

Statement of Accounts - Pension Fund Accounts

Introduction

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of the Council, Essex district, borough and unitary councils, and for other scheduled and admitted bodies. The Pension Fund accounts are set out in the following pages, as detailed below.

	Page
Fund Account	141
Net Assets Statement	142
Notes to the Pension Fund Accounts	143

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Fund Account for the year ended 31 March 2016

2014/15	Note		2015/16	
£000			£000	£000
		Dealing with members and others directly involved in the Fund		
		Income		
		Contributions receivable		
(52,676)	8	Member contributions	(53,964)	
(188,654)	8	Employers' contributions	(168,443)	
(8,181)	8	Transfers in from other Pension Funds	(7,936)	
(149)		Other income	(295)	
(249,660)		Total income		(230,638)
		Expenditure		
		Benefits payable		
170,900	8	Pensions	177,467	
31,876		Commutation of pensions & lump sum retirement benefits	31,935	
4,440		Lump sum death benefits	6,344	
		Payments to and on account of Leavers		
183		Refunds of contributions	544	
91		State scheme premiums	321	
64,563	8	Transfers out to other schemes	5,288	
28,779	10	Management expenses	31,816	
300,832		Total expenditure		253,715
51,172		Net additions from dealings with members		23,077
		Returns on investments		
(75,727)	9	Investment income	(87,752)	
(573,424)	11	Profit and losses on disposal of investments and changes in market value of investments	(43,640)	
2,730	14	Taxes on income	3,834	
(646,421)		Net returns on investments		(127,558)
(595,249)		Net (increase)/decrease in the assets available for benefits during the year		(104,481)
(4,337,374)		Net assets as at 1 April		(4,932,623)
(4,932,623)		Net assets as at 31 March		(5,037,104)

Statement of Accounts - Pension Fund Accounts

Pension Fund Accounts

Net Assets Statement as at 31 March 2016

31 March 2015 £000	Note		31 March 2016 £000	£000
	11	Investments at market value		
		Investment assets		
232,568		Fixed interest securities	235,486	
3,065,508		Equities	3,124,105	
216,532		Index linked securities	144,369	
322,135		Property	358,780	
217,452		Property unit trusts	215,089	
237,979		Private Equity	247,281	
158,975		Infrastructure	162,085	
49,057		Timber	77,675	
63,329		Illiquid Debt	76,705	
253,665		Other managed funds	248,358	
22,902		Derivative contracts	17,300	
109,810		Cash/deposits	116,692	
6,434		Other investment balances	7,632	
4,956,346				5,031,557
		Investment liabilities		
(48,206)		Derivative contracts	(35,744)	
(1,987)		Other investment balances	(353)	
(50,193)				(36,097)
4,906,153		Total Investments		4,995,460
		Long term assets		
6,456		Contributions due from employers		5,196
	13	Current assets and liabilities		
		Current Assets		
13,967		Cash		26,311
16,144		Contributions due from employers and other current assets		17,669
4,942,720				5,044,636
		Current liabilities		
(10,097)		Unpaid benefits and other current liabilities		(7,532)
4,932,623		Net assets of the scheme available to fund benefits		5,037,104

Statement of Accounts - Pension Fund Accounts

Notes to the Pension Fund Accounts

1. Background

1.1 General description of the Fund

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund ("the Fund").

The Essex Pension Fund is part of the Local Government Pension Scheme and is administered by Essex County Council ("the Administering Authority") which is the reporting entity for this pension fund.

Established by the Local Government Superannuation Regulation 1974 the scheme is governed by the Public Service Pensions Act 2013, the Fund is administered in accordance with the following secondary legislation:

- Local Government Pension Scheme(LGPS) Regulations 2013 (as amended);
- LGPS (Transitional Provisions, Savings and Amendment) Regulation 2014 (as amended); and
- LGPS (Management and Investment of Funds) Regulations 2009.

The Fund is a contributory defined benefit pension scheme administered by Essex County Council to provide pensions and other benefits for its employees and those other scheduled Bodies within its area. It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report and Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the Essex Pension Fund Strategy Board and Investment Steering Committee (ISC). Responsibility for the administration and financial management of the Fund has been delegated to the Executive Director for Corporate and Customer Services along with the Director for Essex Pension Fund.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity, infrastructure and timber through the use of limited partnerships. The ISC oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Board. The Fund's Statement of Investment Principles is contained in the Pension Fund Annual Report and Accounts and can be found on the Pension Fund website (www.essexpensionfund.co.uk).

Statement of Accounts - Pension Fund Accounts

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 the scheme.

Organisations participating in the Essex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are around **640** employer organisations within Essex Pension Fund including the County Council itself.

1.3 Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from **5.5%** to **12.5%** of pensionable pay for the financial year ending 31 March 2016. Employees can also opt to pay a reduced contribution. This is commonly referred to as the '50/50' option. At any time, an active member can opt to pay half of their normal contribution. This option results in the pension built up during this time being reduced by half. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at **31 March 2013**. Details can be found on the website www.essexpensionfund.co.uk.

1.4 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 updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Essex Pension Fund website www.essexpensionfund.co.uk.

Statement of Accounts - Pension Fund Accounts

2. Basis of preparation

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 issued by CIPFA, which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2015/16 (SORP). The accounts are prepared on a going concern basis.

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies are available on the Pension Fund website www.essexpensionfund.co.uk.

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2015/16 financial year and its position as at 31 March 2016. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2016 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.3.

3. Actuarial valuation

The contributions payable for 2015/16 were determined by the 2013 Actuarial Valuation.

3.1 Actuarial Valuation 2013

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2013 to determine the contribution rates with effect from 1 April 2014 to 31 March 2017. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£3,926m** (on a smoothed basis) represented **80%** of the Funding Target liabilities of **£4,878m** at the valuation date. The valuation also showed that a common rate of contribution of **14.3%** of Pensionable Pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit could be eliminated by an average additional contribution rate of **7.2%** of Pensionable Pay for 20 years. This would imply an average employer contribution rate of **21.5%** of Pensionable Pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions,

Statement of Accounts - Pension Fund Accounts

payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

The valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full valuation report that is available from www.essexpensionfund.co.uk.

The main financial assumptions used were as follows:

	Past and Future liabilities Rate per annum
Rate of discount	5.80%
Retail Price Index (RPI)	3.50%
Consumer Price Index (CPI)	2.70%
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	2.70%
Short term pay increase	In line with CPI assumptions for 2 years to 31 March 2015
Long term pay increase	4.50%

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2017.

3.2 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 102. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts – they do not determine the employer contribution. Employer contributions are determined via the Actuarial Valuation (as described in note 3 above).

Statement of Accounts - Pension Fund Accounts

3.3 Actuarial present value of promised retirement benefits

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

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has a roll forward approach in valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2013.

Liabilities are valued using a discount rate based on corporate bond yields. At 31 March 2016 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond yield curve which is closest to the duration of the Fund's liabilities.

The duration of the Fund's liabilities is the weighted average time to pay each future expected cash flow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2016 is 18 years which in turn means a discount rate of **3.6%** per annum (31 March 2015: 3.3%). The value of the Fund's promised retirement benefits as at 31 March 2016 was **£7,438m** (31 March 2015: £7,517m).

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 2013, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of **4.3%** per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£6,585m**.

4. Accounting policies

4.1 Fund Account – revenue recognition

4.1.1 Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

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.

Employers' augmentation contributions and financial strain contributions are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid are classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

Statement of Accounts - Pension Fund Accounts

4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 8 which commences on page 156).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 8 which commences on page 156).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

4.1.3 Investment Income

▪ Dividend income

This income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Assets Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 14 (page 171).

▪ Income from fixed interest, index linked securities, cash and short term deposits

This income is recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

▪ Income from other investments

This income is accounted for on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement under other investment balances.

▪ Property related income

This consists primarily of rental income on property leases, and is recognised on a straight line basis over the term of the leases.

Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that

Statement of Accounts - Pension Fund Accounts

changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

- **Change in market value of investments**

This is recognised as income during the year and comprises all increases and decreases in 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.

4.2 Fund Account – Expense items

4.2.1 Benefits payable

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses to take a greater retirement grant in return for reduced pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Any amounts due but not paid are disclosed in the Net Assets Statement as current liabilities.

Other benefits are accounted for on the date that members leave the Fund, or upon death.

4.2.2 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 proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 14).

As Essex County Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities, including expenditure on investments and property expenses.

4.2.3 Management expenses

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

Statement of Accounts - Pension Fund Accounts

4.2.4 Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. In 2015/16 this totalled **£1.065m** (£1.272m in 2014/15).

4.2.5 Oversight and governance

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. In 2015/16, this totalled **£1.073m** (£1.306m in 2014/15).

4.2.6 Investment management expenses

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. For the investment managers who manage the main asset classes of the Fund these are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. With the investment managers who manage the alternative assets the fees are generally calculated on a commitment basis.

No performance related fees were payable in 2015/16 (none in 2014/15).

Some of the Fund's investments are via pooled vehicles. In the majority of cases the investment manager deducts its management fees directly i.e. the Fund are not invoiced for these costs.

The Fund in 2015/16 has changed its policy in the treatment of these fees in accordance with CIPFA's guidance.

In prior years management fees were grossed up and offset via investment income. The gross up of management fees are now offset through the change in market value of these investments. The change in policy has a net nil effect.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2015/16, **£3.037m** of fees is based on such estimates (2014/15: £2.957m). A creditor has been raised and the actual invoice amount is shown within current liabilities.

The costs of the Pension Fund investment function are charged direct to the Fund along with any direct running costs.

Statement of Accounts - Pension Fund Accounts

The cost of obtaining investment advice from external consultants is included in investment management charges.

4.3 Net Assets Statement

4.3.1 Financial Assets

Financial assets are held at fair value, as at each 31 March, and are recognised on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in fair value of the asset are recognised in the Fund Account.

4.3.2 Valuation of investments

The value of investments is determined as outlined in the following paragraphs.

- **Market Quoted Investments**

The value of these investments is taken as the bid market price ruling on each 31st March where available.

- **Unquoted Investments**

Unquoted equity, and private equity limited partnership, investments are valued based on the Fund's share of the net assets of the partnership using the latest financial statements published by the respective fund managers. In 2015/16, these are mainly valued as at 31 December 2015, in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. As such, an estimate of the valuation at 31 March 2016 is made. The 31 December valuation is adjusted for payments made to, and received from, the private equity managers in the period 1 January to 31 March.

Investments in unquoted property, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

- **Directly held investments**

These include investments in limited partnerships, unlisted companies, trust and bonds.

The valuation of other unquoted securities (typically including pooled investments in property, infrastructure, debt securities and private equity) is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or standards set by the constituent documents of the pool or the management agreement.

- **Unit trusts and managed funds**

These are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments.

In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

Statement of Accounts - Pension Fund Accounts

▪ Value of fixed interest investments

Fixed interest investments are recorded at net market value, based on their current yield (i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within note 11).

▪ Direct Property Investments

Direct property investments have been valued, at open market value as at 31 March 2016, by Jones Lang LaSalle, Chartered Surveyors. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

4.3.3 Derivatives

Derivative financial instruments are used to manage exposure to specific risks arising from the Fund's investment activities – they are not held for speculative purposes.

Derivative contracts assets are held at fair value bid price, and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (see note 11).

The value of futures contracts is determined using exchange prices published by the relevant futures exchange (e.g. LIFFE – London International Financial Futures Exchange) at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial margin and variation margin. No future contracts were entered into in the year of reporting, or in the prior year.

Forward foreign exchange contracts outstanding at year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31 March.

4.3.4 Dividends, Interest and Foreign Currencies

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

4.3.5 Cash and Cash Equivalents

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

Statement of Accounts - Pension Fund Accounts

4.3.6 Financial Liabilities

Financial liabilities are recognised at fair value on the date the Fund becomes party to the liability, and any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

4.3.7 Contingent liabilities and contingent assets

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Pension Fund's control.

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Pension Fund's control.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable and can be reliably measured.

4.3.8 Other financial Instruments

Financial assets are recognised only when goods or services have been provided or rendered to a third party. Financial liabilities are recognised when the goods or services ordered from a third party have been received by the Fund and the third party has performed its contractual obligations.

The Fund currently only has liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the balance sheet date is assumed to equate to the fair value.

The fair values of loans and receivables at 31st March have been reviewed and were assessed as being the same as the carrying amounts in the Balance Sheet. Assets are carried in the Balance Sheet at fair value. The values are based on the bid price.

When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised. The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Statement of Accounts - Pension Fund Accounts

5. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 4, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Fund Accounts are:

- **Use of Financial Instruments**

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. The valuation of these types of investments is highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

- **Unquoted private equity**

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2016 was **£247.3m** (31 March 2015: £238m).

- **Infrastructure**

Overseas infrastructure values are determined in accordance with generally accepted valuation principles, in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by MandG Investments is valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines. The value of infrastructure as at 31 March 2016 was **£162.1m** (31 March 2015: £159.0m).

- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2016 was **£77.7m** (31 March 2015: £49.1m).

- **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with International Accounting Standard (IAS) 19. This estimate is subject to significant variances, based on changes to the underlying assumptions.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Assets Statement. This is shown in Note 3.3.

Statement of Accounts - Pension Fund Accounts

6. Assumptions made about the future and other major sources of estimation uncertainty

The Fund Accounts contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<p>Actuarial present value of promised retirement benefits</p> <p><i>Note: Results are taken from the 2013 Actuarial valuation)</i></p>	<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. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £415m.</p> <p>An increase of the CPI assumption by 0.5% per annum increases the value of liabilities by approximately £354m.</p> <p>A 0.5% increase in the long-term rate of salary increase would increase the value of liabilities by approximately £46m.</p> <p>Increasing the long-term rate of improvement used in the mortality projection from 1.5% to 1.75% per annum would increase the liability by approximately £45m.</p>
<p>Private equity / Infrastructure / Timber / Illiquid debt</p>	<p>Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity, infrastructure, timber and illiquid debt investments in the financial statements are £563.7m. There is a risk that this investment may be under or overstated in the accounts.</p>

Statement of Accounts - Pension Fund Accounts

7. Events after the reporting date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

For example, if there had been a marked decline in the global stock markets that would impact upon the market value of the fund's investments were they to be valued as at the date the accounts were authorized for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

8. Membership activities

8.1 Membership

31 March 2015		31 March 2016 <i>Estimate</i>
50,965	Contributors	54,584
44,038	Deferred pensioners	54,795
35,455	Pensioners	37,791

Deferred pensioners are former employees who have chosen not to transfer their pension rights.

Statement of Accounts - Pension Fund Accounts

8.2 Pension benefits payable

2014/15 £000		2015/16 £000
63,322	Administering Authority	65,215
89,588	Scheduled Bodies	91,145
8,035	Admitted Bodies	8,085
4,587	Community Admission Bodies	7,123
4,849	Transferee Admission Bodies	5,375
519	Resolution Bodies	524
<u>170,900</u>		<u>177,467</u>

8.3 Contributions receivable

8.3.1 By category

Contributions receivable from employers are set out below:

2014/15 £000		2015/16	
		£000	£000
52,676	Employee's normal contributions		53,964
	Employers' normal contributions		
113,458	Normal contributions	114,743	
71,706	Employers' deficit recovery contributions	48,247	
3,490	Employers' augmentation	5,453	
<u>188,654</u>			<u>168,443</u>
<u>241,330</u>			<u>222,407</u>

Employers' augmentation relates to payments for the cost of early retirements.

The change in the employer deficit from 2014/15 is associated with the Valuation 2013 where fourteen employers chose to pay a triennial payment. Ten of these were paid in April 2015 amounting to **£26.709m**.

In 2014/15 Colchester Women's Refuge entered into a three year cessation plan, paying the second instalment of **£21,000** in 2015/16. One final payment of **£21,000** is due in 2016/17.

Statement of Accounts - Pension Fund Accounts

In 2015/16 Essex County Scout Council entered into a five year cessation plan paying the first instalment of **£28,000** in 2015/16. Four further payments of **£30,000** are due in 2016/17, 2017/18, 2018/19 and 2019/20.

In 2015/16 final termination amounts were received from Home Group **£23,000**.

8.3.2 By type

2014/15			2015/16		
Member £000	Employer £000		Member £000	Employer £000	
16,457	50,185	Administering Authority	16,741	50,956	
31,284	121,559	Scheduled Bodies	32,540	101,047	
949	5,179	Admitted Bodies	949	5,499	
1,342	4,747	Community Admission Bodies	1,286	4,526	
2,389	6,259	Transferee Admission Bodies	2,177	5,611	
255	725	Resolution Bodies	271	804	
52,676	188,654		53,964	168,443	

Following a review in the year, Anglia Ruskin University has been reclassified from Community Admission Body to Scheduled Body.

8.4 Transfers in from, and out to, other pension funds

2014/15			2015/16		
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000	
-	58,484	Group transfers	-	-	
8,181	6,079	Individual transfers	7,936	5,288	
8,181	64,563	Total	7,936	5,288	

No amounts were payable in respect of group transfers to other schemes during 2015/16. In 2014/15, a group transfer to Greater Manchester Pension Fund was paid in respect of Probation Services.

Statement of Accounts - Pension Fund Accounts

9. Investment Income

9.1 By Type

2014/15 <i>Restated</i> £000		2015/16 £000
24,767	Dividends from equities	25,865
2,009	Income from index linked securities	1,016
6,722	Private Equity income	4,855
8,349	Infrastructure / timberland income	15,748
7,219	Managed fund income	11,978
6,268	Income from pooled property investments	6,739
17,325	Net rent from properties	19,443
488	Interest from cash deposits	458
875	Other	1,056
74,022	Total investment income showing net property rent	87,158
	Add back:	
1,705	Property operating expenses	594
75,727	Total investment income showing gross property rent	87,752

For 2015/16 the breakout of investment income has been expanded. The 2014/15 dividend income figure has been restated. Some of the dividend income has been re-categorised to the new categories, private equity income, infrastructure/timberland income and managed funds income. This has resulted in a net nil effect to the bottom line.

The above table shows rent from properties net of related expenses, but the Fund Account shows rent from properties on a 'gross' basis.

9.2 Investment property net rental

2014/15 £000		2015/16 £000
17,056	Rental Income from investment property	19,486
(1,696)	Direct operating expenses arising from investment property	(290)
15,360	Total	19,196

Statement of Accounts - Pension Fund Accounts

9.3 Contractual rental receivable

The table below shows the contractual amount of rental income due to the Fund as at 31 March:

2014/15 £000		2015/16 £000
16,861	Within one year	17,445
53,752	Between one and five years	51,547
45,024	Beyond five years	41,141
115,637	Total	110,133

9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2014	174,330	62,970	237,300
Additions	44,827	13,604	58,431
Disposals	-	-	-
Net gain/loss on fair value	21,588	4,816	26,404
Fair value at 31 March 2015	240,745	81,390	322,135
Additions	33,166	24	33,190
Disposals	(9,349)	(9,855)	(19,204)
Net gain/loss on fair value	20,008	2,651	22,659
Fair value at 31 March 2016	284,570	74,210	358,780

10. Management expenses

10.1 By type

2014/15 £000		2015/16 £000
1,272	Administration costs	1,065
26,201	Investment management expenses	29,678
1,306	Oversight and governance	1,073
28,779	Total	31,816

Statement of Accounts - Pension Fund Accounts

The direct running costs recharged back to the Fund are apportioned out as per the CIPFA guidance on LGPS Management Costs. Investment transaction costs incurred during the year are included within Investment Management expenses. These were **£768,000** for 2015/16 (2014/15: £791,000).

10.2 Investment management expenses

2014/15 £000		2015/16 £000
25,909	Management fees	29,384
292	Custody fees	294
26,201	Total	29,678

11. Investments

11.1 Value of investments held by managers

The value of investments held by each fund manager on 31 March was as follows:

2015			2016		
£m	%		£m	%	
64	1.3	Alcentra Ltd	79	1.6	
586	11.9	Aviva Investors	619	12.4	
489	10.0	Baillie Gifford and Co	398	8.0	
250	5.1	Stewart Investors (formerly First State)	243	4.9	
233	4.7	Goldman Sachs Asset Management International	235	4.7	
247	5.0	Hamilton Lane	257	5.1	
1,551	31.6	Legal and General Investment Management	1,558	31.2	
(26)	-0.5	Legal and General Investment Management (Currency)	(18)	-0.4	
370	7.6	Longview Partners	384	7.7	
379	7.7	Marathon Asset Management Ltd	393	7.9	
299	6.1	M&G Investments	347	6.9	
238	4.9	M&G Investments Alpha Opportunities	238	4.8	
84	1.7	M&G Investments Infracapital	61	1.2	
12	0.2	M&G Investments Financing Fund	9	0.2	
75	1.5	Partners Group Management II S.à r.l	107	2.1	
3	0.1	RWC Specialist UK Focus Fund (formerly Hermes)	1	-	
49	1.0	Stafford Timberland Limited	78	1.6	
3	0.1	Other	6	0.1	
4,906	100.0		4,995	100.0	

Statement of Accounts - Pension Fund Accounts

11.2 Investments by asset type

The tables below provide an analysis of investment assets by type and show the movements in the market value of the investments, including profits and losses realised on the sales of investments:

2014/15	Value at 1 April 2014	2014/15 Movement					Value at 31 March 2015
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	186,598	50,000	-	-	(4,030)	-	232,568
Equities							
UK quoted	128,633	17,534	-	(10,837)	18,643	-	153,973
Overseas quoted	1,053,329	221,346	-	(234,093)	237,906	-	1,278,488
UK unit trusts	228,767	11,890	(14,376)	(76)	17,565	-	243,770
Overseas unit trusts	685,980	14,285	(44,334)	(639)	124,840	-	780,132
Global unit trusts	547,585	933	-	(526)	61,153	-	609,145
Index linked securities (UK public sector quoted)	344,996	21,762	78	(200,833)	50,529	-	216,532
Property							
UK properties (freehold)	174,330	44,827	-	-	21,588	-	240,745
UK properties (leasehold)	62,970	13,604	-	-	4,816	-	81,390
Property unit trusts	231,664	5,038	-	(41,840)	22,590	-	217,452
Private equity							
UK unquoted	422	54	-	(17)	(295)	-	164
Overseas unquoted	211,611	50,386	-	(51,924)	27,742	-	237,815
Infrastructure							
UK unquoted	67,760	1,314	-	(284)	15,290	-	84,080
overseas unquoted	59,476	21,117	-	(4,711)	(987)	-	74,895
Timber (Overseas unquoted)	34,705	12,767	-	(521)	2,106	-	49,057
Illiquid Debt							
UK unquoted	-	24,000	-	-	442	-	24,442
Overseas unquoted	-	54,424	-	(11,419)	(4,118)	-	38,887
Active currency (UK unquoted)	-	-	-	-	-	-	-
Other managed funds							
UK unquoted	185,029	74,799	-	(3,174)	(2,989)	-	253,665
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	44,712	-	-	-	-	26,630	71,342
Foreign currency	48,796	-	-	25,006	(25,006)	(10,328)	38,468
	4,297,363	640,080	(58,632)	(535,888)	567,785	16,302	4,927,010
Adjustments for							
Transaction costs	-	(488)	-	(303)	791	-	-
Capitalised alternative asset management fees	-	(4,848)	-	-	4,848	-	-
	4,297,363	634,744	(58,632)	(536,191)	573,424	16,302	4,927,010
Other investment balances							
Assets							
Amounts receivable for sales of investments	3,787						1,232
Investment income due	6,737						5,202
Liabilities							
Amounts payable for purchase of investments	(1,428)						(1,873)
Investment withholding tax payable	(113)						(114)
Derivative pending foreign currency contracts							
Assets	4,282						22,902
Liabilities	(390)						(48,206)
	4,310,238						4,906,153

Statement of Accounts - Pension Fund Accounts

2015/16	Value at 1 April 2015	2015/16 Movement					Value at 31 March 2016
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
Fixed interest securities							
UK quoted	232,568	-	-	-	2,918	-	235,486
Equities							
UK quoted	153,973	9,641	(1,694)	(36,200)	(5,693)	-	120,027
Overseas quoted	1,278,488	254,675	(98,301)	(209,200)	18,182	-	1,243,844
UK unit trusts	243,770	37,379	(3,388)	(9,603)	(4,344)	-	263,814
Overseas unit trusts	780,132	137,901	26,087	(142,342)	(7,756)	-	794,022
Global unit trusts	609,145	20,826	77,296	(3,281)	(1,588)	-	702,398
Index linked securities (UK public sector quoted)	216,532	45,558	111	(119,397)	1,565	-	144,369
Property							
UK properties (freehold)	240,745	33,166	-	(9,349)	20,008	-	284,570
UK properties (leasehold)	81,390	24	-	(9,855)	2,651	-	74,210
Property unit trusts	217,452	6,452	5,608	(25,845)	11,422	-	215,089
Private equity							
UK unquoted	164	-	-	(125)	-	-	39
Overseas unquoted	237,815	46,354	-	(69,855)	32,928	-	247,242
Infrastructure							
UK unquoted	84,080	1,330	-	(38,671)	13,985	-	60,724
overseas unquoted	74,895	23,204	-	(10,439)	13,701	-	101,361
Timber (Overseas unquoted)	49,057	19,134	-	(1,074)	10,558	-	77,675
Illiquid Debt							
UK unquoted	24,442	-	-	(69)	921	-	25,294
Overseas unquoted	38,887	12,564	-	(3,784)	3,744	-	51,411
Active currency (UK unquoted)	-	-	-	-	-	-	-
Other managed funds							
UK unquoted	253,665	5,648	-	(4,081)	(6,874)	-	248,358
Overseas unquoted	-	-	-	-	-	-	-
Cash							
Cash deposits held at the custodian/other							
Sterling	71,342	-	-	-	-	5,201	76,543
Foreign currency	38,468	-	-	62,688	(62,688)	1,681	40,149
	4,927,010	653,856	5,719	(630,482)	43,640	6,882	5,006,625
Other investment balances							
Assets							
Amounts receivable for sales of investments	1,232						1,720
Investment income due	5,202						5,912
Liabilities							
Amounts payable for purchase of investments	(1,873)						(203)
Investment withholding tax payable	(114)						(150)
Derivative pending foreign currency contracts							
Assets	22,902						17,300
Liabilities	(48,206)						(35,744)
	4,906,153						4,995,460

Statement of Accounts - Pension Fund Accounts

31 March 2015 £000		31 March 2016 £000
	Fixed interest securities	
232,568	UK quoted	235,486
	Equities	
153,973	UK quoted	120,027
1,278,488	Overseas quoted	1,243,844
243,770	UK unit trusts	263,814
780,132	Overseas unit trusts	794,022
609,145	Global Unit trusts	702,398
216,532	Index linked securities: UK public sector quoted	144,369
	Property	
240,745	UK properties (freehold)	284,570
81,390	UK properties (leasehold)	74,210
217,452	Property unit trusts	215,089
	Private equity	
164	UK unquoted	39
237,815	Overseas unquoted	247,242
	Infrastructure	
84,080	UK unquoted	60,724
74,895	Overseas unquoted	101,361
49,057	Timber: Overseas unquoted	77,675
	Illiquid Debt	
24,442	UK unquoted	25,294
38,887	Overseas unquoted	51,411
253,665	Other managed funds: UK unquoted	248,358
	Derivative contracts	
22,902	Assets: Derivative pending foreign currency contracts	17,300
(48,206)	Liabilities: Derivative pending foreign currency contracts	(35,744)
	Cash deposits	
	Cash deposits held at custodian/other	
71,342	Sterling	76,543
38,468	Foreign currency	40,149
4,901,706		4,988,181
	Other investment balances	
	Assets	
1,232	Amounts receivable for sales of investments	1,720
5,202	Investment income due	5,912
	Liabilities	
(1,873)	Amounts payable for purchase of investments	(203)
(114)	Investment withholding tax payable	(150)
4,906,153	Value at 31 March	4,995,460

Statement of Accounts - Pension Fund Accounts

11.3 Pooled investments representing 5% or more of net assets

The Fund holds the following investments in unit trusts/pooled vehicles which are in excess of 5% of the value of the Fund:

31 March 2015			31 March 2016		
£000	%		£000	%	
309,953	6.3	Legal & General FTSE RAFI AW 3000 Index	355,774	7.1%	
299,192	6.1	M&G Global Dividend Fund	346,624	6.9%	
342,702	6.9	Legal & General North America Equity Index	344,396	6.8%	
248,438	5.0	Legal & General Europe (Ex UK) Equity Index	257,839	5.1%	

11.4 Single investments in excess of 5% of any asset types

The Fund holds the following single investments at 31 March which are in excess of 5% of any asset class or type of security:

31 March 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
UK QUOTED EQUITIES				
18,194	11.8%	Unilever plc Ord GBP0.031	20,188	16.8%
16,197	10.5%	WPP Plc Ord GBP0.10	16,255	13.5%
13,580	8.8%	Compass Group Ord GBP0.10	14,038	11.7%
12,829	8.3%	Lloyds Banking GP Ord GBP0.1	13,263	11.1%
7,169	4.7%	Sabmiller plc Ord050.10	7,592	6.3%
9,821	6.4%	Arm Holdings Ord GBP0.0005	7,224	6.0%
6,243	4.1%	Reckitt Benck GBP Ord GBP0.10	6,020	5.0%
12,650	8.2%	Imperial Tobacco GBP0.10	-	-
12,229	7.9%	Pearson Ord GBP0.25	-	-
8,186	5.3%	Burberry Group Ord GBP0.0005	-	-
UK INDEX LINKED BONDS				
11,088	5.1%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	5,782	4.0%
PROPERTY				
23,950	7.4%	Canning Town Business Park, London	26,900	7.5%
20,000	6.2%	48-49 Chancery Lane, London	21,950	6.1%

Statement of Accounts - Pension Fund Accounts

31 March 2015		Asset type / Asset name	31 March 2016	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
34,217	15.7%	Aviva Investors Property Fund	34,388	16.0%
16,034	7.4%	Industrial Property Investment Fund	19,616	9.1%
17,791	8.2%	Blackrock UK Property Fund	18,846	8.8%
14,754	6.8%	Standard Life Property Fund Closed	16,174	7.5%
8,291	3.8%	Airport Industrial Fund	14,756	6.9%
14,708	6.8%	Lothbury Property Fund	14,726	6.8%
13,559	6.2%	Standard Life UK Shopping Centre	13,986	6.5%
12,187	5.6%	Unite UK Student Accomodation Fund	13,679	6.4%
11,734	5.4%	Henderson UK Retail Warehouse Fund	12,020	5.6%
INFRASTRUCTURE				
84,080	52.9%	Infracapital Partners	60,724	37.5%
46,182	29.1%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	50,068	30.9%
18,634	11.7%	Partners Group Global Infrastructure 2012 LP	31,948	19.7%
10,079	6.3%	Partners Group Global Infrastructure 2011 S.C.A.,SICAR	14,513	9.0%
TIMBER				
38,814	79.1%	Stafford International Timberland VI Fund LP	47,405	61.0%
10,243	20.9%	Stafford International Timberland VII Fund (No 2) LP	30,270	39.0%
ILLIQUID DEBT				
38,887	61.4%	Clareant (formerly Alcentra) European DLF Investor Feeder (No.2) LP	51,412	67.0%
24,443	38.6%	Clareant (formerly Alcentra) Global Multi-Credit Solutions Class IV A GBP	25,294	33.0%
OTHER MANAGED FUNDS				
238,436	94.0%	M&G Alpha Opportunities Fund	237,654	95.7%
CASH				
44,256	40.3%	BNP Paribas Investment Partners GBP	36,360	31.2%
24,347	22.2%	Northern Trust Liquidity Fund GBP	29,730	25.5%
25,934	23.6%	Northern Trust Liquidity Fund US\$	22,334	19.1%
6,355	5.8%	BNP Paribas Investment Partners EURO	-	-

11.5 Derivative contracts

11.5.1 Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment agreement agreed between the Fund and the various investment managers.

Statement of Accounts - Pension Fund Accounts

11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2016 and 31 March 2015.

11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **63.9%** of the Fund's NAS is in overseas assets as at 31 March 2016 (31 March 2015: 62.2%).

To reduce the volatility associated with fluctuating currency rates the Fund has a passive currency programme in place which is managed by Legal and General Investment Management. The Fund hedges **50%** of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

11.5.4 Open forward currency contracts

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000	Net value £000
Up to one month	AUD	28,380	GBP	15,073	116	-	116
Up to one month	CAD	24,175	GBP	12,880	123	-	123
Up to one month	CHF	28,689	GBP	20,793	50	-	50
Up to one month	EUR	81,608	GBP	64,460	242	-	242
Up to one month	GBP	13,491	AUD	28,388	-	(1,702)	(1,702)
Up to one month	GBP	11,605	CAD	24,175	-	(1,398)	(1,398)
Up to one month	GBP	19,408	CHF	28,689	-	(1,435)	(1,435)
Up to one month	GBP	76,654	EUR	104,265	-	(6,018)	(6,018)
Up to one month	GBP	33,840	JPY	6,104,120	-	(3,946)	(3,946)
Up to one month	GBP	6,075	SEK	77,074	-	(540)	(540)
Up to one month	GBP	282,414	USD	421,526	-	(10,863)	(10,863)
Up to one month	GBP	-	ZAR	9	-	-	-
Up to one month	JPY	6,104,120	GBP	38,380	-	(594)	(594)
Up to one month	SEK	77,074	GBP	6,568	47	-	47
Up to one month	USD	421,526	GBP	298,081	-	(4,805)	(4,805)
							-
One to six months	GBP	39,775	AUD	77,717	-	(1,684)	(1,684)
One to six months	GBP	34,466	CAD	66,568	-	(1,335)	(1,335)
One to six months	GBP	53,427	CHF	74,174	-	(615)	(615)
One to six months	GBP	203,578	EUR	260,131	-	(3,028)	(3,028)
One to six months	GBP	142,753	JPY	22,848,727	1,081	-	1,081
One to six months	GBP	21,505	SEK	256,012	-	(512)	(512)
One to six months	GBP	902,202	USD	1,270,596	18,372		18,372
Open forward currency contracts at 31 March 2016					20,031	(38,475)	(18,444)
Open forward currency contracts at 31 March 2015					11,970	(37,274)	(25,304)

Statement of Accounts - Pension Fund Accounts

12. Additional Voluntary Contributions (AVC) Investments

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only.

The AVC providers to the Fund are the Equitable Life Assurance Society, Prudential and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

The Fund relies on individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers. A summary of the information provided by Equitable Life, Prudential and Standard Life to the Fund is shown in the table below.

12.1 Reconciliation of movements in AVC investments

2014/15 £000		2015/16 £000
5,655	Value of AVC fund at beginning of year	6,178
662	Employees contributions	655
592	Investment income and change in market value	(27)
(731)	Benefits paid and transfers out	(969)
<u>6,178</u>		<u>5,837</u>

12.2 Analysis of AVC investments by Provider

2014/15 £000		2015/16 £000
160	Equitable Life	131
389	Prudential	718
5,629	Standard Life	4,988
<u>6,178</u>		<u>5,837</u>

Statement of Accounts - Pension Fund Accounts

13. Current assets and liabilities

13.1 Analysis of current assets

31 March 2015		31 March 2016	
£000		£000	£000
Cash Balances			
2,457	Cash at bank	788	
11,510	Cash on short term deposits within 3 months	25,523	
<u>13,967</u>			26,311
Debtors and payments in advance			
3,774	Contributions due – employees	3,784	
11,823	Contributions due – employers	13,398	
547	Sundry debtors	487	
<u>16,144</u>			17,669
<u>30,111</u>	Total		<u>43,980</u>

13.2 Analysis of debtors

31 March 2015			31 March 2016		
Short term	Long term		Short term	Long term	
£000	£000		£000	£000	
3,243	6,309	Central Government	3,505	5,058	
11,274	77	Other Local Authorities	11,412	24	
42	-	NHS Bodies	29	-	
860	70	Public Funded Bodies	2,033	114	
725	-	Other	690	-	
<u>16,144</u>	<u>6,456</u>	Total	<u>17,669</u>	<u>5,196</u>	

13.3 Analysis of long term debtors

31 March 2015		31 March 2016
£000		£000
157	Financial strain instalments due	83
6,299	Other employer contributions due	5,113
<u>6,456</u>	Total	<u>5,196</u>

Statement of Accounts - Pension Fund Accounts

13.4 Contingent assets

To protect the Fund from employer default the Funding Strategy sets out safeguards to be in place on all new admission agreements. These can include a guarantee from another Fund employer with sufficient covenant strength, and a surety bond or other contingent asset.

13.5 Analysis of current liabilities

31 March 2015 £000		31 March 2016 £000
	Unpaid benefits and other current liabilities	
(715)	Contributions due – employers	(193)
(3,168)	Investment manager fees payable	(3,037)
(4,572)	Benefits payable	(4,091)
(1,642)	Other	(211)
<u>(10,097)</u>	Total	<u>(7,532)</u>

13.6 Analysis of creditors

31 March 2015 £000		31 March 2016 £000
	Creditors and receipts in advance	
(261)	Central Government	(111)
(3,932)	Other Local Authorities	(1,399)
(109)	NHS Bodies	(2)
(590)	Public Funded Bodies	(851)
(5,205)	Other	(5,169)
<u>(10,097)</u>	Total	<u>(7,532)</u>

13.7 Contingent liabilities and contractual commitments

As at 31 March 2016, the Fund had a commitment to contribute a further **£479.2m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2015: £300.7m). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

Statement of Accounts - Pension Fund Accounts

14. Taxes on income

The table below provides a breakdown of the taxes paid by the Fund in the UK and overseas.

2014/15 £000		2015/16 £000
551	UK withholding tax	560
2,077	Overseas withholding tax	3,157
102	Payment to HMRC in respect of returned contributions	117
<u>2,730</u>		<u>3,834</u>

15. Related party transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention in making this disclosure is to make explicit the extent to which the Fund might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to negotiate freely with the Fund.

15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.214m** in 2015/16 (2014/15: £1.702m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£50.956m** to the Fund in 2015/16 (2014/15: **£50.185m**). No significant amounts were owing to and due to be paid from the Fund in the year.

Surplus cash is invested by the County Council's treasury management team on the sterling money markets, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Strategy Board on **23 March 2016**. This service is provided to the Fund at a cost of **£26,000** (2014/15: £26,000).

During the year to 31 March 2016, the Pension Fund had an average investment balance of **£27.089m** (2014/15: £20.096m) earning **£143,000** interest (2014/15: £108,000).

15.2 Governance

None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no

Statement of Accounts - Pension Fund Accounts

material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

15.3 Members of the LGPS

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors were also entitled to join the Pension Fund. However, under legislation introduced from 1 April 2014, the entitlement for Councillors to join the Pension Fund was removed. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2015/16, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ S. Child	▪ Cllr N. J. Hume
Representative of scheme employers	▪ Cllr S. Barker
▪ C. Riley	▪ Cllr J. Whitehouse *
Representatives of small employing bodies	▪ Cllr K. Bobbin *
▪ J. Moore	▪ Cllr M. Mackrory *

** Membership relates to non councillor service.*

From 1 April 2015 pension funds were required to establish a local Pensions Board under section 5 of the Public Service Pensions Act 2013 and Local Government Pension Scheme Regulations 2013. Members of this Board, (Essex Pension Fund Advisory Board) who, during 2015/16, were also members of the LGPS are listed below:

Representative of scheme employers	Representative of scheme members
▪ J. Durrant	▪ K. Flowers
▪ Cllr B. Johnson	▪ P. Hewitt
▪ Cllr S. Walsh	▪ J. Hunt
	▪ M. Paget

As at 31 March 2016 Keith Neale, independent investment adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year. Keith Neale ceased his role as independent investment adviser at the end of July 2015.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2015/16 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2015/16 approximately **2%** (2014/15: 2%) of the Executive Director for Corporate and Customer Services time was spent on the Pension Fund, with other officers spending 100% of their time in

Statement of Accounts - Pension Fund Accounts

this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2015/16 was **£164,000** (2014/15: £161,000). The 2015/16 current service cost in respect of these personnel was **£75,000** (2014/15: £63,000). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

16. Agency Services

The Essex Pension Fund pays discretionary awards to former employees of both current and former employers' of the Fund. The amounts paid are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

The sums are disclosed below:

2014/15 £000		2015/16 £000
1,604	Administering Authority	1,554
5,616	Scheduled Bodies	5,509
-	Admitted Bodies	-
150	Community Admission Bodies	152
1	Transferree Admission Bodies	1
2	Resolution Bodies	2
29	Former employers	22
7,402	Total	7,240

17. Financial Instruments

17.1 Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement headings. No financial assets were reclassified during the accounting period.

Statement of Accounts - Pension Fund Accounts

31 March 2015			Asset type	31 March 2016		
Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets			
232,568	-	-	Fixed interest securities	235,486	-	-
3,065,508	-	-	Equities	3,124,105	-	-
216,532	-	-	Index linked securities	144,369	-	-
217,452	-	-	Pooled unit trusts	215,089	-	-
237,979	-	-	Private equity	247,281	-	-
148,896	-	-	Infrastructure	143,049	-	-
49,057	-	-	Timber	77,675	-	-
24,442	-	-	Illiquid debt	25,293	-	-
253,665	-	-	Other managed funds	248,358	-	-
22,902	-	-	Derivative contracts	17,300	-	-
-	123,777	-	Cash deposits	-	143,003	-
6,434	-	-	Other investment balances	7,632	-	-
-	-	-	Debtors	-	-	-
4,475,435	123,777	-		4,485,637	143,003	-
			Financial liabilities			
(48,206)	-	-	Derivative contracts	(35,744)	-	-
(1,987)	-	-	Other investments balances	(353)	-	-
-	-	(3,168)	Creditors	-	-	(3,037)
(50,193)	-	(3,168)		(36,097)	-	(3,037)
4,425,242	123,777	(3,168)	Balance at the end of the year	4,449,540	143,003	(3,037)
		4,545,851	Total			4,589,506

17.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2015 £000		Asset value as at 31 Mar 2016 £000
	Financial assets	
576,632	Fair value through profit and loss	75,863
(25,006)	Loans and receivables	(62,688)
551,626	Total	13,175

Statement of Accounts - Pension Fund Accounts

17.3 Fair value of financial instruments and liabilities

31 March 2015			31 March 2016	
Carry value	Fair value		Carry value	Fair value
£000	£000		£000	£000
		Financial assets		
4,475,435	4,475,435	Fair value through profit and loss	4,485,637	4,485,637
123,777	123,777	Loans and receivables	143,003	143,003
4,599,212	4,599,212		4,628,640	4,628,640
		Financial liabilities		
(50,193)	(50,193)	Fair value through profit and loss	(36,097)	(36,097)
(3,168)	(3,168)	Financial liabilities measured at amortised cost	(3,037)	(3,037)
(53,361)	(53,361)		(39,134)	(39,134)
4,545,851	4,545,851	Total net financial assets	4,589,506	4,589,506

17.4 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

- **Level 1** – Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Financial instruments where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Financial instruments where at least one input that could have significant effect on the instruments valuation is not based on observable market data.
Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on valuations provided by the general partners to the private equity funds in which the Essex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IRRS and US GAAP. Valuations are usually undertaken annually at the end of December, with unaudited valuations provided by the general partner as at 31 March.

Statement of Accounts - Pension Fund Accounts

The valuations of infrastructure and timber are based on net asset value provided by the fund manager.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Level 1 to 3 based on the level at which the fair value is observable.

Values as at 31 March 2015				Values as at 31 March 2016		
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000
			Financial assets			
3,543,944	471,117	460,374	Fair value through profit and loss	3,528,892	463,447	493,298
123,777	-	-	Loans and receivables	143,003	-	-
3,667,721	471,117	460,374		3,671,895	463,447	493,298
			Financial liabilities			
(50,193)	-	-	Fair value through profit and loss	(36,097)	-	-
(3,168)	-	-	Financial liabilities measured at amortised cost	(3,037)	-	-
(53,361)	-	-		(39,134)	-	-
3,614,360	471,117	460,374	Total net assets per level	3,632,761	463,447	493,298
			Total Net Assets			
4,545,851				4,589,506		

18. Nature and extent of risks arising

18.1 Risk and risk management

The Fund's primary long term risk is that the Fund assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore 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 of the Fund's investments. The Fund achieves this through asset diversification to reduce its exposure to a variety of financial risks: market risk; other price risk; currency risk; 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 Investment Steering Committee (ISC). Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Statement of Accounts - Pension Fund Accounts

18.2 Market risk

Market risk is the possibility that financial loss might occur as a result of fluctuations in equity and commodity prices, interest rates and foreign exchange. The level of risk exposure depends on market conditions, expectation of future price and yield movements and the asset mix.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its institutional investment consultant, Hymans Robertson LLP, along with the Fund's independent adviser and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Statement of Investment Principles which is available from the website www.essexpensionfund.co.uk. Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

18.3 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, its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The LGPS investment regulations also contain prescribed limits to avoid over-concentration in specific areas.

18.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson LLP, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2015/16.

The percentages shown in the following table are broadly consistent with a movement of one standard deviation in the value of the Fund's assets, and assumes that all other variables in particular foreign exchange rates and interest rates remain unchanged.

Statement of Accounts - Pension Fund Accounts

31st March 2015 Potential Market movement %	Asset type	31st March 2016 Potential Market movement %
9.2%	UK bonds	9.2%
17.0%	UK equities	18.0%
21.0%	Overseas equities	21.0%
7.0%	UK index linked bonds	7.0%
15.0%	Pooled property unit trusts	15.0%
29.0%	Private equity	29.0%
15.0%	Infrastructure funds	15.0%
15.0%	Timber	15.0%
14.0%	Illiquid debt	14.0%
15.0%	Property	15.0%
1.0%	Cash	1.0%

Had the market price of the Fund investments increased/ (decreased) in line with the above assumptions the change in the net assets available to pay benefits would have been as follows:

31st March 2015 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2016 £000	Percentage change %	Value increase £000	Value decrease £000
109,810	1.0%	110,908	108,712	Cash and equivalents	116,692	1.0%	117,859	115,525
				Investment portfolio assets				
232,568	9.2%	253,964	211,172	UK bonds	235,486	9.2%	257,151	213,821
153,973	17.0%	180,148	127,798	UK equities	120,027	18.0%	141,632	98,422
1,278,488	21.0%	1,546,970	1,010,006	Overseas equities	1,243,844	21.0%	1,505,051	982,637
243,770	17.0%	285,211	202,329	UK equities unit trusts	263,814	18.0%	311,301	216,327
780,132	21.0%	943,960	616,304	Overseas equities unit trusts	794,022	21.0%	960,767	627,277
609,145	21.0%	737,065	481,225	Global unit trusts	702,398	21.0%	849,902	554,894
216,532	7.0%	231,689	201,375	UK index linked bonds	144,369	7.0%	154,475	134,263
217,452	15.0%	250,070	184,834	Pooled property unit trusts	215,089	15.0%	247,352	182,826
237,979	29.0%	306,993	168,965	Private equity	247,281	29.0%	318,992	175,570
158,975	15.0%	182,821	135,129	Infrastructure	162,085	15.0%	186,398	137,772
49,057	15.0%	56,416	41,698	Timber	77,675	15.0%	89,326	66,024
63,329	14.0%	72,195	54,463	Illiquid Debt	76,705	14.0%	87,444	65,966
253,665	15.0%	291,715	215,615	Other managed funds	248,358	15.0%	285,612	211,104
322,135	15.0%	370,455	273,815	Property	358,780	15.0%	412,597	304,963
(25,304)	-	(25,304)	(25,304)	Net derivative assets	(18,444)	-	(18,444)	(18,444)
5,202	-	5,202	5,202	Investment income due	5,912	-	5,912	5,912
(114)	-	(114)	(114)	WHT payable	(150)	-	(150)	(150)
1,232	-	1,232	1,232	Amounts receivable for sales	1,720	-	1,720	1,720
(1,873)	-	(1,873)	(1,873)	Amounts payable for purchases	(203)	-	(203)	(203)
4,906,153		5,799,723	4,012,583	Total assets available to pay benefits	4,995,460		5,914,694	4,076,226

18.5 Sensitivity of funding position

Market conditions and the underlying investment performance of the Fund's assets will have a direct impact on the funding position, albeit that a smoothed rather than spot rate methodology is used by the Fund's Actuary.

Statement of Accounts - Pension Fund Accounts

Barnett Waddingham's approach adopted at the 2013 Actuarial Valuation includes the following features:

- Financial assumptions such as inflation and the discount rate are based on smoothed market indicators from around the valuation date, specifically over the six month period from 1 January 2013 to 30 June 2013. The discount rate is based on the expected investment return from the Fund's assets.
- The market value of assets at 31 March 2013 is then adjusted to also be smoothed over the same six month period so that a consistent comparison can be made with the liabilities.

18.6 Interest rate risk

The Fund's investments are subject to interest rate risk (i.e. to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates). Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and, to a lesser degree, the return it receives on cash held. The Fund has three bond mandates; a passive bond mandate with Legal and General and bond mandates with MandG Investments (MandG) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. During 2015/16, the Fund commenced an investment in an illiquid debt mandate.

The Fund's direct exposure to interest rate movements is shown below. The underlying assets are shown at their fair value.

Asset value as at 31 Mar 2015 £000	Asset type	Asset value as at 31 Mar 2016 £000
109,810	Cash and cash equivalents	116,692
13,967	Cash balances	26,311
232,568	Fixed interest securities	235,486
216,532	Index-linked securities	144,369
63,329	Illiquid debt	76,705
636,206	Total assets	599,563

18.7 Interest rate risk sensitivity analysis

Interest rates have remained constant but this is not always the case and can vary. As a result, any variation in interest rates affects the level of income achievable and the value of the net assets of the Fund to pay benefits. The Fund's institutional consultants, Hymans Robertson, have undertaken a sensitivity analysis and advised that it is reasonable in today's climate that a movement increase/(decrease) of not more than 100 basis points on a year to year basis is possible based on past experience.

Statement of Accounts - Pension Fund Accounts

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 100 basis points change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
109,810	1,098	(1,098)	Cash and cash equivalents	116,692	1,167	(1,167)
13,967	140	(140)	Cash balances	26,311	263	(263)
232,568	2,326	(2,326)	Fixed interest securities	235,486	2,355	(2,355)
216,532	2,165	(2,165)	Index-linked securities	144,369	1,444	(1,444)
63,329	633	(633)	Illiquid debt	76,705	767	(767)
636,206	6,362	(6,362)	Total change in assets available	599,563	5,996	(5,996)

18.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To reduce the volatility associated with fluctuating currency rates the ISC has for the Fund put in place a passive currency overlay programme which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro, Yen and other major overseas currency exposure within the portfolios managed by the growth managers.

The following table summarises the Fund's currency exposure as at 31 March 2016 and prior year:

31 Mar 2015 £000	Asset type	31 Mar 2016 £000
1,278,488	Overseas equities quoted	1,243,844
780,132	Overseas unit trusts	794,022
609,145	Global unit trusts	702,398
237,815	Overseas private equity	247,242
74,895	Overseas infrastructure	101,361
49,057	Overseas timber	77,675
38,887	Overseas illiquid debt	51,411
3,068,419	Total overseas assets	3,217,953

Statement of Accounts - Pension Fund Accounts

18.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of **13%** (2014/15: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2014/15: 13%) strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2016 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,278,488	1,444,691	1,112,285	Overseas equities quoted	1,243,844	1,405,544	1,082,144
780,132	881,549	678,715	Overseas unit trusts	794,022	897,245	690,799
609,145	688,334	529,956	Global unit trusts	702,398	793,710	611,086
237,815	268,731	206,899	Overseas private equity	247,242	279,383	215,101
74,895	84,631	65,159	Overseas infrastructure	101,361	114,538	88,184
49,057	55,434	42,680	Overseas timber	77,675	87,773	67,577
38,887	43,942	33,832	Overseas illiquid debt	51,411	58,094	44,728
3,068,419	3,467,312	2,669,526	Total change in assets available	3,217,953	3,636,287	2,799,619

18.10 Credit Risk

Credit risk is the possibility that the counterparty to a transaction or a financial instrument might fail in its obligation to pay amounts due to the Pension Fund resulting in a financial loss. The market value of investments reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk in all its operational activities through forward currency contracts, derivative positions (futures) where applicable and treasury management activities. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

18.11 Commercial

Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made.

Statement of Accounts - Pension Fund Accounts

Monthly receipt of contributions is closely monitored by the Employer team. In addition, member records are updated throughout the year with any new information provided to them. At the end of the financial year employers are required to provide an annual return which is used to reconcile both member information and the contributions paid over in the year by both the employee and the employer.

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2016 is provided in Note 13.

18.12 Forward currency contracts

Forward currency contracts are undertaken by Legal and General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2016 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management and Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

Exposure at 31 March 2015		Counterparty	Exposure at 31 March 2016	
£000	%		£000	%
30,230	1.3%	Barclays Capital	-	-
-	-	BNP Paribas Capital Markets	40,156	1.8%
269,359	11.6%	Citigroup	123,342	5.4%
42,407	1.8%	Australian Commonwealth Bank	-	-
81,717	3.5%	Deutsche Bank AG	136,249	6.0%
273,907	11.8%	HSBC	301,887	13.2%
177,445	7.6%	J P Morgan Securities	137,876	6.1%
118,496	5.1%	Lloyds	406,036	17.8%
203,107	8.7%	Merrill Lynch	177,099	7.8%
258,906	11.2%	Morgan Stanley	128,820	5.6%
100,383	4.3%	RBC Europe	844	0.0%
203,380	8.8%	RBS	168,668	7.4%
26,538	1.1%	SEB	-	-
273,547	11.8%	SG Securities	-	-
12,769	0.6%	Standard Chartered	259,625	11.4%
120,580	5.2%	UBS	137,649	6.0%
129,012	5.6%	Westpac Bank Corp	261,879	11.5%
2,321,783	100.0%	Total	2,280,130	100.0%

Statement of Accounts - Pension Fund Accounts

18.13 Futures

There were no open future contracts as at 31st March 2015 or 31st March 2016.

18.14 Bonds

Credit risk will also be considered by the Fund's bond managers in their portfolio construction. A bond is a saleable debt instrument issued by a corporation, government or other entity, the instrument may be purchased direct from the issuer or in the secondary market.

In addition to the passive manager, Legal and General, the Fund has two active bond managers MandG and GSAM. The former also manage a financing fund.

Both MandG and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2016, the average credit quality of the MandG bond mandate was **BBB+** rated (**A-** rated as at 31 March 2015). The portfolio had suffered five defaults since inception, one of which was experienced in the financial year ended 31 March 2015. The average credit rating of the financing fund was **BB+** rated as at 31 March 2016 (**BB+** rated as at 31 March 2015), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2016 had an average credit quality of **AA+** (**A-** rated as at 31 March 2015) and has suffered five defaults since inception, three occurring in 2015/16 and two occurring 2011/12.

18.15 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds Bank plc, which is also banker to the Administering Authority. The Bank holds an **A** (**A** in 2014/15) long term credit rating with Standard and Poor. Cash is invested with Lloyds and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2016 **£26.311m** (31 March 2015: £13.967m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

Cash managed externally – The majority of the cash held by the Fund's custodian, the Northern Trust, is swept overnight to one of two AAA rated money market funds. As at 31 March 2016, the total balance held in the Sterling and US dollar AAA money market funds was **£88.424m** with a smaller balance of **£28.268m** held in the custodian current account (31 March 2015: £103.584m and £6.226m respectively). The use of a money market fund provides an underlying

Statement of Accounts - Pension Fund Accounts

diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

The table below provides a breakdown of where the Pension Fund cash is managed:

31 March 2015			31 March 2016		
Rating	£000		Rating	£000	
		Cash managed externally			
		Cash held on deposit (GLF)			
AAA	53,303	BNP Paribas	AAA	36,360	
AAA	50,281	Northern Trust	AAA	52,064	
		Cash held in Current Account			
AA-	6,226	Northern Trust	AA-	28,268	
	109,810	Total cash managed externally		116,692	
		Cash managed internally			
		Cash held on deposit			
AAA	-	Blackrock	AAA	3,002	
AA-	7,508	HSBC	AA-	7,508	
AAA	2	Standard Life (formerly IGNIS)	AAA	10,004	
AA-	4,000	Svenska Handelsbanken	AA-	5,009	
		Cash held in Current Account			
A	2,457	Lloyds Bank plc	A	788	
	13,967	Total cash managed internally		26,311	
	123,777	Total		143,003	

Statement of Accounts - Pension Fund Accounts

The following table summarises the maximum exposure to credit risk of the cash held with Northern Trust and other financial institutions.

31 March 2015		31 March 2016	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
Cash managed externally					
Deposit with bank and other financial institutions					
103,584	AAA Rated	88,424	80,000	0.0370%	33
6,226	AA Rated	28,268	N/A	0.0320%	9
<u>109,810</u>	Total cash managed externally	<u>116,692</u>			<u>42</u>
Cash managed internally					
Deposit with bank and other financial institutions					
2	AAA Rated	13,006	10,000	0.0370%	5
11,508	AA Rated	12,517	7,500	0.0320%	4
2,457	A Rated	788	5,000	0.0810%	1
<u>13,967</u>	Total cash managed internally	<u>26,311</u>			<u>10</u>
<u>123,777</u>	Total cash	<u>143,003</u>			<u>52</u>

18.16 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they fall due.

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **22 February 2016**, 27% of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions and investment income received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2016 had immediate access to its pension fund cash holdings held internally and externally of **£143.003m** (31 March 2015: £123.777m). These monies are primarily invested on an overnight basis on the money market.

Statement of Accounts - Pension Fund Accounts

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Statement of Investment Principles outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts.

18.17 Refinancing Risk

Refinancing risk is the risk of the Fund replenishing a significant proportion of its financial assets at a time of unfavourable interest rates. The Fund is not subject to this particular risk as it does not hold any assets that would require refinancing in the future.

18.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2016 Northern Trust had **\$6.20 trillion** of assets under custody (31 March 2015: \$6.09 trillion) and had a credit rating of **AA-** (31 March 2015: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

18.19 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of the custodian's performance measurement service to monitor performance. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

19. Further information

The Council publishes a separate Pension Fund Annual Report and Accounts. Copies may be obtained from the website www.essexpensionfund.co.uk or by contacting:

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