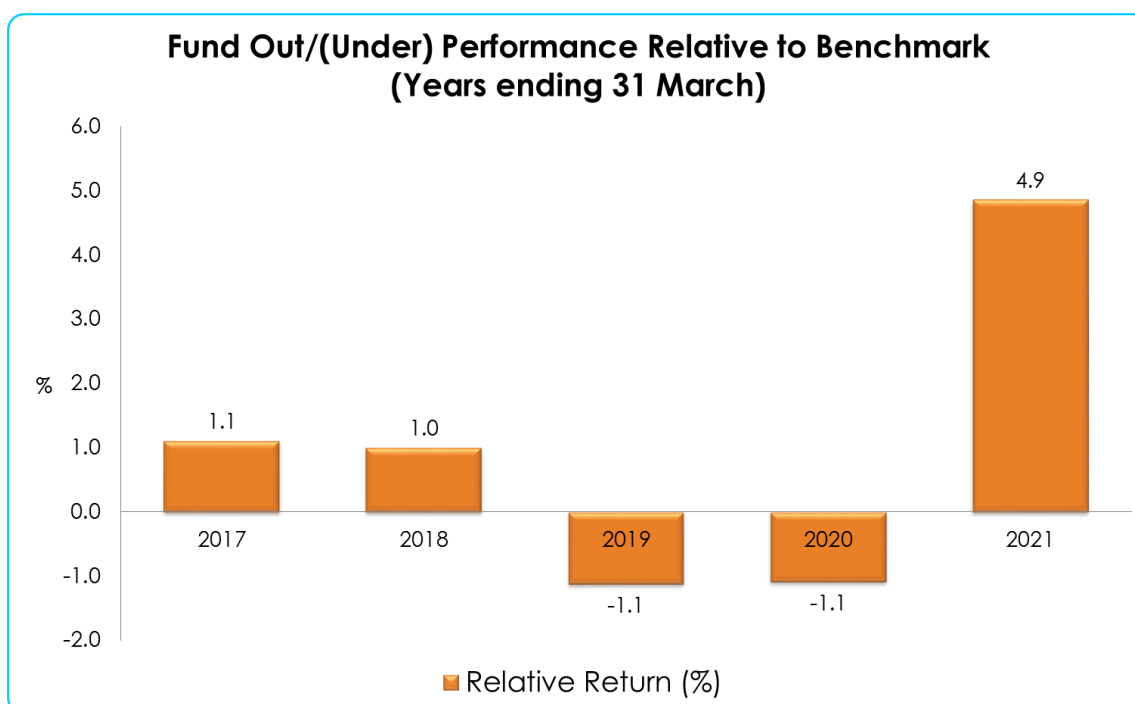
3.3 The Fund's overall benchmark consolidates the various appropriate regional comparison indices using the Fund's Strategic Asset Allocation (SAA) weightings. Following the decision of Pensions Committee to formally revise the Fund's SAA in September 2019, these weightings are currently 14% UK equities, 34% global equities, 8% regional equities, 10% bonds, 33% alternative investments and 1% cash. As indicated within the asset allocation section above, the Fund continues to take steps to implement these long-term strategic changes in accordance with the development of the Wales Pension Partnership offering.

3.4 The following graphs illustrate the Greater Gwent (Torfaen) Pension Fund annual performance returns as compared to the Northern Trust benchmark return over the last five financial years. The absolute return is the performance return for an asset or portfolio over a certain period. Relative return is the difference between the absolute return and the performance of the market, which is measured by a benchmark or index. Longer term returns can be seen in the graph on page 5.

a) Absolute performance returns



b) Relative performance returns



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 (over 77%) of its asset allocation via active investment management, where the Fund's investment managers look to out-perform the respective market returns. Whilst this cannot be guaranteed and will vary from year to year the Fund expects active management to successfully add value over the long-term. Despite adverse market volatility during 2019/20 and throughout periods of 2020/21 long-term performance continues to be strong and ahead of benchmark.
- 4.2 The table below details both market (benchmark) and Fund performance returns and shows that strong absolute performance has been evident across all of the Fund's equity investments with particular highlights within Emerging Markets and Asia excluding Japan allocations. The Fund's fixed income allocations were subject to transition during the year and so only part period performance is available. Rising yields towards the latter part of 2020/21 contributed towards the negative performance of these mandates but it is pleasing that performance on a relative basis remains positive. The picture is a little more mixed across existing alternatives where some mandates performed better than others, particularly in the case of multi-asset funds. Finally, the Fund's two new alternative commitments remain in their infancy and as such performance is not available at the reporting date.

In addition to strong one-year performance the Fund is also ahead of benchmark on a relative basis across all long-term time horizons. As a long-term investor the Fund remains focused on the ability of its investment managers to outperform their respective benchmarks over a longer time horizon, minimising short-term volatility as a result of active management skill.

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4.3 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					
Low Carbon Tracker	BlackRock	22.9	+37.45	+40.56	-3.10
UK	WPP*	12.5	+40.57	+38.94	+2.69
Europe	BlackRock	14.8	+37.31	+35.00	+2.31
Asia	Invesco	7.6	+61.03	+42.56	+18.47
Emerging Markets	Fidelity	3.3	+59.61	+42.34	+17.27
Global	WPP	13.7	+41.63	+38.94	+2.69
Fixed Income					
Global Government Bonds*	WPP	7.7	-1.70	-3.22	+1.52
Global Credit*	WPP	7.8	-0.71	-1.33	+0.62
Other					
Alternatives	Aberdeen Standard GARS	2.0	+8.75	+4.51	+4.24
	Fidelity MAI	3.3	+15.90	+4.51	+11.39
	Invesco GTR	1.8	-1.00	+4.51	-5.51
	Gresham House	0.1	N/A	N/A	N/A
	Invesco Credit Partners	0.2	N/A	N/A	N/A
Pooled Property	Various	2.0	+2.96	+2.46	+0.49
Cash and other investment balances	Various	0.3	+0.0	+0.0	+0.0

*not full period of performance. Inception date 30/07/20; **not full period of performance. Inception date 27/07/20;

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4.4 As at 31st March 2021, the Fund's investment assets held outside of the Wales Pension Partnership remain primarily with five external fund managers as below:

Mandates managed by external Fund Managers as at 31 March 2021	
<p>BlackRock</p> <ul style="list-style-type: none"> Low Carbon equity tracker fund (passively managed fund invested through a collaboration arrangement of all 8 LGPS funds in Wales) European Equity Fund 	
<p>Invesco Perpetual</p> <ul style="list-style-type: none"> Asian equity fund Multi asset fund - Global Targeted Returns Pension Fund 	
<p>Fidelity Worldwide Investment</p> <ul style="list-style-type: none"> Emerging market equity fund Multi asset fund - Multi Asset Income Fund 	
<p>Aberdeen Standard Investments</p> <ul style="list-style-type: none"> Multi asset fund - Global Absolute Return Strategies 	
<p>Gresham House</p> <ul style="list-style-type: none"> British Strategic Infrastructure Fund (BSIF) 	

ADMINISTRATION REPORT

1. Summary of activity of the service in the year

The Administration report has been produced in line with CIPFA's 'Preparing the Annual Report' guidance and reflects national development changes in terms of governance guidance issued under the Public Service Pension Act 2013 and CIPFA's working group on pension fund administration.

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 illustrates the work outstanding as at 1st April 2020, additional work added during the period, the amount of work completed during the period and the work in progress as at 31st March 2021.

	Work outstanding 1 April 2020	New	Total	Completed	Work in progress 31 March 2021
Retirements processed	338	1,538	1,876	1,498	378
Deferred processed	219	1,111	1,330	1,139	191
Retirement estimates	381	2,334	2,715	2,301	414
Deaths processed	130	757	887	741	146
Transfers in/out	1,122	2,565	3,687	2,665	1,022
New Starters	876	2,943	3,819	3,242	577
Total	3,066	11,248	14,314	11,586	2,728

The following table illustrates the average monthly new work and completed work in the year to 31st March 2021 compared with the previous year.

	Average Monthly New Work received in year to 31/03/2020	Average Monthly New Work received in year to 31/03/2021	Average Monthly work completed in year to 31/03/2020	Average Monthly work completed in year to 31/03/2021
Retirements processed	143.59	128.16	150.67	124.83
Deferred processed	150.50	92.58	159.00	94.91
Retirement estimates	249.33	194.50	264.58	191.75
Deaths processed	50.00	63.08	49.08	61.75
Transfers in/out	196.41	213.75	289.33	222.08
New Starters	387.59	245.25	365.50	270.16
Total	1,177.42	937.32	1,278.16	965.48

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

- Throughout lockdown, the Fund continued to process the whole suite of benefit calculations.
- The number of cases completed during 2020/2021 has decreased compared to 2019/2020. This can be attributed to a number of different factors including; work initially taking longer to complete at the beginning of lockdown as the team grew accustomed to working from home; reliance on third parties for data responses which were hindered by the COVID-19 pandemic; officers juggling working from home with caring for their children; and members getting accustomed to returning documentation electronically.

- The number of new cases received within the section has also decreased during the last year; this can also be attributed to lockdown restrictions, and organisations requiring staff to work from home.
- By the end of 2020/2021 the Fund has seen the number of new cases and cases being completed return to pre lockdown levels.

1.2 Other Activity

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

- The immediate challenge for the pension fund at the beginning of the financial year was the Coronavirus COVID-19 pandemic. Following instructions from the Prime Minister on the 23rd March 2020 all officers of the pension fund began to work from home. The Fund's primary focus during the first few months was on paying the benefits of its 18,000 pensioners and processing retirements and death benefits. Due to the change in working environment, processes and procedures were reviewed and adapted to facilitate working from home. Emails were sent to all members who had registered on My Pensions Online, informing them of the new working arrangements, and a dedicated COVID-19 area was set up on the Fund's website. This area of the website provided information and guidance to members on all information relating to their pension and COVID-19.
- The emergence of COVID-19 led to elevated concerns in the possibility of scammers taking advantage of the current situation and encouraging members to transfer their benefits out of the Local Government Pension Scheme. In light of this, the Fund updated all of its Transfer Out documentation, and signposted members to Scam Smart, an on-line advice source operated by the Financial Conduct Authority. Any unusual Transfer Out requests were closely scrutinised and, if required, were put on hold.
- The Amendments to the Statutory Underpin consultation was published on the 16th July 2020. In August 2020 the Pension Fund set up a project team to prepare and manage these changes. The Fund has carried out an assessment of the hours and service breaks that it holds for its members, and the Fund has been working with all employers to gather the missing data. As at the 31st March 2021 the Fund had received 90% of data from all employers. The Fund has started updating member records, and this will continue into 2021. The Fund is working with its software suppliers on developments to the system to enable the Fund to recalculate members' benefits and rectify records.
- The Restrictions of Public Sector Exit Payment 2020 Regulations came into force on the 4th November 2020. The Ministry of Housing Communities and Local Government was consulting on regulation changes to accommodate the exit cap and introduce further reforms to local government exit payments when the 2020 Regulations took effect. The Cap applied to all public sector employers and was set at a total of £95,000. Exit Payments included redundancy payments (including statutory redundancy payments) severance payments, pension strain costs and other payments made as a consequence of termination of employment. On the 12th February 2021 HM Treasury issued a Direction to disapply the Restriction of Public Sector Exit Payments Regulations 2020 with immediate effect. HM Treasury also issued guidance which set out their expectation that employers who had capped exit payments since 4th November 2020 should revisit those cases and pay the additional sums that would have been payable had the cap not applied. On the 25th February the Government laid regulations revoking the Public Service Exit Payments Regulations 2020 and these came into force on the 19th March 2021. The policy consultation that MHCLG launched in September 2020 on Reforming Local Government Exit Pay is now considered closed and no further changes will be made to Local Government pensions or redundancy terms without a future, separate consultation.

- The Fund signed up to the Pension Regulator's pledge to combat pension scams on the 7th February 2021. The Pension Regulator has asked pension funds to pledge to do what they can to protect scheme members and follow the principles of the Pension Scam Industry Group (PSIG) Code of Good Practice. Pledging to combat pension scams shows the pension fund's intent to protect its members. It tells members and the pension industry that the Fund is committed to stopping scammers in their tracks. By making the pledge the Fund has committed to:
 - Regularly warning members about pension scams
 - Get to know warning signs of a scam and best practice for transfers by completing the scam module in the Trustee toolkit and encouraging all relevant staff or trustees to do so
 - Take appropriate due diligence measures by carrying out checks on pension transfer and documenting pension transfers procedures
 - Clearly warning members if they insist on high risk transfers being paid
 - Report concerns about scams to the authorities and communicate this to scheme members
- The Fund has been working with the Pension Board, Pensions Committee and Information Security Manager to understand and put in place measures to protect the Fund against Cyber Risk. Members of the Pension Board, Pensions Committee and officers of the Fund have attended a number of training sessions on Cyber Security, and the Fund's Risk Register has been updated to reflect these risks.
- The Fund has produced quarterly Newsletters to its employers and annual bi-lingual Newsletters to its members to keep them up to date with topical pension matters, including legislative updates and procedural changes.
- The Fund has participated in Club Vita to provide a bespoke analysis of the demographic trends and 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 consistency, effectiveness, communication and administration of the services provided.
- The Fund participates in the LGA Communication subgroup to assist in developing LGPS Scheme wide communications.

1.3 Future Challenges

- During 2021/2022 the Fund will continue work on the Amendments to the Statutory Underpin, validating and updating data from employers and uploading this to members' records. Once records have been adjusted any members in scope will require recalculation. Leavers who have 'benefited' from the new underpin will require a recalculation of their benefits, arrears calculated, and payment made.
- Future legislation on the Exit Cap is expected later this year. The Government confirmed that HM Treasury will bring forward proposals at pace to tackle unjustified exit payments. The Ministry of Housing Communities and Local Government are expected to introduce further changes to exit payments following the recent consultation on reforming local government exit pay. The Ministry of Housing Communities and Local Government have confirmed that they will consult again on further reforms to exit payments before any changes are made. The Fund will continue to monitor this situation.
- During 2021 the pension fund will be returning to the office however it is expected that this will be on a hybrid model with staff continuing to work from home for some of the time. Over the forthcoming months, processes and procedures will be reviewed and adapted to fit with this new way of working.

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- The next actuarial valuation for the Fund will be carried out as at 31st March 2022. Preparation for the next valuation will commence over the next 6 months, working with employers to ensure that the data held by the pension fund is as accurate and up to date as possible.
- The Pensions Regulator is currently consulting on a new code of practice. The consultation closes on 26th May 2021. The draft new code consolidates some of the existing 15 codes of practice into a single online code.
- Public Sector Pension Schemes are required to operate a cost cap mechanism that at national level, measures the cost and any change in the cost of the provision of the LGPS. The overall costs of the LGPS are expected to stay within the cost cap limits. For the LGPS there are two mechanisms used to monitor adherence to the cost cap; one used by HM Treasury, and for the LGPS, a bespoke second cost cap process designed to capture more specifically the impact of LGPS reforms. Results published in December 2018 showed that the cost cap parameters had been breached and as a result some draft proposals emerged on potential changes to improve benefits in the scheme. The Cost Cap was paused in February 2019 following the uncertainty caused by the McCloud case. The case was an age discrimination one and concerned the transitional protections given to scheme members who in 2012 were within 10 years of their normal retirement age in the judges and firefighters scheme, as part of the public service pension reforms across the public sector.

On the 16th July 2020, consultations were published on proposals to rectify McCloud age discrimination in the unfunded pension schemes and LGPS. On the same day HM Treasury published an update on the employer cost cap stating that the employer cost cap process applicable to all public service pension schemes, including the LGPS, is currently paused but will now restart and will take into account the cost of the proposals to remedy the age discrimination as set out in the McCloud Consultation.

- Regular legislative changes both currently planned and into the future provide challenges to the fund, particularly where in some instances the legislation is backdated. The Fund will therefore 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.
- The Scheme Advisory Board appointed Hymans Robertson to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward. In February 2021 the Scheme Advisory Board considered the final Phase III Report. This report builds on the recommendations agreed in 2019 with further input from a range of scheme stakeholders. The Phase III Report, along with the agreed Action plan, has been sent to the Ministry of Housing, Communities and Local Government. The Action plan consists of formal requests from the Scheme Advisory Board to the Ministry of Housing, Communities and Local Government and other bodies to implement the recommendations from the project along with actions for the Scheme Advisory Board. The report proposes new standards of governance and administration and sets out how they can be measured and assessed independently. The recommendations cover the following areas: general governance, conflicts of interest, representation, skills and training, service delivery for the LGPS function and compliance and improvement. Over the forthcoming year, the Fund will be reviewing its governance arrangements against the recommendations and identify any areas that may need work before the implementation date.

1.4 Technology and pension administration system developments

The Fund is committed to developing and utilising technology to develop its pension administration service. During 2020/2021, the Fund carried out the following technology and pension administration system developments:

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- All 57 active employers in the Fund are submitting data to the Fund on a monthly basis via the Employer Self Service Module (ESS). 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 on an ongoing basis throughout the year, and it improves member's experience, by enabling them to view real time information concerning their pension account.
- 24,830 members have signed up to the Pension Fund's on-line system My Pension Online. This equates to 40.08% of the total membership of the Fund and is split as follows:

Status	Number of Members	Number of members signed up to MPO	Percentage of members signed up to MPO
Active	24,539	13,127	53.49%
Deferred	18,685	7,204	38.55%
Pensioner/ Dependant	18,718	4,499	24.03%
Total	61,942	24,830	40.08%

- During 2021/2022 the Fund will be changing its on-line pension systems and will be moving to Aquila Heywood's Member Self Service and I-Connect systems. Work is currently underway to implement these new systems with the expectation to go live with Member Self Service late this year, and have all employers using I-Connect by the 31st March 2022.

1.5 Data Quality

- 1.5.1 Data is an essential part of making sure a scheme is being run well. Having good quality data ensures that members will receive the correct benefit entitlement and the Fund Actuary is able to calculate more accurate employer contribution rates.
- 1.5.2 In accordance with the Pensions Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014, the Fund carries out a review of our data on an annual basis, and this is reported to the Pensions Regulator as part of their annual survey.
- 1.5.3 The Fund reports on common and scheme specific data. Common data is specified in the Pension Regulator's guidance and scheme specific data is based on a standard data set of 22 core tests agreed with the Local Government Association.
- 1.5.4 The Fund last carried out a review of its data in August 2020 and the results were as below:

Data	2018	2019	2020
Common Data	96%	99.7%	97.9%
Scheme Specific Data	81%	88.8%	96.2%

- 1.5.5 Whilst these results are positive, the Pension Fund has put in place a Data Improvement Plan. The data improvement plan provides the Fund with a plan and set of actions to be carried out to improve and then maintain 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 review.
- 1.5.6 The Fund continually 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.

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	130	757	741	146	83.54
Retirements	338	1,538	1,498	378	79.85
Deferment	219	1,111	1,139	191	85.64
Transfer in	371	573	449	495	47.56
Transfer out	67	724	680	111	85.97
Refund	165	757	752	170	81.56
Divorce	10	8	12	6	66.67
Member estimate	365	2,105	2,065	405	83.60
Joiners	876	2,943	3,242	577	84.89
Aggregation	684	1,268	1,536	416	78.69
Total	3,225	11,784	12,114	2,895	80.71

2.1.2 The Performance Indicator data in these tables relates to Pension Benefit Administration. The data for these performance indicators have been taken from the Pension Administration System, Altair, using workflow reports.

2.1.3 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.

2.1.4 Table 2 – key performance indicators

Process	KPI	%	Number of cases completed	Legal requirement	%	Number of cases completed
Retirements – letter notifying estimate of retirement benefits (Active)	15 days	78.59	411	2 months	99.04	518
Retirements – letter notifying actual retirement benefits (Active)	15 days	92.71	458	2 months	99.80	493
Deferred into Pay – Process and Pay lump sum retirement grant	15 days	99.88	808	2 months	100	809
Deferment – calculate and notify deferred benefits	30 days	67.10	677	2 months	84.54	853
Transfer In – Letter detailing transfer quote	10 days	90.30	326	2 months	98.34	355
Transfer Out – Letter detailing transfer quote	10 days	55.45	224	2 months	93.07	376
Refund – Process and pay a refund	10 days	98.92	552	2 months	100	558
Divorce Quote – letter detailing cash equivalent value and other benefits	45 days	95.28	101	3 months	100	106
Joiners – notification of date of enrolment	40 days	75.51	2,205	2 months	92.6	2,704

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2.1.5 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

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

	31 March 2021 Number of members	2020/2021 Total expenses £000	2020/2021 Cost per member £
Membership as at 31 March 2021			
Contributors	24,539		
Pensioners	18,718		
Deferred benefits	18,685		
Total scheme members	61,942		
Administrative costs		1,433	23.13
Investment management expenses		8,608	138.97
Oversight and governance costs		1,028	16.60
Total management expenses		11,069	178.70
Total cost per scheme member including investment costs			178.70
Total cost per scheme member excluding investment costs			39.73

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	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Wales 2019/20
Investment management expenses							
Total Cost (£'000)	7,753	7,466	7,055	7,492	7,656	8,176	77,881
Total Membership (number)	53,237	55,481	57,244	59,294	60,214	61,120	378,152
Sub cost per member (£)	145.63	134.57	123.24	126.35	127.15	133.77	205.95
Administration costs							
Total Cost (£'000)	995	1,131	1,108	1,225	1,216	1,280	12,116
Total Membership (number)	53,237	55,481	57,244	59,294	60,214	61,120	378,152
Sub cost per member (£)	18.69	20.38	19.36	20.66	20.19	20.94	32.04
Oversight and governance costs							
Total Cost (£'000)	655	608	770	649	678	1,047	4,774
Total Membership (number)	53,237	55,481	57,244	59,294	60,214	61,120	378,152
Sub cost per member (£)	12.30	10.96	13.45	10.95	11.26	17.13	12.62
Total cost per member £	176.62	165.91	156.05	157.96	158.6	171.84	250.61

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2.2.2 Overpayments

With payments made in excess of £100 million each year by the Fund, there will on occasion be instances of overpayments. The Fund seeks to minimise, and recover where appropriate, any overpayment made to members and in general these arise from late notification of a member's death. The following table sets out overpayments during the last year.

Year	Cases	Pension Overpayments	% of gross pension
2020/2021	6	£4,646.72	0.004484

In all the above cases, the monies have either already been recovered or the Fund is in direct contact with those concerned and arranging repayment.

2.3 Staffing

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

As at 31st March 2021 there were 27.90 full time equivalent (FTE) members of staff in the pension section, with 13 responsible for pure Pension Administration (Benefits).

2.3.2 The table below shows the 5-year trend of LGPS Administration (Benefits) staff to Fund ratio.

Year	Fund membership	LGPS administration staff	Staff to Fund members ratio
2020/2021	61,942	13.00	4,765
2019/2020	61,120	12.74	4,797
2018/2019	60,214	11.75	5,124
2017/2018	59,294	12.00	4,941
2016/2017	57,244	10.53	5,436

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)	13	11,373	875

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

2.3.5 The information for the 'average cases per member of staff' has 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 2020/2021.

Reason for leaver	Number of pensioners
Early Retirement	188
Normal Retirement	4
Redundancy/ Efficiency	44
Ill Health	30
Late Retirement	72
Flexible Retirement	40
Total	378

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	9	44
Deemed Body	1	1	2
Admitted Body	21	23	44
Total	57	33	90

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. In addition to the core administration system, the Fund uses the following Altair modules: Pensioner Payroll, Workflow and Image (Scanning).
- 4.1.2 The Fund's member and employer online services, My Pension Online (MPO) and Employer Self Service (ESS) respectively, are provided by Civica. ESS enables employers to send information regularly and 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 use the Government "Tell Us Once" service and ATMOS to help identify members who are deceased.
- 4.1.4 The Fund participates in the National Insurance Database in order to comply with LGPS governing regulations. It enables the Fund to check for duplicate death grants, check eligibility for transfer, refund and trivial commutation payments, establish interfund options for re-joining members and trace lost members.

4.2 Key information sources

- 4.2.1 The Fund has its own website, <http://gwentpensionfund.co.uk> which is hosted by Hymans Robertson. 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.

5.3 Staffing

- 4.3.1 The Pensions Section comprises of 5 teams across 29 posts. There are 26 posts on the establishment list of the Pension Administration Section, including the Pension Manager and Operations Manager. This equates to 24.74 full time equivalent members of staff. There are an additional 3 members of staff (3.16) full time equivalents covering pension investment and the wider governance of the Fund.

4.3.2 The Payroll Team

The Payroll Team have averaged 3.74 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 The Benefits Team

The Benefits Team have averaged 11 fte staff during the year. They are responsible for processing and checking a full range of benefit calculations including retirements, early leavers, deferred benefits, deaths, divorces, transfers in and out of the pension fund, refunds, estimate calculations, annual allowance, additional voluntary contributions and additional pension contributions. They are also responsible for providing 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 6 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 2 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 our website:

<https://www.gwentpensionfund.co.uk/contact-us/>

4.4 Accuracy and confidentiality of personal data

- 4.4.1 The Pensions 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:

<https://www.gwentpensionfund.co.uk/forms-and-publications/privacy-notice/>

4.5 Internal Dispute Resolution Procedure

- 4.5.1 The Pensions 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:

<https://www.gwentpensionfund.co.uk/forms-and-publications/internal-dispute-resolution-procedure-guide-idrp/>

IDPR cases reported 2020/2021

Stage	Cases submitted	Dismissed	Upheld	Ongoing
1	-	-	-	-
2	6	3	2	1

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://www.gwentpensionfund.co.uk/media/kfzeltxs/employer-guide-to-policy-and-requirements-for-admitted-body-status.pdf>

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 or 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 revised and published its ISS for 2020/21 which can be found on our website:

<https://www.gwentpensionfund.co.uk/forms-and-publications/investment-strategy-statement/>

The review has not considered any fundamental changes to the document or structure but has instead sought to articulate the revised Strategic Asset Allocation formally agreed in September 2019, together with a more substantial consideration of the Wales Pension Partnership (WPP) recognising the fact that the Pool is now operational. The below however provides a brief overview of the document.

1.2 Introduction

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

1.3 The suitability of particular investments and types of investments

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

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

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

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

- to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- to manage employers' liabilities effectively
- to ensure that sufficient resources are available to meet all liabilities as they fall due
- to maximise the returns from investments within reasonable risk parameters
- to ensure that all statutory payments made from the Pension Fund are at minimal cost to local taxpayers
- to ensure the Fund has a credible funding plan in place with the aim over the longer term of achieving full funding of all liabilities as they fall due (i.e. 100% funding)
- to aim for consistent above median 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 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.

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, Investment and Governance Risks. As well as being included within the ISS, specific asset and provider risks are summarised within Note 17 to the Fund's Accounts on Page 88 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 (WPP). The Fund's intention is to invest its assets through the WPP 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 of the structure and governance arrangements of the WPP together with the collectively agreed objectives of the partnership, confirmation of the transition activity to date and a timetable of future investment solutions to be offered to Funds.

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. In addition, this section also reflects the views and work of the WPP in establishing its own policies and objectives. 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 Fund's 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

Responsible investment is the term used to incorporate Environmental, Social and Governance (ESG) considerations into investment decision-making which, in turn, allows for better risk management and sustainable long-term returns. The Fund's approach to Responsible Investment is set out within the Investment Strategy Statement (ISS) which is published on the Fund's website.

The Fund is a responsible and active investor, and the Pensions Committee takes its fiduciary duty to act in the best interests of beneficiaries very seriously. As a long-term investor, this includes the Committee having considered issues around responsible and sustainable investments for a number of years, in particular the material risks the Fund faces to its investments from climate change, and the challenges of investing sustainably and for the long-term in a time of climate change.

Within the Fund's governance structure, the Pensions Committee set up a Responsible Investments Working Group (RIWG), made up of members of the Pensions Committee and Pension Board, including the Chairs of each, which has an advisory role and makes recommendations to the Committee and Local Pension Board. The remit of the RIWG focuses on a range of ESG issues, including how the Fund can best meet its fiduciary duties with the risks posed by challenges such as climate change. In order to be best placed to understand and make informed decisions about responsible and sustainable investments, the Fund's Pensions Committee and Pension Board members have received training in ESG matters from specialist advisers.

The RIWG have assisted the Pensions Committee and Local Pension Board in establishing and refining the Fund's statement of investment beliefs. These are included in full within the Fund's Investment Strategy Statement (ISS) but the key beliefs in respect of Responsible Investment are referred to below:

1. ESG issues can have a material impact on the long-term performance of the Fund's investments

- ESG matters are a fundamental part of the Fund's fiduciary duty to act in the best interests of its beneficiaries.
- We expect our investment managers to consider ESG matters as part of their decision-making processes.

2. Successful engagement can protect and improve the long-term value of the Fund's investments

- We encourage our investment managers to engage with the companies we invest in on ESG matters, to positively influence company behaviour.
- We believe we will have greater influence on company behaviour if we remain invested; however, we retain the option to disinvest as the ultimate sanction where a company is not prepared to respond in a reasonable or timely manner or where we deem there to be an overall detrimental effect on the Fund.

3. We intend to collaborate with other funds to pursue our engagement policy

- The Fund is a member of the Local Authority Pension Fund Forum, one of the UK's leading collaborative shareholder engagement groups, as well as one of eight Fund's participating in the Wales Pension Partnership (WPP).
- We expect our investment managers to work with others if this will lead to greater influence and improved outcomes for us as shareholders and encourage companies to do better on ESG issues including lowering their carbon footprint.

2.2 Activity during 2020/21

Fund progress on Responsible and Sustainable Investments and Climate Change

The RIWG has previously initiated the development of the Fund's investment beliefs into policies for Responsible and Sustainable Investments and Climate Change, which were approved by the Pensions Committee in September 2019. As a responsible investor seeking long-term sustainable investment that will give us long-term stable returns our overarching policy objectives are that:

- We believe that climate change is one of the largest material risks to the pension fund assets that we've invested for LGPS beneficiaries for the long- term;
- Our overall policy aim is to lower the 'carbon footprint' of the greenhouse gas emissions of our investments, so that we are in line with the international targets to keep global warming well below 2°C;
- The Fund will maintain an ambition and a clear path towards meeting government requirements as set out from time to time in legislation or guidance and will therefore review and re-set this policy approach and the targets it aspires to periodically.

As part of its Climate Change Policy, the Fund has set out short-term objectives, and medium to longer-term objectives towards lowering the carbon footprint of our investments; these are detailed within the policy document and include:

- Measuring and monitoring the carbon footprint of our investments, so we can assess how we are lowering it over time.
- Actively seeking, researching and considering new investment opportunities, with the aim of reducing our carbon footprint.
- Working with the Wales Pension Partnership to effectively influence their approach to responsible and sustainable investments, encourage the enhancement of voting and engagement activity, ESG issues, and lowering their carbon footprint.

Asset Pooling - the Wales Pension Partnership (WPP)

In line with government requirements, the Fund is increasingly investing via the WPP. Within our policy objectives we will work closely with all other Welsh LGPS funds in the WPP, the operator, appointed investment managers and advisers, to ensure that there are pooled investments available which will facilitate us being on course to achieve a below 2°C global warming scenario by 2050.

During the year, steps have been taken to reduce the impact of carbon intensity on WPP investments through the implementation of a de-carbonisation 'screen' introduced on the pool's global equity investments of which the Fund are invested. This process is being carried out by an active investment manager seeking to add value over and above the benchmark return whereby overall carbon exposure within the portfolio will be up to 25% lower than the strategic benchmark. Whilst this is considered to be good progress, it is not simply expected that this will be the endpoint. Instead, the WPP will continue to engage its investment managers and take appropriate steps to further reduce carbon exposure in accordance with long-term objectives.

It is envisaged that, as meaningful reporting continues to be established, the RIWG will analyse outputs to ensure they are compliant with Fund policies and propose additional work be carried out as required.

Measuring the Fund's Carbon Footprint – Urgentem (formerly Engaged Tracking)

During 2020/21 the RIWG supported the decision to commission Urgentem to undertake carbon analysis on a proportion of the Fund's equity investments. This analysis assisted in decision-making with regards to future investment opportunities and served as a useful baseline assessment of carbon exposure which would be subject to further carbon reduction requirements in the future. Working within the framework of our Climate Change policy, going forwards the Fund will aim to measure what the carbon footprint of investments would potentially be, before and after moving monies into the WPP, so that we can make an evidence-based decision about moving monies into new investment funds. Our specialist advisors, Urgentem (Engaged Tracking), use the Task Force on Climate-related Financial Disclosures method of measurement, which is to use data from Scope 1, Scope 2 and, where available, Scope 3, meaning that the analysis generated is consistent with industry requirements and best practice.

New / Sustainable Investment Opportunities

During the course of the year the Fund has made further carbon reduction progress following the transition from regional passive equity mandates into the World Low Carbon tracker fund in 2019/20. Following a period of consultation and due diligence with the existing investment manager, and in consultation with officers and advisors, the Pensions Committee agreed to further evolution of the World Low Carbon tracker fund to exclude fossil fuel companies where exclusionary screen criteria could not be achieved by the underlying companies. The outcome of this decision resulted in a further 44% carbon reduction versus the existing index and up to 73% reduction versus the parent MSCI World benchmark. This carbon reduction has been achieved on close to 23% of total Fund assets. In addition, the Fund pursued a specialist infrastructure manager during the year with a clear focus on renewable and sustainable energy solutions. Over time the source of this investment will be met by legacy equity mandates where carbon exposure is likely to be higher, hence further reductions overall leading to sustainable investment in the long-term.

The RIWG's Outlook and Focus for the 2021/22 Year

Whilst the RIWG is free to set its own agenda for the year ahead, it is expected that the following areas of focus will be prioritised:

- a) Have oversight and review of the WPP's voting policy and to feedback to officers as appropriate.
- b) Contributing to the establishment of a WPP Engagement policy and framework, ensuring that any proposal agreed at pool level actively represents the views of the Fund.
- c) Receiving training from the Fund's investment managers and from advisors to the WPP, including Robeco as voting and engagement provider.
- d) Analysing various investment portfolios, from a carbon perspective, to ensure opportunities identified within investment portfolios are in accordance with the Fund's policies.
- e) Seeking and considering new investment opportunities, including those that either directly or via the WPP addresses: The Fund's objectives in terms of reducing its carbon footprint; or challenges from the Fund's broad stakeholder group, including lobby groups.
- f) Working towards the Fund achieving signatory status of the revised UK Stewardship Code 2020.
- g) Continue to review, on an ongoing basis, the Fund's current Responsible and Sustainable Investment and Climate Policies, with a commitment to revise by the end of 2021/22 reflecting the change in pace of future carbon reduction expectations.
- h) Reviewing, and making recommendations to Pensions Committee on, new guidance for LGPS funds, which will arise throughout 2021/22 and beyond.

Further Information

You can read the Fund's Responsible and Sustainable Investment and Climate Change policies on our website:

<https://www.gwentpensionfund.co.uk/forms-and-publications/responsible-and-sustainable-investment-policy/>

You can read the Wales Pension Partnership's Responsible Investments Policy on their website www.walespensionpartnership.org in the Publications area.

2.3 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. In addition, the Fund recognises the Myners Principles on its risk register and is periodically reviewed to ensure compliance is maintained.

3. Governance Policy and Compliance Statement

3.1 The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place against a set of best practice principles. This measurement should result in a statement of full, partial or non-compliance with a further explanation provided for any non or partial compliance.

The key issues covered by the best practice principles are:

- Formal committee structure, membership and representation;
- The role of the Local Pension Board and membership;
- Voting rights;
- The role of Management;
- The role of External Advisors;
- The role of Audit (both Internal and External)

The Fund's Governance Compliance statement was updated in October 2020 and can be accessed here –

<https://www.gwentpensionfund.co.uk/forms-and-publications/governance-policy-and-compliance-statement-2020/>

4. Funding Strategy Statement

4.1 Local Government Pension Funds are required to produce a Funding Strategy Statement (FSS) 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.

The FSS is prepared in collaboration with the Fund's Actuary, Hymans Robertson, and forms an integral part of the framework within which they carry out triennial valuations to set employers contributions and to provide recommendations on funding decisions. Following the 2019 triennial valuation, the FSS has been revised and published with effect from 1 April 2020. In summary, the key updates to the policy include:

- A revised set of funding risks following their review during the triennial valuation process
- A review and update of the funding target basis and applicable time horizon
- A review and update of the key actuarial assumptions such as the discount rate and longevity expectations
- Recognition and update of regulation changes

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 on the website:

<https://www.gwentpensionfund.co.uk/forms-and-publications/funding-strategy-statement/>

5. Communications Policy Statement

5.1 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 2020/21 to reflect several changes in respect of developing communication methods, responsible investment activity and communication, clarity with regards to the role of both the Pensions Committee and Local Pension Board and some additional formatting changes intended to enhance readability for users.

<https://www.gwentpensionfund.co.uk/forms-and-publications/communications-policy/>

5.2 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

- 5.3 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 Fund to communicate with the scheme members in a secure, cost effective manner.
- 5.4 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.
- 5.5 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.
- 5.6 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.

6. Pension Fund Annual Report

- 6.1 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.
- 6.2 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://www.gwentpensionfund.co.uk/forms-and-publications/>

Greater Gwent (Torfaen) Pension Fund (“the Fund”) Actuarial Statement for 2020/21

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 April 2020. 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 (**NB** 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 70% likelihood that the Fund will achieve the funding target over 20 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 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £2,929 million, were sufficient to meet 86% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £478 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 2020 to 31 March 2022 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 2019 valuation report.

Method

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

Pension Fund Annual Report 2020/2021

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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and a 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	20.6 years	22.9 years
Future Pensioners*	21.6 years	24.6 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be an improvement to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.



Peter MacRae FFA

11 May 2021

For and on behalf of Hymans Robertson LLP

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

Opinion on financial statements

I have audited the financial statements of Greater Gwent (Torfaen) Pension Fund for the year ended 31 March 2021 under the Public Audit (Wales) Act 2004. Greater Gwent (Torfaen) Pension Fund's 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 international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

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 2021, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with legislative requirements and international accounting standards as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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

In auditing the financial statements, I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the responsible financial officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. The Responsible Financial Officer is responsible for the other information contained within the annual report. 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. My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

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 the 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, or returns adequate for my audit have not been received from branches not visited by my team;
- 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

My procedures included the following:

- Enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to Greater Gwent (Torfaen) Pension Fund's policies and procedures concerned with:

- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Considering as an audit team how and where fraud might occur in the financial statements and any potential indicators of fraud.
 - Obtaining an understanding of Greater Gwent (Torfaen) Pension Fund's framework of authority as well as other legal and regulatory frameworks that Greater Gwent (Torfaen) Pension Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Greater Gwent (Torfaen) Pension Fund.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit Committee about actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the administering authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all audit team and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the Greater Gwent (Torfaen) Pension Fund's controls, and the nature, timing and extent of the audit procedures performed.

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.

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.



Adrian Crompton
Auditor General for Wales
Date: 18 November 2021

24 Cathedral Road
Cardiff
CF11 9LJ

Pension Fund Accounts

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Pension Fund Accounts 2020/2021

Fund Account for the Year Ended 31 March 2021

	Note	2019/2020 £000	2020/2021 £000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	(129,790)	(130,301)
Transfers in from other pension funds	8	(7,939)	(3,932)
Other income	12a	(9)	-
		(137,738)	(134,233)
Benefits	9	123,185	123,182
Payments to and on account of leavers	10	6,784	5,797
		129,969	128,979
Net (additions)/withdrawals from dealings with members		(7,769)	(5,254)
Management expenses	11	10,503	11,069
Net (additions)/withdrawals including fund management expenses		2,734	5,815
Returns on investments			
Investment income	12	(18,913)	(31,446)
Taxes on income	13a	29	-
Profit and losses on disposal of investments and changes in the market value of investments	14a	217,525	(804,008)
Net return on investments		198,641	(835,454)
Net (increase)/decrease in the net assets available for benefits during the year		201,375	(829,639)
Opening net assets of the scheme		(2,928,976)	(2,727,601)
Closing net assets of the scheme		(2,727,601)	(3,557,240)

Net Assets Statement for the Year Ended 31 March 2021

	Note	2019/20 £000	2020/21 £000
Investment assets	14	2,719,630	3,550,036
Investment liabilities	14	-	-
Total net investments		2,719,630	3,550,036
Current assets	20	12,781	12,572
Current liabilities	21	(4,810)	(5,368)
Net assets of the Scheme available to fund benefits at 31st March		2,727,601	3,557,240

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 58.

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 of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the Greater Gwent (Torfaen) Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer.

There are 57 active employer organisations within the Greater Gwent (Torfaen) Pension Fund, including the administering authority itself. The table below provides some further details in terms of membership.

Pension Fund Accounts 2020/2021

Fund Membership

	Active Members 31/03/20	Active Members 31/03/21
Administering Authority		
Torfaen CBC	3,116	3,129
Current Scheduled Bodies		
Blaenau Gwent CBC	2,599	2,712
Caerphilly CBC	6,789	6,774
Monmouthshire CC	3,171	3,274
Newport City Council	4,291	4,417
Valuation Panel	4	6
Coleg Gwent	722	716
Chepstow Town Council	7	6
Brynmawr Town Council	1	1
Chief Constable (Gwent)	782	903
Police & Crime Commissioner (Gwent)	18	19
Silent Valley Waste Disposal	3	3
Caldicot Town Council	3	3
Nantyglo & Blaina Town Council	2	2
Monmouth Town Council	4	2
Gwent Cremation Committee	11	11
Cwmbran Community Council	9	9
Pontypool Community Council	7	7
Tredegar Town Council	2	2
Rogerstone Community Council	6	6
Bargoed Town Council	1	1
Portskewett Community Council	1	1
Shirenewton Community Council	1	1
Magor with Undy Community Council	2	2
Langstone Community Council	1	1
Caerwent Community Council	1	1
Llanfoist Fawr Community Council	1	1
BTM CC	2	2
Abertillery & Llanhillith Community Council	2	2
Abergavenny Town Council	2	2
Croesyceiliog & Llanyrafon Community Council	1	1
Shared Resource Service	206	216
Llanbradach & Pwll-y-pant Community Council	1	1
Vann Community Council	1	1
Rogiet Community Council	1	1
Deemed Bodies		
Newport Transport	5	5
Admitted Bodies		
Melin Homes	45	45
Careers Wales Gwent	105	110
Citizen Advice Bureau Caerphilly	6	6
Mitie (formerly Ballast)	1	0
Hafod Care	10	8
Archives	15	15
Monmouthshire Housing	187	191
Bron Afon	341	309
Newport City Homes	313	353
Tai Calon	204	192

Pension Fund Accounts 2020/2021

Fund Membership

	Active Members 31/03/20	Active Members 31/03/21
Admitted Bodies continued		
Drive	4	4
Vinci	1	1
Compass Catering	33	27
National Trust	4	3
Barnardo's	1	0
EAS	69	63
Churchill	3	3
Torfaen Leisure Trust	253	191
NCS Norse	119	123
Life Leisure	353	327
Newport Live	287	269
Alliance in Partnership	1	1
Gyncoed Catering	6	0
Radis	63	57
Total Active Membership	24,200	24,539
Total Deferred Members	18,621	18,685
Total Pensioners and Dependents	18,299	18,718
Total Membership	61,120	61,942

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 uplifted 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 2021. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 16.8% to 52.6% of pensionable pay.

2. BASIS OF PREPARATION

2.1 The statement of accounts summarises the Fund's transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

- 2.2 Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. IFRS 16, introduced on 1 January 2019, is due to be adopted by the Code for accounting periods commencing on or after 1 April 2022. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.
- 2.3 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.

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

Transfers in and out relate to members who have either joined or left the Fund.

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

Group (bulk) 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 recognised in the fund account on an accruals basis.
- Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Pension Fund Accounts 2020/2021

- Income earned within the pooled investments is retained by the fund manager as part of the capital assets of the fund and reflected in a higher unit price, with the following exceptions:
 - a) The Fidelity Multi Asset Income Fund generates income distributions; this income is currently reinvested by the fund manager each month as a purchase of additional units.
 - b) The Wales Pension Partnership distributes income earned within the funds on its ACS platform when there is sufficient income to do so; this income is reinvested as a purchase of additional units in the fund, which thereby increases the market value of assets.
 - 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 recharged as administrative expenses of the Fund in accordance with council policy.

- **Oversight and governance costs**

All costs associated with governance and oversight are separately identified, 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 24 and in Note 13(b) on page 80.

- **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 charged by external investment managers and custodians are set out 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 note has not been received by the year-end 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 2020/21 £0.712m of fees is based on such estimates (£1.09m in 2019/20).

- **Transaction Costs**

Transaction costs are associated with the acquisition or disposal of fund assets. Explicit costs typically include the commission that a broker charges, clearing costs, exchange fees, or any taxes or levies payable. Implicit transaction costs arise from the bid-offer spread, which is the difference between the highest price that a buyer is willing to pay for an asset and the lowest price that a seller is willing to accept. The Fund is working with the Scheme Advisory Board on a cost transparency initiative to identify and report these costs in a future disclosure note to reflect the true cost of ownership. Transaction costs incurred by a pooled fund are reflected in the value of purchases and sales in the reconciliation of movements in investments table (see Note 14a).

- 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**

All 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. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments in Note 14(a). Any gains or losses on investment sales 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. All cash balances 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 legally responsible for that liability. The Fund recognises financial liabilities relating to investment trading at fair value, 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.

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 Fund Solutions, 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 80).

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 97).

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 who have been taken over by Utmost during the year. 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 98.

3.7 **Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events. Contingent liabilities can also arise when it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably. Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

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 95. 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 3.5 above and Note 19, page 97. 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

5.1 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)	<p>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.</p> <p>The Fund's Actuary, Hymans Robertson, is engaged to provide the Fund with expert advice about the assumptions to be applied. They also provide a sensitivity analysis.</p>	<p>The sensitivity to the financial assumptions used to measure the pension fund liabilities can be measured. For the year ended 31 March 2021; a 0.5% decrease in the discount rate assumption would increase the value of liabilities by approximately £669m; a 0.5% increase in assumed salary inflation would increase the value of liabilities by approximately £77m; and a 0.5% increase in the pension increase rate would increase the liabilities by approximately £577m.</p> <p>The principal demographic assumption is the longevity assumption, and for sensitivity purposes a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.</p>
Level 3 investments (Note 15)	<p>Level 3 investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p> <p>Obtaining a timely valuation is an issue with Private Funds where the valuation of investment vehicles often has to be 'stale' due to the unavailability of pricing information as at the Fund's year end date.</p> <p>Valuations as at 31 March are by necessity estimated and may not fully reflect the performance of the vehicles underlying portfolio of investments.</p>	<p>The use of estimates for investment values is greatest for those assets classified at Level 3 which means there is a risk that these investments may be over/under stated in the accounts. The total value of Level 3 investments is £10.537m at 31 March 2021. The assets classified as Level 3 and the sensitivity of the valuation methods employed is described in note 15.</p>

6. EVENTS AFTER THE REPORTING DATE

- 6.1 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 2021 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 2020/21 ranged from 16.8% to 52.6% 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

2019/20		2020/21
£000		£000
(27,591)	Employees normal contributions	(28,960)
(126)	Employees 50:50 contributions	(136)
(21)	Employees additional contributions	(82)
(27,738)	Total employees contributions	(29,178)
(80,372)	Employers normal contributions	(82,356)
(17,049)	Employers deficit recovery contributions	(17,682)
(4,631)	Employers augmentation contributions	(1,085)
(102,052)	Total employers contributions	(101,123)
(129,790)	Total contributions receivable	(130,301)

By type of employer

2019/20		2020/21
£000		£000
(18,025)	Administering Authority	(18,383)
(95,327)	Scheduled bodies	(97,066)
(207)	Deemed bodies	(49)
(16,231)	Admitted bodies	(14,803)
(129,790)		(130,301)

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Contributions received in 2020/2021 split by employers and employees

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Administering Authority				
Torfaen CBC	(3,969)	(14,414)	(18,383)	17,223
Scheduled Bodies				
Blaenau Gwent CBC	(3,083)	(11,488)	(14,571)	14,973
Caerphilly CBC	(7,311)	(25,337)	(32,648)	29,400
Monmouthshire CC	(3,571)	(13,267)	(16,838)	13,085
Newport City Council	(4,817)	(16,557)	(21,374)	19,907
Valuation Panel	(11)	(34)	(45)	25
Coleg Gwent	(762)	(2,258)	(3,020)	2,192
Coleg Gwent Training	0	0	0	16
Chepstow Town Council	(5)	(21)	(26)	16
Brynmawr Town Council	0	(2)	(2)	8
Gwent Police Authority	0	0	0	1,901
Chief Constable (Gwent)	(1,599)	(4,475)	(6,074)	2,101
Police & Crime Comm (Gwent)	(66)	(143)	(209)	82
Gwent Magistrates	0	0	0	437
Silent Valley Waste Disposal	(10)	(173)	(183)	28
Caldicot Town Council	(6)	(16)	(22)	0
Nantyglo & Blaina Town Council	(2)	(11)	(13)	8
Monmouth Town Council	(4)	(14)	(18)	4
Gwent Cremation Committee	(15)	(48)	(63)	44
Cwmbran Community Council	(11)	(42)	(53)	47
Pontypool Community Council	(9)	(36)	(45)	29
Tredegar Town Council	(2)	(10)	(12)	6
Rhydney Valley	0	0	0	1
Rogerstone Community Council	(8)	(29)	(37)	2
Bargoed Town Council	(1)	(3)	(4)	9
Portskewett Community Council	(1)	(2)	(3)	1
Shirenewton Community Council	(1)	(2)	(3)	0
Henllys Community Council	0	0	0	1
Magor with Undy Com Council	(4)	(18)	(22)	0
Langstone Community Council	(1)	(3)	(4)	0
Caerwent Community Council	(1)	(2)	(3)	0
Llanfoist Fawr Community Council	(1)	(2)	(3)	0
Croesyceiliog & LLanyrafon CC	0	(1)	(1)	3
Abergavenny TC	(3)	(9)	(12)	2
BTM Community Council	(2)	(7)	(9)	0
Abertillery & LLanhilleth CC	(3)	(8)	(11)	0
Shared Resource Service	(458)	(1,271)	(1,729)	272
Llanbradach & Pwll-y-pant CC	(1)	(2)	(3)	0
Vann Community Council	(1)	(2)	(3)	0
Rogiet Community Council	(1)	(3)	(4)	0
Former Scheduled Bodies				
Gwent County Council	0	0	0	10,371
Commission for New Towns	0	0	0	635
Deemed Bodies				
Islwyn Transport	0	0	0	169
Newport Transport	(7)	(42)	(49)	1,042

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Contributions received in 2020/2021 split by employers and employees

Authorities	Employees Contributions £000	Employers Contributions £000	Total Contributions £000	Benefits Payable £000
Admitted Bodies				
Big Pit	0	0	0	14
Melin Homes (formerly EVHA)	(98)	(718)	(816)	167
Careers Wales Gwent	(187)	(557)	(744)	674
Citizen Advice Bureau Caerphilly	(12)	(162)	(174)	18
Mitie (formerly Ballast)	(1)	(5)	(6)	22
CWVYS	0	(3)	(3)	21
Canllaw	0	0	0	48
Capita Gwent Consultancy	0	0	0	1,278
Hafod Care	(10)	(52)	(62)	270
Archives	(25)	(66)	(91)	76
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	41
Monmouthshire HA	(353)	(906)	(1,259)	755
Bron Afon	(633)	(2,454)	(3,087)	1,621
Newport City Homes	(699)	(1,757)	(2,456)	1,112
Tai Calon	(380)	(1,371)	(1,751)	1,423
Manpower UK Ltd	0	0	0	3
DRIVE	(6)	(32)	(38)	3
Regent Ex Mon CC	0	0	0	8
Regent Ex Monmouth Cluster	0	0	0	3
Regent Ex Abergavenny Cluster	0	0	0	4
Regent Ex Chepstow Cluster	0	0	0	1
Vinci	(2)	(7)	(9)	1
Compass Catering Newport	(14)	(95)	(109)	189
Compass Catering St Albans	0	0	0	5
National Trust	(6)	(130)	(136)	33
Barnardo's	0	(13)	(13)	21
Education Achievement Service	(248)	(592)	(840)	287
Caterlink NCC Caerleon	0	0	0	6
Caterlink NCC Newport High	0	0	0	4
Churchill	(2)	(12)	(14)	7
Monwell Ltd	0	0	0	107
Torfaen Leisure Trust	(86)	(263)	(349)	91
Borough Theatre	0	0	0	5
NCS – Norse	(194)	(778)	(972)	162
NPS – Newport	0	0	0	175
Life Leisure	(206)	(601)	(807)	257
Newport Live	(214)	(578)	(792)	110
Alliance in Partnership	0	(3)	(3)	3
Glyncoed Catering	(1)	(14)	(15)	5
Radis	(54)	(202)	(256)	73
Totals	(29,178)	(101,123)	(130,301)	123,182

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8. TRANSFERS IN FROM OTHER PENSION FUNDS

2019/20		2020/21
£000		£000
(7,939)	Individual transfers	(3,932)
(7,939)		(3,932)

9. BENEFITS PAYABLE

By category

2019/20		2020/21
£000		£000
71,010	Pensions - statutory	73,783
25,050	Pension increases	25,869
22,664	Commutation of pensions and lump sum retirement benefits	19,405
2,795	Lump sum death benefits	2,921
1,666	Additional allowances	1,204
123,185		123,182

By type of employer

2019/20		2020/21
£000		£000
16,986	Administering Authority	17,223
95,749	Scheduled Bodies	95,606
1,197	Deemed Bodies	1,211
9,253	Admitted Bodies	9,142
123,185		123,182

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2019/20		2020/21
£000		£000
257	Refunds to members leaving service	188
15	Payments for members joining state scheme	(10)
-	Group transfers	0
6,512	Individual transfers	5,619
6,784		5,797

11. MANAGEMENT EXPENSES

2019/20		2020/21
£000		£000
1,280	Administrative costs	1,433
8,176	Investment management expenses	8,608
1,047	Oversight and governance costs	1,028
10,503		11,069

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a) Investment management expenses

2020/21	Total	Management fees	Performance related fees	Transaction costs
	£000	£000	£000	£000
Pooled investments	8,146	7,519	627	-
Pooled property investments	269	269	-	-
	8,415	7,788	627	-
Custody fees	193			
Total	8,608			

2019/20	Total	Management fees	Performance related fees	Transaction costs
	£000	£000	£000	£000
Equities*	926	568	-	358
Pooled investments	6,789	6,431	358	-
Pooled property investments	261	261	-	-
	7,976	7,260	358	358
Custody fees	200			
Total	8,176			

*UK equities were transferred onto the WPP ACS platform in September 2019

One of the fund's external fund managers outperformed the performance benchmark agreed by the Pensions Committee. Under the terms of their mandate, outperformance during the year triggers a performance payment. The performance fee has been estimated and accrued to the year in which outperformance was earned. In addition to the performance fee, the rationale for increased investment management expenses during the year arose as a result of increased Assets under Management (AuM) which underpins investment management expenses.

Transaction costs are defined as the costs incurred as a result of the acquisition and disposal of investments. Indirect transaction costs incurred within underlying holdings of pooled vehicles reduce the market value of our holding and are not a direct cost to the Fund.

12. INVESTMENT INCOME

2019/20	2020/21
£000	£000
(11,823) Income from equities	11
(5,105) Pooled investments	(29,654)
(1,864) Pooled property investments	(1,782)
(121) Interest on cash deposits	(21)
(18,913) Total before taxes	(31,446)

During 2020/21, Link Asset Services paid distributions in respect of the income earned since inception on all Wales Pension Partnership sub-funds in which the Fund invests. This was automatically reinvested into the pooled funds to increase the market value of our holding. Income is only distributed when there is a sufficient amount to do so but will always be automatically reinvested. The 2020/21 income from equities is an adjustment for accruals reported in the 2019/20 accounts.

a) Other income

2019/20	2020/21
£000	£000
(9) Miscellaneous income	-
(9)	-

13. OTHER FUND ACCOUNT DISCLOSURES

a) Taxes on income

2019/20		2020/21
£000		£000
29	Withholding tax - equities	-
29		-

b) Wales Pension Partnership

2019/20		2020/21
£000		£000
	WPP oversight and governance costs	
159	Operator fees	291
52	Set up and oversight costs	66
21	Host Authority costs	19
83	Transition costs (direct)	3
	WPP investment management expenses	
1,840	Fund management fees	3,100
115	Depositary and custody fees	162
2,270		3,641

The WPP investment management expenses and the fees charged by Link Fund Solutions, as the FCA authorised Operator, both increased in 2020/21 following the transition of the fixed income assets to the Wales Pension Partnership in July 2020.

For further information on costs for the WPP please refer to the Asset Pooling section on page 24.

14. INVESTMENTS

Value at 31.03.20 bid price (Restated) £000		Value at 31.03.21 bid price £000
Investment assets		
Pooled funds		
524,916	Fixed income	551,496
590,631	ACS World Low Carbon Equity Tracker	811,049
381,459	European equity	523,783
342,702	Global equity	485,367
315,993	UK equity	444,185
167,270	Asian equity	269,507
73,400	Global emerging markets equity	117,157
232,239	Multi asset funds	253,520
3	Private credit	5,770
-	Infrastructure	4,767
2,628,613		3,466,601
Other investments		
73,020	Pooled property investments	73,305
73,020		73,305
17,370	Cash deposits	9,540
627	Investment income due	590
17,997		10,130
2,719,630	Total investment assets	3,550,036
Investment liabilities		
-	Amounts payable for purchases	-
-	Total investment liabilities	-
2,719,630	Total investment assets	3,550,036

a) Reconciliation of movements in investments

Period 2020/21	Market Value 31 March 2020 £000	Purchases during the year £000	Sales during the year £000	Change in value during the year £000	Market Value 31 March 2021 £000
Pooled investments	2,628,613	600,275	(557,987)	795,700	3,466,601
Pooled property investments	73,020	-	-	285	73,305
	2,701,633	600,275	(557,987)	795,985	3,539,906
Other investment balances:					
• Cash deposits	17,370			8,023	9,540
• Investment income due	627				590
Net investment assets	2,719,630	600,275	(557,987)	804,008	3,550,036

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Period 2019/20	Market Value 31 March 2019 £000	Purchases during the year £000	Sales during the year £000	Change in value during the year £000	Market Value 31 March 2020 £000
Equities	433,228	75,752	(505,790)	(3,190)	-
Pooled investments	2,396,290	1,165,375	(714,100)	(218,952)	2,628,613
Pooled property investments	73,717	-	-	(697)	73,020
	2,903,235	1,241,127	(1,219,890)	(222,839)	2,701,633
Other investment balances:					
• Cash deposits	16,364			5,314	17,370
• Investment income due	3,983				627
Net investment assets	2,923,582	1,241,127	(1,219,890)	(217,525)	2,719,630

b) Investments analysed by fund manager

Market value 31 March 2020 £000 %			Market value 31 March 2021 £000 %	
Investments managed by the Wales Pension Partnership				
658,695	24.2	Russell Investments	1,481,048	41.7
658,695	24.2		1,481,048	41.7
Investments managed outside of the Wales Pension Partnership				
1,497,007	55.0	BlackRock	1,334,833	37.7
233,240	8.7	Invesco Perpetual	334,816	9.4
173,777	6.4	Fidelity Worldwide Investment	233,713	6.6
65,892	2.4	Aberdeen Standard Investments	71,655	2.0
97	-	Lazard Asset Management	86	-
90,922	3.3	Torfaen County Borough Council	93,885	2.6
2,060,935	75.8		2,068,988	58.3
2,719,630	100	Total	3,550,036	100

The following investments represent more than 5% of the net assets of the Fund.

	Market value 31 March 2020 £000	% of total fund	Market value 31 March 2021 £000	% of total fund
WPP Global Credit Fund	-	-	277,288	7.8
WPP Global Government Bond Fund	-	-	274,208	7.7
BlackRock ACS World Low Carbon Equity Tracker	590,631	21.7	811,049	22.9
Blackrock Ascent Life European Equity Fund	381,459	14.0	523,783	14.8
WPP Global Opportunities Fund	342,702	12.6	485,367	13.7
WPP UK Opportunities Fund	315,993	11.6	444,185	12.5
Blackrock Core Plus UK Gilt Fund	269,530	9.9	-	-
Blackrock Core Plus UK Corporate Bond Fund	255,386	9.4	-	-
Invesco Perpetual Asian Equity Fund	167,270	6.2	269,507	7.6
Total value of investments	2,719,630		3,550,036	

15. FAIR VALUE – BASIS OF VALUATION

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 – where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. The Fund no longer holds any level 1 investments as the quoted UK equities were transferred to the WPP pooling arrangement in September 2019.

Level 2 – where quoted market prices are not available, or where valuation techniques are used to determine fair value based on observable data. Level 2 is deemed the most appropriate classification where an investment vehicle 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, including the WPP ACS held by the Fund at the reporting date, fall into this category as they are not exchange traded and the valuations are based on the quoted prices of the underlying holdings.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable data. Assets and liabilities at level 3 are those deemed most difficult to value. During 2019/20, the Pensions Committee undertook a detailed review of the strategic asset allocation as part of a wider consideration of the Fund's investment strategy. As a result, a decision to adjust the strategic asset allocation was taken, which included further diversification into alternative investment opportunities in an attempt to reduce risk whilst maintaining or improving investment returns. The Fund has not fully addressed the strategic changes but has taken first steps to increase its allocation to less traditional assets. In 2020/21 the Fund made a capital commitment to investing in two alternative investments; Gresham House BSI Infrastructure LP and Invesco Credit Partners (Cayman) II, L.P. Further details on these new investments and capital calls to date can be found on page 32. This means that there are now four relatively minor investment assets in the Fund that fall under the category of level 3, as a fair value for these assets cannot be determined by using readily observable inputs or measures; however, the Prudential/M&G UK Companies Financing Funds are awaiting official approval for termination so the market value of these investments as at 31 March 2021 is negligible.

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The valuation basis for each category of investment is set out below:

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments - equity funds UK and overseas	Level 2	The NAV is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Pooled investments – fixed income funds UK and overseas	Level 2	The NAV is calculated based on the market value of the underlying fixed income securities	Evaluated price feeds	Not required
Pooled investments – multi asset funds	Level 2	The NAV is calculated based on the market value of the underlying investments and financial instruments	Evaluated price feeds	Not required
Pooled investments – property funds	Level 2	Closing bid price where bid and offer prices are published; closing single price where single price published	A combination of the comparable method of valuation and the residual method of valuation	Not required
Pooled investments – private credit funds	Level 3	Methods of valuation incorporate the principles found in the disclosure statement of ASC Topic 820 which establishes a framework for measuring fair value	Initial recognition at cost, third-party pricing services and broker-dealers are used to value certain aspects of the investments when available and deemed reliable	Valuations could be affected by changes to expected cash flows or by differences between audited and unaudited accounts
Pooled investments – infrastructure fund	Level 3	The valuation policy reflects International Private Equity and Venture Capital Valuation (IPEV) guidelines	Cost of assets under construction as the portfolio is immature	Valuations could be affected by changes to expected cash flows or by differences between audited and unaudited accounts

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Sensitivity of assets valued at level 3

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 2021 and 31 March 2020.

	Potential variation in fair value (+/-)	Value at 31 March 2021 £000	Potential value on increase £000	Potential value on decrease £000
Pooled investments – private credit	4.61	5,770	6,036	5,504
Pooled investments – infrastructure	22.10	4,767	5,821	3,713
Total		10,537	11,857	9,217

	Potential variation in fair value (+/-)	Value at 31 March 2020 £000	Potential value on increase £000	Potential value on decrease £000
Pooled investments – private credit	7.16	3	3	3
Total		3	3	3

a) Fair value hierarchy

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

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Values at 31 March 2021				
Financial assets at fair value through profit and loss	-	3,529,369	10,537	3,539,906
Net investment assets	-	3,529,369	10,537	3,539,906

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Values at 31 March 2020				
Financial assets at fair value through profit and loss	-	2,701,630	3	2,701,633
Net investment assets	-	2,701,630	3	2,701,633

b) Transfers between levels 1 and 2

No transfers took place in the financial year ending 31 March 2021.

c) Reconciliation of fair value measurements within level 3

	Alternatives Infrastructure Fund £000	Alternatives Direct Lending £000	Total £000
Value at 31 March 2020	-	3	3
Transfers into level 3	-	-	-
Transfers out of level 3	-	-	-
Capital calls (purchases)	4,371	5,767	10,138
Return of investment (sales)	-	-	-
Unrealised gains and losses	396	-	396
Realised gains and losses	-	-	-
Value at 31 March 2021	4,767	5,770	10,537

	Alternatives Infrastructure Fund £000	Alternatives Direct Lending £000	Total £000
Value at 31 March 2019	-	1,285	1,285
Transfers into level 3	-	-	-
Transfers out of level 3	-	-	-
Capital calls (purchases)	-	-	-
Return of investment (sales)	-	-	-
Unrealised gains and losses	-	(1,282)	(1,282)
Realised gains and losses	-	-	-
Value at 31 March 2020	-	3	3

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 2020			31 March 2021		
£000	£000	£000	£000	£000	£000
Financial Assets					
2,628,613			3,466,601		
73,020			73,305		
	17,370			9,540	
627			590		
	12,781			12,572	
2,702,260	30,151	-	3,540,496	22,112	-
Financial liabilities					
		(4,810)			(5,368)
-	-	(4,810)	-	-	(5,368)
2,702,260	30,151	(4,810)	3,540,496	22,112	(5,368)
Total			Total		
2,727,601			3,557,240		
Grand Total			Grand Total		

b) Net gains and losses on financial instruments

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

31 March 2020		31 March 2021
£000		£000
Financial assets		
(222,839)	Fair value through profit and loss	795,986
-	- Amortised cost – realised gains on derecognition of assets	-
5,314	Amortised cost – unrealised gains	8,022
Financial liabilities		
-	- Fair value through profit and loss	-
-	- Amortised cost – realised losses on derecognition of assets	-
-	Amortised cost – unrealised losses	-
(217,525)	Total	804,008

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). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the pension fund's operations, then reviewed regularly to reflect changes in activity and market conditions.

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 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: <https://www.gwentpensionfund.co.uk/forms-and-publications/investment-strategy-statement/>

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, while optimising investment return.

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.

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 instrument or by factors affecting all such instruments in the market.

The Fund is exposed to 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.

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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 2021/22, 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	16.72%
Overseas equities	17.36%
Government Bonds (medium term)	7.26%
Corporate Bonds (medium term)	7.99%
Pooled property investments	14.23%
Alternatives (absolute return)	11.95%
Alternatives (direct lending)	4.61%
Alternatives (infrastructure)	22.10%
Cash	0.32%

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	5.8%
Overseas equities	5.8%
Government Bonds (medium term)	1.0%
Corporate Bonds (medium term)	1.6%
Pooled property investments	4.2%
Alternatives (absolute return)	4.5%
Alternatives (direct lending)	4.9%
Alternatives (infrastructure)	5.9%
Cash	2.0%

Ignoring the potential for long term positive performance, however, and considering potential market price changes 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 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 2021 £000	Potential market movements %	Potential value on increase £000	Potential value on decrease £000
Cash and cash equivalents	9,540	0.32	9,571	9,509
Investment portfolio assets:				
UK equities	444,185	16.72	518,453	369,917
Overseas equities	2,206,863	17.36	2,589,974	1,823,752
Government bonds	274,208	7.26	294,116	254,300
Corporate bonds	277,288	7.99	299,443	255,133
Pooled property investments	73,305	14.23	83,736	62,874
Alternatives (absolute return)	253,520	11.95	283,816	223,224
Alternatives (direct lending)	5,770	4.61	6,036	5,504
Alternatives (infrastructure)	4,767	22.10	5,821	3,713
Investment income payable	590	0.32	592	588
Total Fund	3,550,036		4,091,558	3,008,514

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Asset type (Restated)	Value as at 31 March 2020 £000	Potential market movements %	Potential value on increase £000	Potential value on decrease £000
Cash and cash equivalents	17,370	0.32	17,426	17,314
Investment portfolio assets:				
UK equities	315,993	27.45	402,733	229,253
Overseas equities	1,555,462	27.96	1,990,369	1,120,555
Government bonds	269,530	7.57	289,933	249,127
Corporate bonds	255,386	9.83	280,490	230,282
Pooled property investments	73,020	14.22	83,403	62,637
Alternatives (absolute return)	232,239	13.84	264,381	200,097
Alternatives (direct lending)	3	7.16	3	3
Investment income payable	627	0.32	629	625
Total Fund	2,719,630		3,329,367	2,109,893

Interest rate risk

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 actuary 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.

Interest rate risk - sensitivity analysis

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. The analysis demonstrates that an increase in the interest rate does not affect the interest received on fixed interest assets, but it does result in a decrease in the value of the bond portfolio and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Assets exposed to interest rate risk:

Exposure to interest rate risk	Asset Values as at 31 March 2021 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash on deposit	9,540	9,540	9,540
LF Wales PP Global Government Bond Fund*	274,208	252,545	295,870
LF Wales PP Global Credit Fund*	277,288	259,264	295,312
Total	561,036	521,349	600,722

Exposure to interest rate risk (Restated)	Asset Values as at 31 March 2020 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash on deposit	17,370	17,370	17,370
BlackRock Core Plus UK Gilt Fund*	269,530	234,895	304,164
BlackRock Core Plus UK Corporate Bond Fund*	255,386	235,696	275,077
Total	542,286	487,961	596,611

*Sensitivity analysis for fixed income calculated by the Fund's actuary based on the duration estimates for the different components within the bond portfolios held by the Fund

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Exposure to interest rate risk	Interest receivable 2020/21 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash on deposit	21	21	21
Bonds	-	-	-
Total	21	21	21

Exposure to interest rate risk	Interest receivable 2019/20 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash on deposit	121	122	120
Bonds	-	-	-
Total	121	122	120

Currency risk

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.

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.

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. Following analysis of historical data by the Fund's Actuary, the 1 year expected standard deviation for an individual currency as at 31 March 2021 is 9.8% (10% as at 31 March 2020). This assumes no diversification with other assets and, in particular, that interest rates remain constant. A 9.8% 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:

Currency risk - sensitivity analysis

Assets exposed to currency risk	Asset value as at 31 March 2021 £000	Potential market movement %	Value on increase £000	Value on decrease £000
Overseas equities	2,206,863	9.8	2,423,136	1,990,590
Overseas government bonds*	255,836	9.8	280,908	230,764
Overseas corporate bonds*	231,535	9.8	254,225	208,845
Global Absolute Return Strategies Fund	71,655	9.8	78,677	64,633
Global Targeted Returns Fund	65,309	9.8	71,709	58,909
Multi Asset Income Fund	116,556	9.8	127,978	105,134
Private Credit Fund	5,768	9.8	6,333	5,203
Total change in assets available to pay benefits	2,953,522		3,242,966	2,664,078

*Overseas exposure in bond funds based on valuations as at 31 March 2021 and regional asset allocation as at 31 December 2020

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Assets exposed to currency risk	Asset value as at 31 March 2020 £000	Potential market movement %	Value on increase £000	Value on decrease £000
Overseas equities	1,555,462	10.0	1,711,008	1,399,916
Overseas government bonds	13,477	10.0	14,825	12,129
Overseas corporate bonds	109,816	10.0	120,798	98,834
Global Absolute Return Strategies Fund	65,892	10.0	72,481	59,303
Global Targeted Returns Fund	65,970	10.0	72,567	59,373
Multi Asset Income Fund	100,377	10.0	110,415	90,339
Total change in assets available to pay benefits	1,910,994	10.0	2,102,094	1,719,894

b) Credit risk

Credit risk represents the risk that the counterparty to a financial transaction will fail to discharge an obligation and cause the Fund to incur a financial loss. Assets potentially affected by this risk are investment assets and cash deposits. The selection of high-quality counterparties, brokers and financial institutions minimises credit risk and the market values of investments generally reflect an assessment of credit risk. 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 2021 was £9.5 million (31 March 2020 was £17.4 million) and this was held with institutions as follows:

Cash on deposit with financial institutions	Rating (Fitch Long Term) (at 31 March 2021)	Balances as at 31 March 2020 £000	Balances as at 31 March 2021 £000
Money Market Funds			
Aberdeen Liquidity	AAA	14,000	6,300
Invesco Perpetual		2,500	-
Blackrock	AAA	-	1,500
Deutsche	AAA	-	2,000
Bank Current Accounts			
TCBC Pension Fund		869	(320)
Total		17,369	9,480

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 2021, 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 2020/21 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 2019 and the next valuation is due to take place as at 31 March 2022.

The key elements of the Funding Strategy Statement (FSS) 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

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- 18.2 The Fund, through its governance arrangements and discussion with the appointed Actuary, produce a FSS 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.
- 18.3 The Actuarial valuation that affected these accounts was carried out as at 31 March 2019. That valuation showed that the employers would need to pay different contributions to the Fund from 1 April 2020 until 31 March 2023. The primary contribution rate is 19.2% 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.
- 18.4 The contribution rates for the unitary councils with effect from 1 April 2020 were as follows: -

Blaenau Gwent	Greater of a) 17.8% plus £2,508,000 or b) 23.5%
Caerphilly	Greater of a) 19.9% plus £3,880,000 or b) 21.5%
Monmouth	Greater of a) 18.2% plus £2,424,000 or b) 23.1%
Newport	Greater of a) 17.7% plus £2,463,000 or b) 21.2%
Torfaen	Greater of a) 17.9% plus £2,850,000 or b) 23.2%

Full details of the contribution rates payable can be found in the 2019 Actuarial Valuation report and the Funding Strategy Statement in the 'Funding' section on the Fund's website:

<https://www.gwentpensionfund.co.uk/forms-and-publications/valuation-report/>

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.

- 18.5 The market value of the Fund's assets as at the 2019 valuation was £2,929 million. At the valuation date, the Fund's liabilities exceeded the assets by £478 million giving a revised funding level of 86% (the funding level at the 2016 valuation was 72%) and the funding deficit declined in monetary terms (£850million). The main reason for the improvement in the funding position was the positive investment returns during the period.
- 18.6 The Actuary (Hymans Robertson) 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 20 years. Another revaluation of the Fund will take place as at 31 March 2022.
- 18.7 The financial assumptions adopted by the Actuary were as follows: -

	Funding Target
Discount Rate	4.0%
Pensionable pay increases	2.6%
Pension increases	2.3%

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

<https://www.gwentpensionfund.co.uk/forms-and-publications/valuation-report/>

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 2021 (the 31 March 2020 assumptions are included for comparison).

	31 March 2020	31 March 2021
Discount rate (return on investments)	2.3% per annum	2.0% per annum
Rate of salary increases	2.2% per annum	3.15% per annum
Rate of increase in pensions	1.9% per annum	2.85% 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 2020: -

<https://www.gwentpensionfund.co.uk/forms-and-publications/valuation-report/>

- 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 (2.0% p.a. versus 2.3% p.a.). The expected long-term rate of CPI inflation (RPI-CPI gap) increased during the year, resulting in an increase in the assumption for pension increases (2.85% p.a. versus 1.9% p.a.). This is because of a change in future RPI which was agreed in September 2020.
- 19.4 The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2020 was estimated as £4,517 million. The impact of the changes in financial assumptions between 31 March 2020 and 31 March 2021 as described above is to increase the Fund liabilities by £1,302 million. There are also changes to demographic and longevity assumptions, which have further increased the liabilities by £79 million. Other changes, such as allowing for new benefits accrued over the period, which are partially offset by the impact of pensions paid out and a small reduction due to the actual pension increases being lower than assumed, increased the liabilities by an additional £202 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 2021 is therefore £6,100 million.

20. CURRENT ASSETS

31 March 2020 £000		31 March 2021 £000
	Short term debtors	
2,269	Contributions due - employees	2,404
7,969	Contributions due - employers	8,445
10,238		10,849
397	Group transfer value receivable (joiners)	-
1,354	Early retirement costs	1,048
280	Fund manager fee rebates	383
512	Sundry debtors	292
12,781		12,572

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a) Funding of early retirement costs

During 2020/21 the cost to the Pension Fund of early retirements arising in the year was £1,025,253 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. 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 2020/21 and in future financial years for early retirements known as at 31 March 2021. These are summarised in the following table: -

	£000	£000
Instalments falling due in 2020/21 in respect of:		
Prior Years	411	
Current Year	834	1,245
Balances b/f 1 April 2020	1,354	
Payments Received in 2020/21	(1,391)	
Reversal of previous instalments due	(1,192)	(1,229)
Instalments due for 2021/22	412	
Instalments due for 2022/23 & later years	620	1,032
2020/21 Debtor		1,048

The instalments due for 2020/21 and future years have been included in accordance with the guidance notes issued with the Code of Practice on Local Authority Accounting 2020/21.

21. CURRENT LIABILITIES

31 March 2020		31 March 2021
£000		£000
(2,782)	Benefits payable	(3,173)
(1,781)	Management expenses	(1,972)
(247)	Sundry creditors	(223)
(4,810)		(5,368)

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		Market value
31 March 2020		31 March 2021
£000	AVC provider	£000
3,625	Standard Life	4,228
1,385	Clerical Medical	1,690
812	Utmost Life and Pensions (previously Equitable Life)	810
5,822		6,728

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Contribution Received 31 March 2020 £000	AVC provider	Contribution Received 31 March 2021 £000
428	Standard Life	512
196	Clerical Medical	173
1	Utmost Life and Pensions (previously Equitable Life)	1
625		686

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 Pensions Section 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 2020 £000	Payments on behalf of:-	31 March 2021 £000
9	Central Government	9
8,747	Other Local Authorities	8,654
22	Other entities and individuals	22
8,778		8,685

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 78). Related parties to the Pension Fund include all employers within the Fund and members of the 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

Five members of the Pensions Committee are active members of the Pension Fund, with one of those members also being in receipt of a pension. Each member of the Pensions 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. The proportion of their time allocated to the management of the Fund is 10% (5% in 2019/20) and 100% respectively. During 2020/21 the Head of Pensions retired, and the Pension Investments Manager is now covering this position. Total remuneration payable for 2019/20 and 2020/21 is set out below for their time apportioned to the Fund.

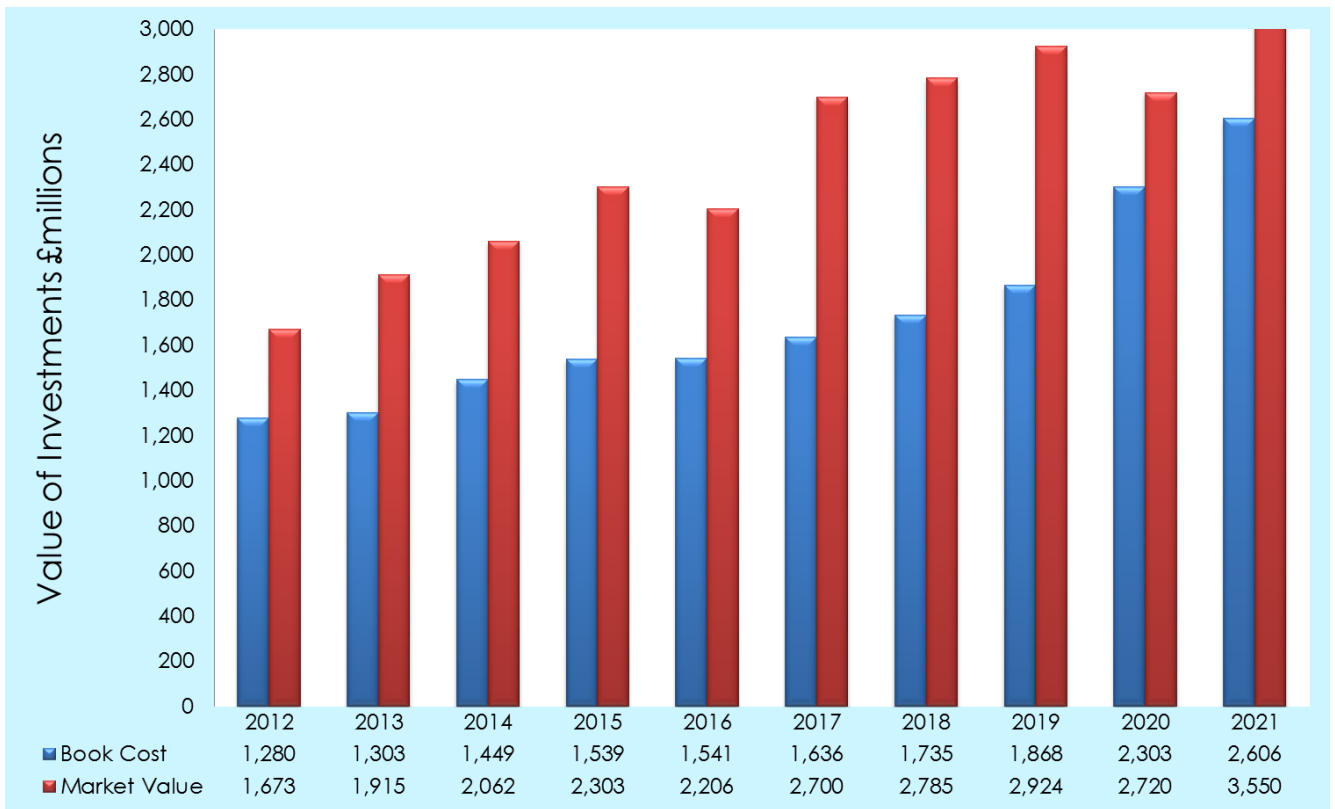
31 March 2020 £000		31 March 2021 £000
59	Short-term benefits	80
(138)	Post-employment benefits	(582)
-	Termination Benefits	-
(79)		(502)

Appendices

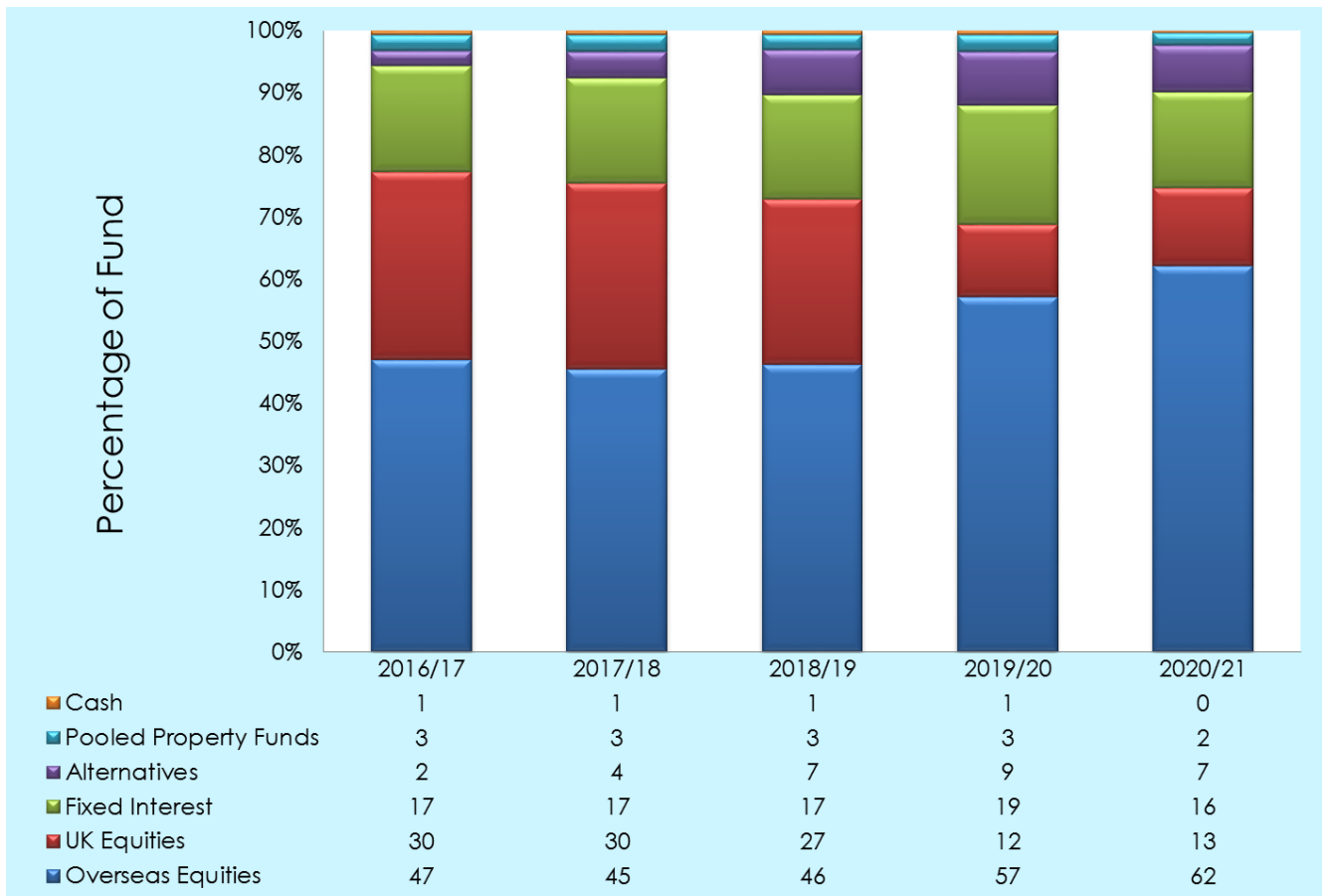
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Appendix 1

Ten Year Valuation of Investments



Tactical Asset Allocation



Ten Year Summary of Statistics

Revenue Account	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Contributions	101,652	101,028	109,666	104,655	103,450	107,205	114,118	118,047	129,790	130,301
Transfer Values Received	7,824	4,942	7,946	5,318	9,277	5,573	5,704	6,280	7,939	3,932
Investment Income and Other	21,448	20,659	26,095	20,800	17,772	19,283	21,318	27,215	18,893	31,446
Total Income	130,924	126,629	143,707	130,773	130,499	132,061	141,140	151,542	156,622	165,679
Pensions and Other Benefits	84,538	88,856	95,175	102,179	109,229	108,881	111,419	118,602	123,185	123,182
Transfer Values Paid	22,965	6,303	3,177	49,692	9,377	7,138	7,553	7,576	6,512	5,619
Refunds of Contributions	2	5	8	149	239	248	250	266	272	178
Fees and Other	6,032	6,642	8,709	9,403	9,205	8,933	9,366	9,550	10,503	11,069
Total Expenditure	113,537	101,806	107,069	161,423	128,050	125,200	128,588	135,994	140,472	140,048
Net Surplus for Year	17,387	24,823	36,638	(30,650)	2,449	6,861	12,552	15,548	16,150	25,631
Net Profit/(Loss) on Sale of Investments	40,620	14,317	119,325	75,822	30,736	99,726	80,416	117,298	421,489	277,203
Unrealised Change in Market Value	(52,621)	218,496	1,124	150,940	(99,529)	387,623	(1,776)	5,310	(639,014)	526,805
Increase/(Decrease) in the Fund	5,386	257,636	157,087	196,112	(66,344)	494,210	91,192	138,156	(201,375)	829,639
Investment Assets	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Book Cost at 31 March	1,279,958	1,302,617	1,449,212	1,538,838	1,540,889	1,635,895	1,734,570	1,867,699	2,302,779	2,605,923
Market Value at 31 March	1,673,634	1,914,788	2,062,483	2,303,073	2,205,596	2,700,194	2,785,140	2,923,582	2,719,630	3,550,036
Membership										
Contributors	20,550	20,582	22,435	22,880	23,607	22,788	23,991	23,932	24,200	24,539
Pensioners	13,910	14,296	14,820	15,204	15,816	16,388	16,848	17,533	18,299	18,718
Number of Preserved Benefits	12,189	13,180	14,359	15,153	16,058	18,068	18,455	18,749	18,621	18,685
Total	46,649	48,058	51,614	53,237	55,481	57,244	59,294	60,214	61,120	61,942