

Section Two - 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.

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Fund Account for the year ended 31 March 2015

2013/14 Restated £000	Note		2014/15	
			£000	£000
		Dealing with members and others directly involved in the Fund		
		Income		
		Contributions receivable		
(48,843)	8	Member contributions	(52,676)	
(164,798)	8	Employers' contributions	(188,654)	
(10,157)	8	Transfers in from other Pension Funds	(8,181)	
(66)		Other income	(149)	
<u>(223,864)</u>		Total income		(249,660)
		Expenditure		
		Benefits payable		
162,589	8	Pensions	170,900	
36,518		Commutation of pensions & lump sum retirement benefits	31,876	
3,951		Lump sum death benefits	4,440	
		Payments to and on account of Leavers		
29		Refunds of contributions	183	
7		State scheme premiums	91	
9,967	8	Transfers out to other schemes	64,563	
24,011	10	Management expenses	28,779	
<u>237,072</u>		Total expenditure		300,832
13,208		Net additions from dealings with members		51,172
		Returns on investments		
(63,564)	9	Investment income	(75,727)	
(331,555)	11	Profit and losses on disposal of investments and changes in market value of investments	(573,424)	
3,010	14	Taxes on income	2,730	
<u>(392,109)</u>		Net returns on investments		(646,421)
(378,901)		Net (increase)/decrease in the assets available for benefits during the year		(595,249)
(3,958,473)		Net assets as at 1 April		(4,337,374)
<u>(4,337,374)</u>		Net assets as at 31 March		(4,932,623)

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Net Assets Statement as at 31 March 2015

31 March 2014 £000	Note	31 March 2015	
		£000	£000
	11	Investments at market value	
		Investment assets	
186,598		232,568	
2,644,294		3,065,508	
344,996		216,532	
237,300		322,135	
231,664		217,452	
212,033		237,979	
127,236		158,975	
34,705		49,057	
-		63,329	
185,029		253,665	
4,282		22,902	
93,508		109,810	
10,524		6,434	
<u>4,312,169</u>			<u>4,956,346</u>
		Investment liabilities	
(390)		(48,206)	
<u>(1,541)</u>		<u>(1,987)</u>	
<u>(1,931)</u>			<u>(50,193)</u>
<u>4,310,238</u>			<u>4,906,153</u>
		Long term assets	
7,907			6,456
	13	Current assets and liabilities	
		Current Assets	
13,638			13,967
18,516			16,144
<u>4,350,299</u>			<u>4,942,720</u>
		Current liabilities	
(12,925)			(10,097)
<u>4,337,374</u>			<u>4,932,623</u>
		Net assets of the scheme available to fund benefits	

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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 Board and Investment Steering Committee. 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 Investment Steering Committee (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).

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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 **580** 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 2015. 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.

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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 2014/15 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 2014/15 (SORP) and the Financial Reports of Pension Schemes Statement of Recommended Practice (revised May 2007). 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 2014/15 financial year and its position as at 31 March 2015. 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 2015 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 2014/15 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,

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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 <i>Rate per annum</i>
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 17. 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).

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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 2015 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 2015 is 18 years which in turn means a discount rate of **3.3%** per annum (31 March 2014: 4.4%). The value of the Fund's promised retirement benefits as at 31 March 2015 was **£7,517m** (31 March 2014: £6,515m).

Similar calculations were carried out as per the prior actuarial valuation date of 31 March 2010, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of **5.6%** per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£4,720m**.

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.

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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 148).

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 148).

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 162).

▪ 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

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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'.

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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 2014/15 this totalled **£1.272m** (£1.041m in 2013/14).

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 2014/15, this totalled **£1.306m** (£1.543m in 2013/14).

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. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The Fund had one manager, FIL Pensions Management, with an element of their being fee performance related. This ceased in November 2013, when the manager's contract was terminated.

No performance related fees were payable in 2014/15 (£401,000 in 2013/14).

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 2014/15, **£2.957m** of fees is based on such estimates (2013/14: £2.634m). 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.

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

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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 2014/15, these are valued as at 31 December 2014, 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 2015 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.

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- **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 2015, 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.

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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.

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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 2015 was **£238m** (31 March 2014: £212m).

- **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 M&G 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 2015 was **£159.0m** (31 March 2014: £127.2m).

- **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 2015 was **£49.1m** (31 March 2014: £34.7m).

- **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.

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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 2015 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 annual 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 £509.3m. There is a risk that this investment may be under or overstated in the accounts.</p>

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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 2014		31 March 2015 <i>Provisional</i>
49,516	Contributors	50,965
43,693	Deferred pensioners	44,038
35,254	Pensioners	35,455

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

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8.2 Pension benefits payable

2013/14 £000		2014/15 £000
60,296	Administering Authority	63,322
85,589	Scheduled Bodies	89,588
7,681	Admitted Bodies	8,035
4,354	Community Admission Bodies	4,587
4,171	Transferee Admission Bodies	4,849
498	Resolution Bodies	519
<u>162,589</u>		<u>170,900</u>

8.3 Contributions receivable

8.3.1 By category

Contributions receivable from employers are set out below:

2013/14 £000		2014/15 £000
48,843	Employee's normal contributions	52,676
97,611	Employers' normal contributions	113,458
62,905	Employers' deficit recovery contributions	71,706
4,282	Employers' augmentation	3,490
<u>213,641</u>		<u>241,330</u>

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

Following the 2013 Actuarial Valuation the Funding Strategy allowed employers to pay deficit as a triennial, annual or monthly payment to the Fund. Fourteen employers chose to pay the triennial option, four of which paid in 2013/14 financial year a total of £82,955. The remaining ten paid in April 2015 a total of **£26.709m**. The fourteen employers are made up of five District Councils, two Scheduled and seven Community Admission Bodies.

In 2014/15 Colchester Woman's Refuge entered into a three year payment cessation (termination) plan paying the first instalment of **£25,000** in 2014/15. Two further payments of **£21,056** are due in 2015/16 and 2016/17. These payments are shown within long term and current assets.

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In 2013/14 Final termination amounts were received from Westminster Drugs Project **£58,000**, Sodexo Ltd **£31,000** and from RM Education **£60,000**.

8.3.2 By type

2013/14			2014/15	
Member £000	Employer £000		Member £000	Employer £000
15,355	49,821	Administering Authority	16,457	50,185
28,590	97,337	Scheduled Bodies	31,284	121,559
848	4,448	Admitted Bodies	949	5,179
1,449	5,127	Community Admission Bodies	1,342	4,747
2,371	7,367	Transferee Admission Bodies	2,389	6,259
230	698	Resolution Bodies	255	725
48,843	164,798		52,676	188,654

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

2013/14			2014/15	
Transfers in £000	Transfers out £000		Transfers in £000	Transfers out £000
-	-	Group transfers	-	58,484
10,157	9,967	Individual transfers	8,181	6,079
10,157	9,967	Total	8,181	64,563

In 2014/15 a group transfer to Greater Manchester Pension Fund was paid in respect of Probation Services. No amounts were payable in respect of group transfers to other schemes during 2013/14.

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9. Investment income

9.1 By Type

2013/14 £000		2014/15 £000
36,299	Dividends from equities	47,057
2,732	Income from index linked securities	2,009
7,448	Income from pooled property investments	6,268
14,386	Net rent from properties	17,325
56	Interest from cash deposits	488
788	Other	875
61,709	Total investment income showing net property rent	74,022
	Add back:	
1,855	Property operating expenses	1,705
63,564	Total investment income showing gross property rent	75,727

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

2013/14 £000		2014/15 £000
15,735	Rental Income from investment property	17,056
(1,250)	Direct operating expenses arising from investment property	(1,696)
14,485	Total	15,360

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9.3 Contractual rental receivable

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

2013/14 £000		2014/15 £000
14,304	Within one year	16,861
47,368	Between one and five years	53,752
44,816	Beyond five years	45,024
106,488	Total	115,637

9.4 Movement in the fair value of investment properties

	Freehold £000	Leasehold £000	Total £000
Fair value at 1 April 2013	146,340	49,325	195,665
Additions	30,272	9,539	39,811
Disposals	(9,854)	-	(9,854)
Net gain/loss on fair value	7,572	4,106	11,678
Fair value at 31 March 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

10. Management expenses

10.1 By type

2013/14 £000		2014/15 £000
1,041	Administration costs	1,272
21,427	Investment management expenses	26,201
1,543	Oversight and governance	1,306
24,011	Total	28,779

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The direct running costs recharged back to the Fund are now apportioned out as per the CIPFA guidance on LGPS Management Costs.

10.2 Investment management expenses

2013/14 £000		2014/15 £000
20,900	Management fees	25,909
527	Custody fees	292
<u>21,427</u>	Total	<u>26,201</u>

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:

2014			2015		
£m	%		£m	%	
-	-	Alcentra Ltd	64	1.3	
510	11.8	Aviva Investors	586	11.9	
383	8.9	Baillie Gifford and Co	489	10.0	
217	5.0	First State Investments (UK) Ltd	250	5.1	
186	4.3	Goldman Sachs Asset Management International	233	4.7	
226	5.3	Hamilton Lane	247	5.0	
1,531	35.5	Legal and General Investment Management	1,551	31.6	
4	0.1	Legal and General Investment Management (Currency)	(26)	-0.5	
290	6.7	Longview Partners	370	7.6	
325	7.6	Marathon Asset Management Ltd	379	7.7	
277	6.4	M&G Investments	299	6.1	
166	3.9	M&G Investments Alpha Opportunities	238	4.9	
68	1.6	M&G Investments Infracapital	84	1.7	
15	0.3	M&G Investments Financing Fund	12	0.2	
60	1.4	Partners Group Management II S.à r.l	75	1.5	
4	0.1	RWC Specialist UK Focus Fund (formerly Hermes)	3	0.1	
35	0.8	Stafford Timberland Limited	49	1.0	
13	0.3	Other	3	0.1	
<u>4,310</u>	<u>100.0</u>		<u>4,906</u>	<u>100.0</u>	

Section Two - 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:

2013/14	Value at 1 April 2013	2013/14 Movement					Cash Movement	Value at 31 March 2014
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value			
	£000	£000	£000	£000	£000	£000	£000	
Fixed interest securities								
UK quoted	179,980	-	-	-	6,618	-	186,598	
Equities								
UK quoted	89,363	22,180	33,073	(13,678)	(2,305)	-	128,633	
Overseas quoted	1,005,806	304,909	(20,700)	(316,123)	79,437	-	1,053,329	
UK unit trusts	351,907	48,559	(104,981)	(98,113)	31,395	-	228,767	
Overseas unit trusts	980,811	480,613	(479,084)	(372,057)	75,697	-	685,980	
Global unit trusts	-	28,972	506,491	-	12,122	-	547,585	
Index linked securities (UK public sector quoted)	264,371	60,626	65,114	(27,828)	(17,287)	-	344,996	
Property								
UK properties (freehold)	146,340	30,272	-	(9,854)	7,572	-	174,330	
UK properties (leasehold)	49,325	9,539	-	-	4,106	-	62,970	
Property unit trusts	222,930	22,304	-	(22,532)	8,962	-	231,664	
Private equity								
UK unquoted	382	-	-	-	40	-	422	
Overseas unquoted	196,613	34,284	-	(39,912)	20,626	-	211,611	
Infrastructure								
UK unquoted	71,594	1,525	-	(7,301)	1,942	-	67,760	
overseas unquoted	41,973	22,084	-	(2,829)	(1,752)	-	59,476	
Timber (Overseas unquoted)	30,972	5,931	-	(627)	(1,571)	-	34,705	
Illiquid Debt								
UK unquoted	-	-	-	-	-	-	-	
Overseas unquoted	-	-	-	-	-	-	-	
Active currency (UK unquoted)	25,332	-	(23,509)	-	(1,823)	-	-	
Other managed funds								
UK unquoted	175,598	4,720	-	(2,383)	7,094	-	185,029	
Overseas unquoted	-	-	-	-	-	-	-	
Cash								
Cash deposits held at the custodian/other								
Sterling	68,439	-	-	-	-	(23,727)	44,712	
Foreign currency	28,042	-	-	(99,601)	99,601	20,754	48,796	
	3,929,778	1,076,518	(23,596)	(1,012,838)	330,474	(2,973)	4,297,363	
Adjustments for								
Transaction costs	-	(651)	-	(430)	1,081	-	-	
Capitalised alternative asset management fees	-	-	-	-	-	-	-	
	3,929,778	1,075,867	(23,596)	(1,013,268)	331,555	(2,973)	4,297,363	
Other investment balances								
Assets								
Amounts receivable for sales of investments	4,156						3,787	
Investment income due	6,414						6,737	
Liabilities								
Amounts payable for purchase of investments	(2,990)						(1,428)	
Investment withholding tax payable	(201)						(113)	
Derivative pending foreign currency contracts								
Assets	1,925						4,282	
Liabilities	(18,010)						(390)	
	3,921,072						4,310,238	

Section Two - Pension Fund Accounts

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
Properties							
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

For 2014/15, the total transaction costs were **£791,000** (2013/14: £1.081m). These have been adjusted from the table above and are now included within investment management expenses (Note 10).

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31 March 2014 £000		31 March 2015 £000
	Fixed interest securities	
186,598	UK quoted	232,568
	Equities	
128,633	UK quoted	153,973
1,053,329	Overseas quoted	1,278,488
228,767	UK unit trusts	243,770
685,980	Overseas unit trusts	780,132
547,585	Global Unit trusts	609,145
344,996	Index linked securities: UK public sector quoted	216,532
	Property	
174,330	UK properties (freehold)	240,745
62,970	UK properties (leasehold)	81,390
231,664	Property unit trusts	217,452
	Private equity	
422	UK unquoted	164
211,611	Overseas unquoted	237,815
	Infrastructure	
67,760	UK unquoted	84,080
59,476	Overseas unquoted	74,895
34,705	Timber: Overseas unquoted	49,057
	Illiquid Debt	
-	UK unquoted	24,442
-	Overseas unquoted	38,887
185,029	Other managed funds: UK unquoted	253,665
	Derivative contracts	
4,282	Assets: Derivative pending foreign currency contracts	22,902
(390)	Liabilities: Derivative pending foreign currency contracts	(48,206)
	Cash deposits	
	Cash deposits held at custodian/other	
44,712	Sterling	71,342
48,796	Foreign currency	38,468
4,301,255		4,901,706
	Other investment balances	
	Assets	
3,787	Amounts receivable for sales of investments	1,232
6,737	Investment income due	5,202
	Liabilities	
(1,428)	Amounts payable for purchase of investments	(1,873)
(113)	Investment withholding tax payable	(114)
4,310,238	Value at 31 March	4,906,153

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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 2014			31 March 2015		
£000	%		£000	%	
302,277	7.0	Legal & General North America Equity Index	342,702	6.9	
270,730	6.2	Legal & General FTSE RAFI AW 3000 Index	309,953	6.3	
276,855	6.4	M&G Global Dividend Fund	299,192	6.1	
223,027	5.1	Legal & General Europe (Ex UK) Equity Index	248,438	5.0	

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 2014		Asset type / Asset name	31 March 2015	
£000	%		£000	%
UK QUOTED EQUITIES				
14,820	11.5%	Unilever plc Ord GBP0.031	18,194	11.8%
12,355	9.6%	WPP Plc Ord GBP0.10	16,197	10.5%
12,007	9.3%	Compass Group Ord GBP0.10	13,580	8.8%
10,564	8.2%	Lloyds Banking GP Ord GBP0.1	12,829	8.3%
10,898	8.5%	Imperial Tobacco GBP0.10	12,650	8.2%
8,956	7.0%	Pearson Ord GBP0.25	12,229	7.9%
7,455	5.8%	Arm Holdings Ord GBP0.0005	9,821	6.4%
4,420	3.4%	Burberry Group Ord GBP0.0005	8,186	5.3%
8,969	7.0%	Sabmiller plc Ord USD0.10	7,169	4.7%
UK INDEX LINKED BONDS				
16,960	4.9%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	11,088	5.1%
19,250	5.6%	UK (Govt) Treasury IL Stock 1.875% 22 Nov 2022	9,622	4.4%
17,845	5.2%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2027	9,559	4.4%
19,684	5.7%	UK (Govt) Treasury IL Stock 2.5% 16 April 2020	9,472	4.4%
18,436	5.3%	UK (Govt) Treasury IL Stock 2.5% 17 July 2024	9,378	4.3%
PROPERTY				
-	-	Canning Town Business Park, London	23,950	7.4%
17,400	7.3%	48-49 Chancery Lane, London	20,000	6.2%
13,900	5.9%	55-57 Dean Street, London	14,750	4.6%

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31 March 2014		Asset type / Asset name	31 March 2015	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
27,681	11.9%	Aviva Investors Property Fund	34,217	15.7%
16,156	7.0%	Blackrock UK Property Fund	17,791	8.2%
12,802	5.5%	Industrial Property Investment Fund	16,034	7.4%
12,651	5.5%	Standard Life Property Fund Closed	14,754	6.8%
12,836	5.5%	Lothbury Property Fund	14,708	6.8%
12,154	5.2%	Standard Life UK Shopping Centre	13,559	6.2%
10,872	4.7%	Unite UK Student Accommodation Fund	12,187	5.6%
10,645	4.6%	Henderson UK Retail Warehouse Fund	11,734	5.4%
PRIVATE EQUITY				
11,658	5.5%	New Mountain Partners	11,712	4.9%
10,967	5.2%	Avenue Europe Special Situations Fund II (Euro)	11,226	4.7%
INFRASTRUCTURE				
67,760	53.3%	Infracapital Partners	84,080	52.9%
42,875	33.7%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	46,182	29.1%
10,117	7.9%	Partners Group Global Infrastructure 2012 LP	18,634	11.7%
6,484	5.1%	Partners Group Global Infrastructure 2011 S.C.A., SICAR	10,079	6.3%
TIMBER				
34,705	100.0%	Stafford International Timberland VI Fund LP	38,814	79.1%
-	-	Stafford International Timberland VII Fund (No 2) LP	10,243	20.9%
ILLIQUID DEBT				
-	-	Alcentra European DLF Investor Feeder (No.2) LP	38,887	61.4%
-	-	Alcentra Global Multi-Credit Solutions Class IV A GBP	24,443	38.6%
OTHER MANAGED FUNDS				
166,007	89.7%	M&G Alpha Opportunities Fund	238,436	94.0%
14,529	7.9%	M&G UK Companies Financing Fund	11,921	4.7%
CASH				
34,260	36.6%	BNP Paribas Investment Partners GBP	44,256	40.3%
29,635	31.7%	Northern Trust Liquidity Fund US\$	25,934	23.6%
18,876	20.2%	Northern Trust Liquidity Fund GBP	24,347	22.2%
2,744	2.9%	BNP Paribas Investment Partners EURO	6,355	5.8%

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.

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11.5.2 Futures

There were no outstanding exchange traded futures contracts as at 31 March 2015 and 31 March 2014.

11.5.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **62.2%** of the Fund's portfolio is in overseas assets as at 31 March 2015 (31 March 2014: 59.8%).

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	30,060	GBP	15,871	-	(402)	(402)
Up to one month	CAD	25,769	GBP	13,927	-	(221)	(221)
Up to one month	CHF	32,816	GBP	22,998	-	(239)	(239)
Up to one month	EUR	91,132	GBP	67,043	-	(1,111)	(1,111)
Up to one month	GBP	30,540	AUD	59,924	-	(252)	(252)
Up to one month	GBP	36,442	CAD	68,984	-	(242)	(242)
Up to one month	GBP	21,422	CHF	32,740	-	(1,285)	(1,285)
Up to one month	GBP	132,773	EUR	172,827	7,691	-	7,691
Up to one month	GBP	82,559	JPY	15,153,182	-	(2,602)	(2,602)
Up to one month	GBP	83	NOK	999	-	-	-
Up to one month	GBP	8,523	SEK	103,123	468	-	468
Up to one month	GBP	598,827	USD	917,879	-	(19,605)	(19,605)
Up to one month	GBP	14	ZAR	245	-	-	-
Up to one month	HKD	172	GBP	15	-	-	-
Up to one month	JPY	11,364,882	GBP	64,359	-	(522)	(522)
Up to one month	SEK	95,337	GBP	7,511	-	(64)	(64)
Up to one month	USD	444,105	GBP	299,139	23	-	23
One to six months	GBP	24,700	AUD	47,325	435	-	435
One to six months	GBP	15,023	CAD	27,934	174	-	174
One to six months	GBP	54,867	CHF	78,904	-	(46)	(46)
One to six months	GBP	160,287	EUR	216,942	3,109	-	3,109
One to six months	GBP	125,338	JPY	22,670,237	-	(2,187)	(2,187)
One to six months	GBP	22,719	SEK	289,522	70	-	70
One to six months	GBP	539,709	USD	813,434	-	(8,496)	(8,496)
Open forward currency contracts at 31 March 2015					11,970	(37,274)	(25,304)
Open forward currency contracts at 31 March 2014					7,511	(3,619)	3,892

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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.

2013/14 £000		2014/15 £000
5,840	Value of AVC fund at beginning of year	5,655
413	Employees contributions	662
320	Investment income and change in market value	592
(918)	Benefits paid and transfers out	(731)
5,655		6,178

13. Current assets and liabilities

13.1 Analysis of current assets

31 March 2014 £000		31 March 2015 £000	£000
	Cash Balances		
2,660	Cash at bank	2,457	
10,978	Cash on short term deposits within 3 months	11,510	
13,638			13,967
	Debtors and payments in advance		
4,027	Contributions due – employees	3,774	
11,073	Contributions due – employers	11,823	
3,416	Sundry debtors	547	
18,516			16,144
32,154	Total		30,111

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13.2 Analysis of debtors

31 March 2014			31 March 2015		
Short term	Long term		Short term	Long term	
£000	£000		£000	£000	
1,789	7,622	Central Government	3,243	6,309	
11,275	235	Other Local Authorities	11,274	77	
52	-	NHS Bodies	42	-	
1,826	50	Public Funded Bodies	860	70	
3,574	-	Other	725	-	
<u>18,516</u>	<u>7,907</u>	Total	<u>16,144</u>	<u>6,456</u>	

13.3 Analysis of long term debtors

31 March		31 March
2014		2015
£000		£000
374	Financial strain instalments due	157
7,533	Other employer contributions due	6,299
<u>7,907</u>	Total	<u>6,456</u>

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		31 March
2014		2015
£000		£000
	Unpaid benefits and other current liabilities	
(2,570)	Contributions due – employers	(715)
(3,050)	Investment manager fees payable	(3,168)
(5,746)	Benefits payable	(4,572)
(1,559)	Other	(1,642)
<u>(12,925)</u>	Total	<u>(10,097)</u>

Following a review, the ECC recharge creditor for 2013/14 has been reclassified from 'Investment manager fees payable' to 'other' in line with the 2014/15 treatment.

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13.6 Analysis of creditors

31 March 2014 £000		31 March 2015 £000
	Creditors and receipts in advance	
(921)	Central Government	(261)
(6,501)	Other Local Authorities	(3,932)
(20)	NHS Bodies	(109)
(361)	Public Funded Bodies	(590)
(5,122)	Other	(5,205)
<u>(12,925)</u>	Total	<u>(10,097)</u>

13.7 Contingent liabilities and contractual commitments

As at 31 March 2015, the Fund had a commitment to contribute a further **£300.7m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber, illiquid debt and financing (31 March 2014: £299.6m). 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.

14. Taxes on income

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

2013/14 £000		2014/15 £000
552	UK withholding tax	551
2,404	Overseas withholding tax	2,077
54	Payment to HMRC in respect of returned contributions	102
<u>3,010</u>		<u>2,730</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.

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15.1 Administration of the Fund

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.702m** in 2014/15 (2013/14: £1.686m) 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 **£50.185m** to the Fund in 2014/15 (2013/14: **£49.821m**). 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 Board on **25 March 2015**. This service is provided to the Fund at a cost of **£26,000** (2013/14: £26,000).

During the year to 31 March 2015, the Pension Fund had an average investment balance of **£20.096m** (2013/14: £15.119m) earning **£108,000** interest (2013/14: £98,000).

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 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 2014/15, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
▪ K. Blackburn	▪ Cllr N. J. Hume
Representative of small employing bodies	▪ Cllr S. Barker
▪ J. Moore	▪ Cllr J. Whitehouse *
Representatives for Essex Police and Crime Commissioner	▪ Cllr K. Bobbin *
▪ C. Garbett	▪ Cllr M. Mackrory *
* Membership relates to non councillor service.	▪ Cllr J. Spence

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As at 31 March 2015 Keith Neale, independent adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2014/15 were the Executive Director for Corporate and Customer Services, the Director for Essex Pension Fund and the Head of Essex Pension Fund. During 2014/15 approximately **2%** (2013/14: 3%) 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 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 2014/15 was **£161,000** (2013/14: £141,000). The 2014/15 current service cost in respect of these personnel was **£63,000** (2013/14: £82,000). 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. Financial Instruments

16.1 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.

31 March 2014			Asset type	31 March 2015		
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						
186,598	-	-	Fixed interest securities	232,568	-	-
2,644,294	-	-	Equities	3,065,508	-	-
344,996	-	-	Index linked securities	216,532	-	-
231,664	-	-	Pooled unit trusts	217,452	-	-
212,033	-	-	Private equity	237,979	-	-
120,752	-	-	Infrastructure	148,896	-	-
34,705	-	-	Timber	49,057	-	-
-	-	-	Illiquid debt	24,442	-	-
185,029	-	-	Other managed funds	253,665	-	-
4,282	-	-	Derivative contracts	22,902	-	-
-	107,146	-	Cash deposits	-	123,777	-
10,524	-	-	Other investment balances	6,434	-	-
-	26,423	-	Debtors	-	22,600	-
3,974,877	133,569	-		4,475,435	146,377	-
Financial liabilities						
(390)	-	-	Derivative contracts	(48,206)	-	-
(1,541)	-	-	Other investments balances	(1,987)	-	-
-	-	(12,925)	Creditors	-	-	(10,097)
-	-	-	Borrowing	-	-	-
(1,931)	-	(12,925)		(50,193)	-	(10,097)
3,972,946	133,569	(12,925)	Balance at the end of the year	4,425,242	146,377	(10,097)
		4,093,590	Total			4,561,522

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16.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2014 £000		Asset value as at 31 Mar 2015 £000
	Financial assets	
220,347	Fair value through profit and loss	576,632
99,601	Loans and receivables	(25,006)
319,948	Total	551,626

16.3 Fair value of financial instruments and liabilities

31 March 2014			31 March 2015	
Carry value	Fair value		Carry value	Fair value
£000	£000		£000	£000
		Financial assets		
3,974,877	3,974,877	Fair value through profit and loss	4,475,435	4,475,435
133,569	133,569	Loans and receivables	146,377	146,377
4,108,446	4,108,446		4,621,812	4,621,812
		Financial liabilities		
(1,931)	(1,931)	Fair value through profit and loss	(50,193)	(50,193)
(12,925)	(12,925)	Financial liabilities measured at amortised cost	(10,097)	(10,097)
(14,856)	(14,856)		(60,290)	(60,290)
4,093,590	4,093,590	Total net financial assets	4,561,522	4,561,522

16.4 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.

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- **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.

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 2014				Values as at 31 March 2015		
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			
3,190,694	416,693	367,490	Fair value through profit and loss	3,543,944	471,117	460,374
133,569	-	-	Loans and receivables	146,377	-	-
3,324,263	416,693	367,490		3,690,321	471,117	460,374
			Financial liabilities			
(1,931)	-	-	Fair value through profit and loss	(50,193)	-	-
(12,925)	-	-	Financial liabilities measured at amortised cost	(10,097)	-	-
(14,856)	-	-		(60,290)	-	-
3,309,407	416,693	367,490	Total net assets per level	3,630,031	471,117	460,374
		4,093,590	Total Net Assets			4,561,522

17. Nature and extent of risks arising

17.1 Risk and risk management

The Fund's primarily 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

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forecast cash flows. The Council 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 Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

17.2 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).

17.3 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.

17.4 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 2014/15.

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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.

31st March 2014 Potential Market movement %	Asset type	31st March 2015 Potential Market movement %
8.7%	UK bonds	9.2%
16.1%	UK equities	17.0%
19.4%	Overseas equities	21.0%
6.5%	UK index linked bonds	7.0%
14.7%	Pooled property unit trusts	15.0%
28.0%	Private equity	29.0%
14.7%	Infrastructure funds	15.0%
14.7%	Timber	15.0%
13.4%	Illiquid debt	14.0%
14.7%	Property	15.0%
0.6%	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 2014 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2015 £000	Percentage change %	Value increase £000	Value decrease £000
93,508	0.6%	94,069	92,947	Cash and equivalents	109,810	1.0%	110,908	108,712
				Investment portfolio assets				
186,598	8.7%	202,832	170,364	UK bonds	232,568	9.2%	253,964	211,172
128,633	16.1%	149,343	107,923	UK equities	153,973	17.0%	180,148	127,798
1,053,329	19.4%	1,257,675	848,983	Overseas equities	1,278,488	21.0%	1,546,970	1,010,006
228,767	16.1%	265,598	191,936	UK equities unit trusts	243,770	17.0%	285,211	202,329
685,980	19.4%	819,060	552,900	Overseas equities unit trusts	780,132	21.0%	943,960	616,304
547,585	19.4%	653,816	441,354	Global unit trusts	609,145	21.0%	737,065	481,225
344,996	6.5%	367,421	322,571	UK index linked bonds	216,532	7.0%	231,689	201,375
231,664	14.7%	265,719	197,609	Pooled property unit trusts	217,452	15.0%	250,070	184,834
212,033	28.0%	271,402	152,664	Private equity	237,979	29.0%	306,993	168,965
127,236	14.7%	145,940	108,532	Infrastructure	158,975	15.0%	182,821	135,129
34,705	14.7%	39,807	29,603	Timber	49,057	15.0%	56,416	41,698
-	13.4%	-	-	Illiquid Debt	63,329	14.0%	72,195	54,463
185,029	14.7%	212,228	157,830	Other managed funds	253,665	15.0%	291,715	215,615
237,300	14.7%	272,183	202,417	Property	322,135	15.0%	370,455	273,815
3,892	-	3,892	3,892	Net derivative assets	(25,304)	-	(25,304)	(25,304)
6,737	-	6,737	6,737	Investment income due	5,202	-	5,202	5,202
(113)	-	(113)	(113)	WHT payable	(114)	-	(114)	(114)
(1,428)	-	(1,428)	(1,428)	Amounts payable for purchases	(1,873)	-	(1,873)	(1,873)
3,787	-	3,787	3,787	Amounts receivable for sales	1,232	-	1,232	1,232
4,310,238		5,029,968	3,590,508	Total assets available to pay benefits	4,906,153		5,799,723	4,012,583

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17.5 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.

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.

17.6 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 & General and bond mandates with M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed. During 2014/15, 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 2014 £000	Asset type	Asset value as at 31 Mar 2015 £000
93,508	Cash and cash equivalents	109,810
13,638	Cash balances	13,967
186,598	Fixed interest securities	232,568
344,996	Index-linked securities	216,532
-	Illiquid debt	63,329
638,740	Total assets	636,206

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17.7 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.

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 2014 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits	
	+100 BPS £000	-100 BPS £000			+100 BPS £000	-100 BPS £000
93,508	935	(935)	Cash and cash equivalents	109,810	1,098	(1,098)
13,638	136	(136)	Cash balances	13,967	140	(140)
186,598	1,866	(1,866)	Fixed interest securities	232,568	2,326	(2,326)
344,996	3,450	(3,450)	Index-linked securities	216,532	2,165	(2,165)
-	-	-	Illiquid debt	63,329	633	(633)
638,740	6,387	(6,387)	Total change in assets available	636,206	6,362	(6,362)

17.8 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.

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The following table summarises the Fund's currency exposure as at 31 March 2015 and prior year:

31 Mar 2014 £000	Asset type	31 Mar 2015 £000
1,053,329	Overseas equities quoted	1,278,488
685,980	Overseas unit trusts	780,132
547,585	Global unit trusts	609,145
211,611	Overseas private equity	237,815
59,476	Overseas infrastructure	74,895
34,705	Overseas timber	49,057
-	Overseas illiquid debt	38,887
2,592,686	Total overseas assets	3,068,419

17.9 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%** (2013/14: 13%) (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a **13%** (2013/14: 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 2014 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2015 £000	Change in year in the net assets to pay benefits	
	+13% £000	-13% £000			+13% £000	-13% £000
1,053,329	1,190,262	916,396	Overseas equities quoted	1,278,488	1,444,691	1,112,285
685,980	775,157	596,803	Overseas unit trusts	780,132	881,549	678,715
547,585	618,771	476,399	Global unit trusts	609,145	688,334	529,956
211,611	239,120	184,102	Overseas private equity	237,815	268,731	206,899
59,476	67,208	51,744	Overseas infrastructure	74,895	84,631	65,159
34,705	39,217	30,193	Overseas timber	49,057	55,434	42,680
-	-	-	Overseas illiquid debt	38,887	43,942	33,832
2,592,686	2,929,735	2,255,637	Total change in assets available	3,068,419	3,467,312	2,669,526

17.10 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.

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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.

17.11 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.

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 2015 is provided in Note 13.

17.12 Forward currency contracts

Forward currency contracts are undertaken by Legal & 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 2015 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 & Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 11.

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Exposure at 31 March 2014		Counterparty	Exposure at 31 March 2015	
£000	%		£000	%
210,137	11.6%	Barclays Capital	30,230	1.3%
66,410	3.7%	BNP Paribas Capital Markets	-	-
266,650	14.8%	Citigroup	269,359	11.6%
-	-	Australian Commonwealth Bank	42,407	1.8%
198,546	11.0%	Credit Suisse AG	-	-
179,669	9.9%	Deutsche Bank AG	81,717	3.5%
-	-	HSBC	273,907	11.8%
234,581	13.0%	J P Morgan Securities	177,445	7.6%
26,148	1.4%	Lloyds	118,496	5.1%
59,057	3.3%	Merrill Lynch	203,107	8.7%
-	-	Morgan Stanley	258,906	11.2%
90,418	5.0%	RBC Europe	100,383	4.3%
118,333	6.6%	RBS	203,380	8.8%
-	-	SEB	26,538	1.1%
100,508	5.6%	SG Securities	273,547	11.8%
-	-	Standard Chartered	12,769	0.6%
40,831	2.3%	UBS	120,580	5.2%
213,637	11.8%	Westpac Bank Corp	129,012	5.6%
1,804,925	100.0%	Total	2,321,783	100.0%

17.13 Futures

There were no open future contracts as at 31st March 2014 or 31st March 2015.

17.14 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 & General, the Fund has two active bond managers M&G and GSAM. The former also manage a financing fund.

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2015, the average credit quality of the M&G bond mandate was **A-** rated (**BBB+** rated as at 31 March 2014). 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 2015 (**BB+** rated as at 31 March 2014), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2015 had an

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average credit quality of A- (AA+ rated as at 31 March 2014) and has suffered two defaults since inception, both occurring 2011/12.

17.15 Cash held on deposit and current accounts

Cash managed internally – The Fund has operated a separate bank account since 1 April 2010 with Lloyds TSB Bank plc, which is also banker to the Administering Authority. The Bank holds an A (A- in 2013/14) long term credit rating with Standard and Poor. Cash is invested with Lloyds TSB 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 2015 **£13.967m** (31 March 2014: £13.638m) 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 2015, the total balance held in the Sterling, US dollar and Euro AAA money market funds was **£103.584m** with a smaller balance of **£6.226m** held in the custodian current account (31 March 2014: £85.515m and £7.748m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

Section Two - Pension Fund Accounts

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

31 March 2014			31 March 2015	
<i>Rating</i>	£000		<i>Rating</i>	£000
		Cash managed externally		
		Cash held on deposit		
AAA	37,004	BNP Paribas Investment Partners	AAA	53,303
AAA	48,511	Northern Trust	AAA	50,281
		Cash held in Current Account		
AA-	7,748	Northern Trust	AA-	6,226
A	245	Barclays plc	A	-
	93,508	Total cash managed externally		109,810
		Cash managed internally		
		Cash held on deposit		
A	2	Barclays Bank	A	-
AA-	7,473	HSBC	AA-	7,508
AAA	1,502	IGNIS	AAA	2
BBB	2,001	Royal Bank of Scotland Group	BBB	-
AA-	-	Svenska Handelsbanken	AA-	4,000
		Cash held in Current Account		
A-	2,660	Lloyds TSB Bank plc	A	2,457
	13,638	Total cash managed internally		13,967
	107,146	Total		123,777

Section Two - 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 2014		31 March 2015	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					
85,515	AAA Rated	103,584	60,000	0.037%	38
7,748	AA Rated	6,226		0.025%	2
245	A Rated	-		0.069%	-
<u>93,508</u>	Total cash managed externally	<u>109,810</u>			<u>40</u>
Cash managed internally					
Deposit with bank and other financial institutions					
1,502	AAA Rated	2	10,000	0.037%	-
7,473	AA Rated	11,508	7,500	0.025%	3
2,662	A Rated	2,457	5,000	0.069%	2
2,001	BBB Rated	-	5,000	0.188%	-
<u>13,638</u>	Total cash managed internally	<u>13,967</u>			<u>5</u>
<u>107,146</u>	Total cash	<u>123,777</u>			<u>45</u>

17.16 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 **23 February 2015**, **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 2015 had immediate access to its pension fund cash holdings held internally and externally of **£123.777m** (31 March 2014: £107.146m). These monies are primarily invested on an overnight basis on the money market.

Section Two - 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.

17.17 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.

17.18 Custody

Northern Trust are the global custodian with responsibility for safeguarding the assets of the Fund. As at 31 March 2015 Northern Trust had **\$6.09 trillion** of assets under custody (31 March 2014: \$5.58 trillion) and had a credit rating of **AA-** (31 March 2014: AA-). Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

17.19 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.

18. 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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