

**THE  
CARDIFF  
AND  
VALE OF GLAMORGAN  
PENSION FUND**

**ANNUAL REPORT  
&  
ACCOUNTS**

**2012/2013**

# SUMMARY AND CONTENTS

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## EXECUTIVE SUMMARY

- The total value of the Fund continues to rise and has now reached £1.350 billion as at 31 March 2013, an increase on the previous year end valuation of £1.166 billion.
- Equity markets recovered strongly over the last twelve months and the Fund achieved a return on investments for 2012/13 of 14.9%, 0.6% above the 14.3% benchmark.
- The Fund remains in a positive cashflow position with a net addition of £10.0 million from dealing with scheme members.
- Membership of the Fund continues to rise, with increases in both contributors and pensioners.
- At the last actuarial valuation which took place in 2010, the funding level was 71%. The 2013 actuarial valuation is currently taking place.
- Summary statistics for the Fund are shown in Appendix 1.

## CONTENTS

Executive Summary	1
Foreword	2
Members & Advisers	3
Fund Administration	5
Investment Management	6
Investment Performance	8
Actuarial Statement	10
Statement of Accounts	12
Notes to Accounts	14
Appendix 1: Investment Data	30
Appendix 2: Summary of Scheme Benefits	33
Further Information	34

# FOREWORD

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Cardiff Council is the Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund which is itself part of the national Local Government Pension Scheme (LGPS) for England & Wales. The regulations for the Scheme are determined by the UK Government.

Despite the ongoing economic uncertainties the Pension Fund's assets grew by 15.7% during 2012/13, from £1.17billion to £1.35billion. Interim work carried out in preparation for the triennial valuation of the Fund as at 31 March 2013 has estimated that liabilities have also continued to increase, due to increases in life expectancy as well as the continuing record low gilt yields and more cautious expectations for investment returns. It is anticipated that employer contributions will rise following the completion of the valuation in March 2014 but the Fund's investment objective continues to be to maximise investment returns and to minimise future employer contributions within an acceptable level of risk.

Following the publication of the Hutton report in 2011, the government agreed that all public sector schemes should implement a rise in the retirement age and move to a career average scheme. Initial proposals for the LGPS in June 2012 were followed by detailed draft benefit regulations in December. Further draft regulations are expected during 2013 with an implementation date of 1<sup>st</sup> April 2014. As well as changes to the way benefits are calculated, the regulations will also require each LGPS fund to establish a Pension Board comprising representatives of both employers and fund members. The Board's remit will be to assist the Administering Authority with securing compliance with regulations for governance and administration.

The year ahead will therefore be a challenging one for the Pensions Section as it prepares for the new scheme and assists the actuary with the triennial valuation, as well as continuing with the "business-as-usual" tasks of monitoring the fund's investments and delivering services to the fund's 34,000 contributing employees, pensioners and deferred pensioners.

**Christine Salter**  
**Corporate Director Resources**  
**13 June 2013**

# MEMBERS AND ADVISERS

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## TRUSTEES

The power of removing and/or appointing trustees of local authority pension funds rests with Parliament. The County Council of the City & County of Cardiff is the sole trustee and administering authority of the Cardiff and Vale of Glamorgan Pension Fund.

## INVESTMENT ADVISORY PANEL

Responsibility for the Fund has been delegated by the Council to the Chief Corporate Services Officer. She is advised on investment matters by the Investment Advisory Panel. Members in the year to 31 March 2013 were:

Cllr R Goodway	(Chair) Cabinet Member for Finance, Business & Local Economy, Cardiff Council
Cllr J Evans	Member, Cardiff Council
Cllr R McKerlich	Member, Cardiff Council
Cllr N Moore	Member, Vale of Glamorgan Council (Observer)
Mr S Bates	Independent Adviser
Ms C Burton	Independent Adviser
Mrs C Salter	Corporate Director Resources, Cardiff Council
Mr R Jones	Audit and Pensions Manager, Cardiff Council
Mr R Bettley	Pensions Manager, Cardiff Council (until November)
Mr G Henson	Pensions Manager, Cardiff Council (from December)

## PROFESSIONAL ADVISERS

The Fund's professional advisers during the year were:

Actuaries	Aon Hewitt Limited
Auditor	Wales Audit Office
Bankers	Co-Operative Bank plc
Custodian	The Northern Trust Company
Independent Advisers	Mr S Bates and Ms C Burton
Legal advisers	Chief Legal Services Officer, Cardiff Council Sacker and Partners
Administration and Payroll	Corporate Director Resources, Cardiff Council

Investment Managers:

Global Bonds	- Aberdeen Asset Management
Indexed UK Equities	- Blackrock Investment Management
Indexed UK and USA Equities	- State Street Global Advisers
Active UK Equities	- Invesco Perpetual
	- JP Morgan
	- Majedie
Active Europe ex-UK Equities	- State Street Global Advisers
Active Asia-Pacific Equities	- Schroders Investment Management
Active Japanese equities	- Nikko Asset Management
Emerging Market Equities	- Aberdeen Asset Management

# MEMBERS AND ADVISERS

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Passive Currency	- Mesirow
Private Equity	- Capital Dynamics
	- Harbourvest
	- Pantheon
Property Unit Trusts	- Reef (merged with Blackrock from December 2012)
	- Blackrock
	- Schroders
	- Standard Life
	- UBS
Global Property	- CB Richard Ellis

# FUND ADMINISTRATION

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The rules governing the Fund are found in the Superannuation Act 1972 and the various Local Government Pension Scheme (LGPS) Regulations issued by the Department for Communities and Local Government (DCLG). The LGPS is open to all employees of local authorities except police, firemen and teachers, for whom separate arrangements exist. Power is also given to admit certain other bodies which provide public services.

Although responsible for administering the Fund, Cardiff Council has exactly the same relationship with the Fund as all 35 active employers in the Fund. A full list of employers is given in Note 5 to the accounts.

Fund income arises from investment earnings and contributions by employees and employers. From 1 April 2008 the nationally set employee rates vary between 5.5% and 7.5% of pay depending on the member's annual pay. Employers' rates are calculated by the scheme actuary at the triennial actuarial valuation and are expressed as a percentage of pay. These comprise a common rate payable by all, and an individual adjustment rate specific to each employer.

Although benefits are mandatory, the 1997 Regulations gave some discretion to employers and administering authorities. Details of mandatory benefits are shown at Appendix 2. Transfer values paid to other funds in the year were calculated and verified as required under the Social Security Act 1985. Transfer values are payments between funds when contributors leave one employer and choose to transfer the value of their benefits to another pension arrangement.

## PENSION INCREASES

Pensions are subject to annual mandatory increases, determined by the increase in the Consumer Price Index in the twelve months to the previous September. These are recovered through the pension rate of the pensioner's last employer before retirement. Increases take effect in the first full week of each financial year. The increase for 2013-2014 will be 2.2%.

## DEVELOPMENTS IN 2012/13

Broad principles for change to the LGPS had been agreed in 2011 and the DCLG issued the first draft of the detailed benefit regulations in December 2012. The new scheme will be implemented from 1<sup>st</sup> April 2014. The main change is a move from a final salary to a career average scheme although accrued final salary benefits up to 31<sup>st</sup> March 2013 will be protected. Employers will be required to advise the fund of each contributing employee's annual pensionable pay and the accumulated pay will be updated annually by inflation. The scheme retirement age will be aligned with the state pension age. Other changes include a revised banding scheme for employee contribution rates and the option of contributing at 50% in return for earning 50% of benefits.

## ADDITIONAL VOLUNTARY CONTRIBUTIONS

Prudential Assurance continues as the main AVC provider for the Fund. During 2012/2013 Prudential continued to offer information and workshops for Scheme members.

Prudential have a Local Government AVC website which members may visit at:  
<http://www.pru.co.uk/content/schemes/localgovavc>

# INVESTMENT MANAGEMENT

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## INVESTMENT POWERS

The principal investment powers of the Fund are found in the Local Government Pension Scheme (Management & Investment of Funds) Regulations 1998 as amended. The Regulations give the power for administering authorities to delegate investment decisions to external managers conditional upon proper consideration of a reasonable and sufficient diversification of managers. Periodic reviews of the appointment of, and investments made by, managers are also obligatory. Proper advice is required in determining suitable types of investment.

## INVESTMENT OBJECTIVE

The Fund's overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk. Two special factors must be borne in mind in seeking this objective: the long term nature of the liabilities and the fact that liabilities are related to remuneration at the time of retirement.

The Fund prudently seeks to fulfil the regulatory requirement to secure the solvency of the Fund over a period of time (i.e. for the value of the Fund's assets to be equal to or greater than its accrued liabilities measured using 'ongoing' actuarial methods and assumptions.) This period together with the funding level is calculated three yearly by the actuary following a review of the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its strategic investment advice.

The results of the 2013 actuarial valuation will be available early in 2014 and the Fund's investment strategy will take into account the latest funding position. Whilst the Fund has benefitted from higher investment returns over the past three years than were assumed in the 2010 valuation, as well as the change from RPI to CPI indexation, the 2013 valuation is expected to show that liabilities have continued to grow due to increases in longevity and the ongoing historic low gilt yields. The Actuary will advise the Fund on suitable employer contribution rates which will recover funding deficits over reasonable periods and the new rates will be applied from 1<sup>st</sup> April 2014. The Fund's Funding Strategy Statement is available on Cardiff Council's website ([www.cardiff.gov.uk](http://www.cardiff.gov.uk)) or on request from the Corporate Director Resources.

## FUND MANAGEMENT

The Investment Advisory Panel aims to meet each manager with an actively managed portfolio at least annually. It also considers at its quarterly meetings:

- The overall Fund Objective and the level of investment risk
- Overall Fund and individual manager performance
- The Fund's investment management arrangements
- Strategic asset allocation over the major market sectors and geographical areas, including the split between passive and active management

The formal responsibility for investment decisions lies with Christine Salter, Chief Corporate Director Resources, under powers delegated by the Council.

Fund management is structured on a specialist basis, with individual managers allocated particular sectors or geographical areas (see above for a list of managers and their mandates). Where possible, each manager is given a clear performance target, but generally is also given considerable freedom in how this is achieved. The Fund employs a global custodian to ensure the safekeeping of all publicly traded securities, and to manage the settlement of trades. Custody of private equity, property unit trusts and cash is managed in-house as these assets are not publicly traded.

# INVESTMENT MANAGEMENT

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Management fees are the main form of investment expenditure and comprise a combination of ad valorem (varying with the value of funds managed) and performance fees. Custody fees vary with the number of investment transactions made by the fund managers. Fees for the Panel's advisers rise in line with Chief Officers' pay. All fees are charged to the Fund, and are paid from investment returns. Management fees for 2012/2013 were £3.15m (£3.40m in 2011/2012). Custodian fees for the year amounted to £108,090 (£109,000 in 2011/2012).

The Fund employs the WM Company to measure the performance of the investment managers and the Fund as a whole. The results are reported to the Investment Advisory Panel on an annual basis and are discussed below in the section on Investment Performance. The effectiveness of panel decisions can be seen by any out performance through asset allocation and manager selection, whereas the managers also influence performance through stock selection. The Investment Advisory Panel assesses the performance of the investment managers and decides whether any action is required.

## STATEMENT OF INVESTMENT PRINCIPLES

A copy of the current Statement of Investment Principles (SIP) is available on Cardiff Council's website or on request from the Corporate Director Resources. All LGPS funds are required to produce a SIP under the LGPS (Management and Investment of Funds) Regulations 2009. The SIP summarises the Fund's investment objectives and the policies it uses to manage investments. The regulations also require that the SIP is prepared in a format which complies with guidance issued by CLG. This guidance currently comes from the CIPFA pension panel, which itself incorporates the six Myners' principles. The SIP complies with these requirements and the Fund is compliant with each of the Myners' principles.

The Fund's investment philosophy is also summarised in the 'Core Investment Beliefs' document which is available on the website.



# INVESTMENT PERFORMANCE

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## INTRODUCTION

The Pension Fund's performance is very much governed by world equity markets and the last twelve months saw equity markets recover strongly, many reaching all time highs. The Fund recorded a return on investments of 14.9%, rising from £1.130 billion to £1.308 billion. However, short-term variations in values should not be given undue weight as the history of most types of investment show that there are long periods of good and poor returns. The long term-financial health of the Fund depends more on its investment returns over 20 years and factors such as mortality rates, gilt yields and contribution levels.

### Distribution of investments

A breakdown of the investment portfolio over the last five years is set out in Appendix 1. Changes in market values reflect both changes in investment policy and the relative performance of different markets.

### Scheme benchmark

The Fund has agreed its own customised benchmark and Fund Objective, based around a 75/25 Equities/Bonds asset allocation split. This was set to ensure that the Fund's asset allocation policy reflected its own liability characteristics and not the average of a peer group, as before. It was also designed to minimise, or at least stabilise, future employer contributions and to aim to avoid large variations. The Fund's actual asset allocation is therefore maintained close to this benchmark allocation.

## FUND PERFORMANCE

During 2012/13 the overall Fund return was 14.9%, 0.6% above Fund's benchmark return of 14.3%. The fund performance can be attributed to the effects of both stock selection and asset allocation. The former is the responsibility of individual managers. Ultimate responsibility for the latter lies with the Corporate Director Resources under the Council's scheme of delegations. Asset allocation decisions generally have a more significant impact on the absolute returns achieved by the Fund than the value added by individual managers from stock selection.

### i) Asset Allocation

The Investment Advisory Panel recommends target allocations and ranges for each asset class, within the overall objective of a 75/25 Equities/Bonds allocation. Following the 2003/04 asset/liability study, it was agreed that there should be a 60/40 split between UK and Overseas Equities, and the latter should be split equally between Europe, Far East and USA, within an agreed tolerance. Within Equities, the panel decided in 2011 to gradually shift the ratio of UK to overseas holdings to a more equally weighted position over time. This has now been achieved earlier than anticipated following the redistribution of the active currency monies to the overseas equity managers. As the Fund's membership structure and liability profile have not changed significantly since 2003 the panel have previously decided that the cost of a new study would not be justified, although this may be considered towards the end of the 2013 valuation process.

### ii) Stock Selection

Active portfolio managers are given the freedom to make investment decisions but are also set clear performance targets. The performance of each portfolio is reviewed quarterly in-house and at least annually by the Panel. Managers are required to attend Panel meetings at least annually to ensure a thorough examination of actions taken and so that each gives an account of their stewardship.

# INVESTMENT PERFORMANCE

The performance of the larger active portfolios during 2012/13 compared with their benchmarks and targets are as follows:

Manager	Mandate (target against benchmark)	Portfolio Target (%)	Portfolio Return (%)	Benchmark return (%)
Aberdeen	Global bonds (+1%)	9.2	8.2	8.2
State Street	European equities (+2%)	20.0	17.9	18.0
Nikko	Japanese equities (+3%)	16.9	14.3	13.9
Schroders	Asia-Pacific equities (+3%)	19.7	16.5	16.7
Aberdeen	Emerging markets equities (+3%)	10.6	17.4	7.6
Invesco	UK equities (unconstrained)	N/A	20.0	16.8
JP Morgan	UK equities (unconstrained)	N/A	24.3	16.8
Majedie	UK equities (+2%)	18.8	20.9	16.8
Property funds	UK and global property	Various	5.0	5.0

Despite ongoing uncertainties in the global economy, markets showed increasing confidence as the year progressed. This presented both challenges and opportunities for active managers. The three UK equity managers all achieved significant outperformance relative to their benchmark, even though they have different views on the prospects for the UK economy, which is reflected in their stock selection strategies. The Emerging Markets portfolio also outperformed its target by a significant margin, attributable to careful stock selection, particularly in Latin America. In other regions strong market gains driven largely by sentiment yielded fewer opportunities for outperformance, but none of the equity portfolios significantly underperformed relative to its benchmark. The Global Bonds manager focussed on controlling risk following periods of underperformance due to the unprecedented financial environment, and the performance of the portfolio was very close to its benchmark.

Although it is useful to compare the performance of managers over the past year, the investment panel focus on the average performance of active managers over three to five years to ensure that market fluctuations are taken into account. For the Fund's private equity portfolio it is only possible to make an assessment of performance over an even longer period at the end of the life of the private equity fund.

## Longer Term Fund Performance

The Pension Fund's overall return is best measured over the long term. Over the last ten years the Fund's total return has returned an annualised 10.0% compared with rises of 3.3 % in the Retail Prices Index and, more importantly (since the pensions of active members are related to final pay), 3.4% in the Index of Average Earnings. Using 2012/2013 as the base year, comparative long term returns are as follows:

	Fund % p.a.	RPI % p.a.	Average earnings % p.a.
1 Year (2012/2013)	14.9	3.3	-0.2
3 Years (2010/2013)	8.4	4.5	-0.9
5 Years (2008/2013)	7.1	3.3	1.7
10 Years (2003/2013)	10.0	3.3	3.4

# ACTUARIAL STATEMENT

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## City and County of Cardiff

Statement of the Actuary for the year ended 31 March 2013

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Cardiff and Vale of Glamorgan Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

### Actuarial Position

1. The valuation as at 31 March 2010 showed that the funding ratio of the Fund was unchanged since the previous valuation, with the market value of the Fund's assets at that date (of £1,031.2M) covering 71% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
2. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
  - 14.9% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

#### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 25 years from 1 April 2011, amounting to £22.9M in 2011/12, and increasing by 4.8% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.

This would imply an average employer contribution rate of about 23.2% of pensionable pay in total, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 4.8% p.a.

3. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority. In addition the Administering Authority agreed that the significant increases in contribution requirements could be phased in for some employers over periods of up to 6 years. The resulting aggregate deficiency contributions in 2012/13 were £22.7M. The aggregate deficiency contributions payable are anticipated to remain lower than indicated by point 2 above until 2014/15.
4. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 28 March 2011 which is appended to Aon Hewitt's report of the same date on the actuarial valuation.
5. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

# ACTUARIAL STATEMENT

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6. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.9% p.a.
Admission Bodies	
In service:	6.25% p.a.
Left service:	4.75% p.a.
Rate of general pay increases	4.8% p.a.
Rate of increases to pensions in payment	3.3% p.a.
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

7. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013, preparation for which is already under way. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 are required by the Regulations to be signed off by 31 March 2014.

8. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of City and County of Cardiff. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, City and County of Cardiff, in respect of this statement.

9. The report on the actuarial valuation as at 31 March 2010 is available on the Fund's website at the following address: [www.cardiff.gov.uk](http://www.cardiff.gov.uk)

**Aon Hewitt Limited**

**June 2013**

# STATEMENT OF ACCOUNTS

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## FUND ACCOUNT FOR YEAR ENDED 31<sup>st</sup> MARCH

2012 £000		2013 £000	2013 £000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	<b>Contributions receivable</b>		
54,530	from employers (Note 5)	56,358	
15,534	from employees (Note 5)	15,477	
2,366	Transfers in	2,621	
5,362	Deficit Funding (Note 5)	1,302	
3,496	Other Income (Capitalised Payments)	1,430	
81,288			77,188
	<b>Benefits Payable</b>		
(46,179)	Pensions (Note 6)	(49,833)	
(13,915)	Lump Sums (Note 6)	(11,710)	
	Payments to and on account of leavers		
(5)	Refunds of contributions	(2)	
(2,157)	Transfers out	(4,050)	
(1,688)	Group Transfer Out	(854)	
(823)	Admin & Other expenses (Note 8)	(709)	
(64,767)			(67,158)
16,521	Net Additions/(Withdrawals) from dealings with Members of the Fund		10,030
	<b>RETURNS ON INVESTMENT</b>		
14,670	Investment Income (Note 9)	15,701	
16,154	Change in market value of investments (Note 10)	161,154	
(3,513)	Investment management expenses (Note 8)	(3,264)	
27,311	Net Returns on Investments		173,591
43,832	<b>Net Increase/(Decrease) in the Fund During</b>		183,621
1,122,511	Opening Net Assets of the Scheme		1,166,343
1,166,343	<b>Closing Net Assets of the Scheme</b>		1,349,964

# STATEMENT OF ACCOUNTS

## NET ASSETS STATEMENT AS AT 31<sup>ST</sup> MARCH

2012 £000		2013 £000	2013 £000
1,131,865	Investments at market value (Note 10)	<b>1,307,342</b>	
20,448	Cash & investment proceeds due (Note 10)	<b>33,233</b>	
1,152,313			<b>1,340,575</b>
	Current assets		
309	UK & Overseas Tax	390	
6,154	Contributions due from Employers	2,019	
1,152	Investment Income accrued	1,514	
167	Sundry Debtors (Note 14)	334	
2,354	Pension Strain costs due within one year	2,284	
10,136			<b>6,541</b>
	Non current assets		
445	Contributions due from Employers	296	
5,227	Pension strain costs due after one year	3,971	
5,672			<b>4,267</b>
	Current liabilities		
(1,016)	Unpaid Benefits	(639)	
(762)	Sundry Creditors (Note 14)	(780)	
(1,778)			<b>(1,419)</b>
1,166,343	Net Assets of the Scheme		<b>1,349,964</b>

The Statement of Accounts of the Pension Fund on pages 12 to 29 is included in the Published Accounts of the administering authority, the City & County of Cardiff. The Audit Report therein includes the Opinion of the Appointed Auditor on the Fund.

# NOTES TO THE ACCOUNTS

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1. The Statement of Accounts summarises the transactions and net assets of the Pension Fund for the financial year 2012/2013. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2012/2013 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the administering Authority. They do not take account of obligations to pay pensions and benefits which fall due after the year end. Under IAS26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits". This figure has been calculated by the Actuary as at 31 March 2010 as £1,950.4m, with a comparator value as at the 31 March 2007 valuation of £1,499.8m.

The actuarial position is summarised in the Actuarial Statement which is included on pages 10 and 11 in the annual report. This shows that the overall funding level as at 31 March 2010 is 71%.

## 2. Accounting Policies

### (a) Basis of Preparation

Bond and dividend income has been taken into account on the contractual payment date. Property and private equity income is credited on receipt. The Fund does not account for any benefits payable or receivable in respect of members wishing to transfer from one scheme to another until assets (either cash investments or other form) have been received by the receiving scheme. All other income and expenditure has been accounted for on an accruals basis, except the liability to pay pensions and other benefits in the future. As per IAS 26, a disclosure has been made of the Fund's pension liability i.e. the actuarial present value of promised retirement benefits

### (b) Valuation of Investments

Quoted bond and equity investments are valued at bid market value at close of business on the last working day in March 2013 (bid market value is the price at which an investment can be sold at a given date). Private Equity Fund investments are valued at fair value, as determined by the administrators of the Fund, based on valuations provided by the general partners of the underlying investments. Where this is a publicly traded investment the valuation is based upon the closing market prices at the balance sheet date of the Fund. If the investment is not publicly traded, the general partner will consider the operational results of the company or any recent transactions in the company. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end. Pooled vehicles are normally valued at bid prices where available. Overseas investments have been converted at WM/Reuters closing spot rates of exchange. Official SETS prices have been used for FTSE100 securities (plus the reserve list). Derivatives are stated at market value. The value of futures contracts is determined using exchange prices at the reporting date. The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

### (c) Critical judgements in applying accounting policies

**Unquoted private equity investments.** These are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the International Private Equity and Venture Capital Valuation Guidelines(IPEVCG) outside the US. The value of unquoted private equities at 31.03.2013 was £93m (84.1m at 31.03.2012).

# NOTES TO THE ACCOUNTS

**Pension fund liability.** This is calculated by the actuary every three years with an annual statement in the intervening years. This is calculated in accordance with IAS19 and the main assumptions used in the calculation are summarised in the actuary's statement on page 10. This estimate is based on significant variances based on changes to the underlying assumptions.

- (d) Assumptions made about the future and other major sources of estimation uncertainty.

The Statement of Accounts contains estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actual present value of promised retirement benefits</b>	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase, changes in mortality rates and expected returns on pension fund assets. The actuary provides the fund with advice regarding the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
<b>Private Equity Valuations</b>	Private equity investments are valued at fair value in accordance with international accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £93 million. There is a risk that this investment may be under, or overstated in the accounts.

- (e) Acquisition costs of Investments

Acquisition costs are included with the original book cost at the time of purchase. At the year end, however, investments on the balance sheet are valued at market value. The difference is recorded in the Accounts as "Change in Market Value of Investments".

### 3. Taxation

- (a) UK Income, Capital Gains Taxes.  
The Fund is an exempt approved fund able to recover UK income tax. No Capital Gains Tax is chargeable.
- (b) Value Added Tax.  
The accounts are shown exclusive of VAT. As the County Council is the administering authority, VAT is recoverable on all Fund activities.
- (c) Overseas Withholding Tax.  
Foreign investment income usually suffers withholding tax in the country of origin, some of which may be recoverable. Irrecoverable tax is netted off against income.



# NOTES TO THE ACCOUNTS

## 4. Titles of Ownership

Evidences of ownership for the property unit trusts and investment funds and private equity holdings are held at County Hall. All other evidences of ownership were held at 31 March 2013 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

## 5. Employing Bodies – Contributions

From 1<sup>st</sup> April 2011, the deficiency contribution applicable to individual employers has been calculated as an additional monetary amount. The total employer contribution payable is the sum of the employer contribution rate plus the deficiency contribution.

	No. of contributors at 31.03.13	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
<b>SCHEME EMPLOYERS:</b>						
Barry Town Council	13	27.7	0	71	16	87
Cardiff City Transport	51	22.3	521	832	91	923
Cardiff Council	8,917	22.9	0	35,235	9,764	44,999
Cardiff and Vale College	401	13.0	326	1,222	434	1,656
Cowbridge Town Council	4	27.7	0	18	4	22
Dinas Powys Comm Council	1	18.2	1	5	1	6
Llantwit Major Town Council	2	27.7	0	9	2	11
Penarth Town Council	12	27.7	0	62	14	76
Public Services Ombudsman for Wales	3	30.3	231	271	9	280
Radyr & Morganstown Community Council	1	18.2	1	4	1	5
St Cyres Comp GM	28	15.8	23	101	30	131
St Davids Sixth Form Coll	21	15.8	17	78	25	103
Stanwell Comp GM	66	15.8	29	162	50	212
Cardiff Metropolitan University	591	13.0	909	2,833	989	3,822
Vale of Glamorgan Council	2,786	21.5	0	10,633	3,112	13,745
<b>Sub-total</b>	<b>12,897</b>			<b>51,536</b>	<b>14,542</b>	<b>66,078</b>
<b>NON-SCHEME EMPLOYERS</b>						
Cardiff & Co	5	16.0	0	34	10	44
Cardiff Business Technology	3	29.2	8	30	5	35
Cardiff Gypsy & Traveller Project	1	24.0	0	8	2	10
Cardiff Institute for Blind	3	22.7	60	74	4	78
Cardiff University	68	25.7	1,327	1,731	101	1,832
Career Wales (Cardiff & Vale)	89	18.1	0	441	157	598
Children in Wales	22	22.2	0	116	35	151
Civic Trust For Wales	1	24.0	0	9	2	11
Design Commission for Wales	3	22.2	0	35	14	49

# NOTES TO THE ACCOUNTS

Colleges Wales	7	25.9	17	98	22	120
Glamorgan Holiday Hotel	*	*	0	*	*	*
Memorial Hall	6	20.5	0	26	8	34
National Trust	15	20.7	0	11	3	14
One Voice Wales	3	20.0	0	19	6	25
Opportunity Housing Trust	7	24.0	0	65	19	84
Play Wales	8	23.5	0	56	16	72
Royal National Eisteddfod	11	25.3	40	153	31	184
Sport Wales	129	21.5	75	921	264	1,185
Wales & West Housing Assoc	1	22.7	80	106	9	115
Welsh Council for Voluntary Action	92	22.6	125	710	175	885
Workers Education Assoc	31	22.6	0	179	52	231
<b>Sub-total</b>	<b>505</b>			<b>4,822</b>	<b>935</b>	<b>5,757</b>
<b>Total</b>	<b>13,402</b>			<b>56,358</b>	<b>15,477</b>	<b>71,835</b>

\*Glamorgan Holiday Home is no longer an employer in the Fund and is paying the cessation payment over five years, with a further three years remaining.

## Additional deficit funding

<b>Scheme Employer</b>	<b>£000</b>
Careers Wales (Voluntary)	<b>720</b>
Glamorgan Holiday Home	<b>582</b>
<b>Total</b>	<b>1,302</b>

## 6. Employing Bodies - Benefits Paid

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
<b>SCHEME EMPLOYERS:</b>				
Barry College	240	0	36	0
Barry Town Council	66	0	135	0
Cardiff City Transport	2,038	634	126	0
Cardiff Council	32,200	5,554	615	91
Cardiff and Vale College	25	264	103	0
Coleg Glan Hafren	184	0	0	0
Cowbridge Town Council	5	0	0	0
Dinas Powys Town Council	9	0	0	0
Llantwit Major Town Council	17	0	0	0
Mary Immaculate High School	14	0	0	0
Penarth Town Council	39	0	0	0
Probation Service	242	37	0	0
Public Services Ombudsman for Wales	160	0	0	0
Royal Welsh College of Music & Drama	65	20	0	0

## NOTES TO THE ACCOUNTS

	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
S Wales Magistrates Courts	231	130	0	0
St Cyres Comprehensive GM	38	48	0	0
St Davids Sixth Form Coll	59	21	0	7
Stanwell Comprehensive GM	26	12	0	0
Cardiff Metropolitan University (UWIC)	1,185	243	67	0
Vale of Glamorgan Council	9,562	2,529	164	37
<b>Sub-total</b>	<b>46,405</b>	<b>9,492</b>	<b>1,246</b>	<b>135</b>
<b>NON-SCHEME EMPLOYERS:</b>				
Cardiff Bay Arts Trust	11	0	0	0
Cardiff Bay Devt Corp	474	46	0	0
Cardiff Business Technology	12	0	0	0
Citizens Advice Bureau (Cardiff)	12	0	0	0
Cardiff Gypsy Sites	4	0	0	0
Cardiff Institute for Blind	72	3	0	0
Cardiff University	961	141	0	0
Careers Service	225	375	0	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	12	0	0	0
Citizens Advice Bureau (Vale)	10	0	0	0
Civic Trust for Wales	3	0	0	0
Community Relations (Race Equality)	0	0	0	0
Design Commission for Wales	1	19	0	0
Dimensions	0	7	0	0
Colleges Wales (Fforwm)	6	31	0	0
Glam & Gwent Hsg Assoc	55	0	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	159	83	0	0
Intervol	20	0	0	0
Land Authority for Wales	285	0	0	0
National Eisteddfod	26	0	0	0
Opportunity Housing Trust	21	0	0	0
Play Wales	24	0	0	0
Glamorgan Holiday Hotel	52	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	682	43	0	0
STAR	6	0	0	0
Wales & West Housing Ass	140	0	0	0
Wales Youth Agency	53	1	0	0
Welsh Council for Voluntary Action	77	7	0	0
Workers Education Authority	8	0	81	0
<b>Sub-total</b>	<b>3,428</b>	<b>756</b>	<b>81</b>	<b>0</b>
<b>TOTAL</b>	<b>49,833</b>	<b>10,248</b>	<b>1,327</b>	<b>135</b>

# NOTES TO THE ACCOUNTS

## 7. Membership of the Fund

Fund membership at 31 March 2013 is as follows:	2011/12	2012/13
Contributing Employers	<u>38</u>	<u>35</u>
Contributors	13,343	13,402
Pensioners	9,293	9,552
Deferred pensioners	10,040	10,658
Total membership	<u>32,676</u>	<u>33,612</u>

## 8. Investment and Administration Expenses

Investment Management and Administration Expenses fully charged to the Fund are:

	2011/12	2012/13
	£000	£000
Management fees	3,404	3,156
Custody fees	109	108
<b>Sub-total</b>	<u>3,513</u>	<u>3,264</u>
Support Service Charges	125	160
Other Administration Expenses	698	549
<b>Sub-total</b>	<u>823</u>	<u>709</u>
<b>TOTAL</b>	<u>4,336</u>	<u>3,973</u>

## 9. Investment Income

	2011/12	2012/13
	£000	£000
UK Fixed Interest Securities	5,612	3,472
Overseas Fixed Interest Securities	1,759	4,609
UK Equities & Private Equity Funds	2,525	2,454
Pooled investments	827	921
Overseas Equities (net of irrecoverable tax)	2,455	2,750
Property Unit Trust Income	1,353	1,363
Interest on UK cash	107	76
Securities Lending	32	56
	<u>14,670</u>	<u>15,701</u>

## 10. Investments at Market Value

	31 March 2012		31 March 2013	
	£000	£000	£000	£000
UK Fixed Interest:				
Public Sector	35,246		46,895	
Non Govt	0		8,555	
Other (Pooled)	<u>75,527</u>		<u>105,391</u>	
		110,773		160,841

## NOTES TO THE ACCOUNTS

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Overseas Fixed Interest:			
Public Sector (Pooled)	4,903		<b>0</b>
Other	<u>75,785</u>		<u><b>59,126</b></u>
		80,688	<b>59,126</b>
UK quoted Equities & Convertibles		62,746	<b>68,120</b>
Foreign quoted Equities		94,833	<b>139,281</b>
UK Property Unit Trusts		73,094	<b>75,237</b>
Private Equity		84,150	<b>93,089</b>
Pooled Funds			
UK	377,985		<b>400,564</b>
Overseas	<u>247,596</u>		<u><b>311,084</b></u>
		625,581	<b>711,648</b>
		<u>1,131,865</u>	<u><b>1,307,342</b></u>
Derivatives:			
Forward Currency contracts		1,941	<b>(85)</b>
Futures		0	<b>0</b>
Cash:			
UK	3,863		<b>19,928</b>
Overseas	14,641		<b>11,443</b>
Net investment proceeds due	<u>3</u>		<u><b>1,947</b></u>
		18,507	<b>33,318</b>
		<u>1,152,313</u>	<u><b>1,340,575</b></u>

Gross purchases in the year (excluding cash) were £172.782m, whilst sales were £159.015m. From these a net realised profit was accrued to the Fund of £8.5m. Profits and losses are calculated on historical costs. When only part of a holding is sold, the average cost method is used.

The managing companies of all the pooled managed Funds are UK registered. Private Equity Funds are not quoted on recognised stock exchanges and may not be realisable as readily as quoted investments. Other than pooled funds, no single investment accounted for more than 5% of the Fund's assets.

# NOTES TO THE ACCOUNTS

## 10a. Change in Market Value

	Value at 31/03/12	Purchase at Cost	Sale Proceeds	Change in market value	Value at 31/03/13
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	191,461	70,695	(52,364)	10,175	219,967
Equities	157,579	76,165	(54,296)	27,953	207,401
Pooled Funds	625,581	15,970	(40,000)	110,096	711,647
Property unit trusts	73,094	0	(1,249)	3,393	75,238
Private equity	84,150	9,952	(11,106)	10,093	93,089
<b>Sub total</b>	<b>1,131,865</b>	<b>172,782</b>	<b>(159,015)</b>	<b>161,710</b>	<b>1,307,342</b>
Forward Currency	1,941	69,849	(69,520)	(2,355)	(85)
Futures	0	244,629	(244,629)	0	0
<b>Total Derivatives</b>	<b>1,941</b>	<b>314,478</b>	<b>(314,149)</b>	<b>(2,355)</b>	<b>(85)</b>
Debtors	1,202				1,957
Creditors	(1,199)				(9)
Managers' Cash	14,738				7,709
Internal Cash	732				16,732
Currency Overlay	3,034				6,929
<b>Total Cash</b>	<b>18,507</b>			<b>1,799</b>	<b>33,318</b>
<b>Total Cash and Investment Proceeds due</b>	<b>20,448</b>			<b>(556)</b>	<b>33,233</b>
<b>Total</b>	<b>1,152,313</b>			<b>161,154</b>	<b>1,340,575</b>

	Value at 31/03/11	Purchase at Cost	Sale Proceeds	Change in market value	Value at 31/03/12
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	180,758	76,601	(76,216)	10,318	191,461
Equities	151,154	61,586	(52,184)	(2,977)	157,579
Pooled Funds	644,695	6,957	(23,450)	(2,621)	625,581
Property unit trusts	45,914	25,427	0	1,753	73,094
Private equity	73,614	12,620	(11,488)	9,404	84,150
<b>Sub total</b>	<b>1,096,135</b>	<b>183,191</b>	<b>(163,338)</b>	<b>15,877</b>	<b>1,131,865</b>
Forward Currency	(1,137)	283,519	(279,456)	(985)	1,941
Futures	0	322,629	(322,629)	0	0
<b>Total Derivatives</b>	<b>(1,137)</b>	<b>606,148</b>	<b>(602,085)</b>	<b>(985)</b>	<b>1,941</b>
Debtors	523				1,202
Creditors	(422)				(1,199)
Managers' Cash	8,328			1,262	14,738
Internal Cash	6,341				732
Currency Overlay	1,433				3,034
<b>Total Cash</b>	<b>16,203</b>			<b>1,262</b>	<b>18,507</b>
<b>Total Cash and Investment Proceeds due</b>	<b>15,066</b>			<b>277</b>	<b>20,448</b>
<b>Total</b>	<b>1,111,201</b>			<b>16,154</b>	<b>1,152,313</b>

# NOTES TO THE ACCOUNTS

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Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £317k. In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## Analysis of derivatives

### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement between the fund and the various investment managers.

### Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a proportion of the fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund has a currency management overlay in place managed by Mesirow which hedges significant long term currency movements to limit losses. The portfolio covers US dollars, Yen and Euro currencies.

## 11. Summary of Manager's Portfolio Values at 31 March 2013

	£000	% of Fund
Aberdeen Asset Management	222,042	16.6
Aberdeen Emerging Markets	48,669	3.6
Blackrock Investment Management	162,125	12.1
Invesco Perpetual	71,323	5.3
J P Morgan	51,465	3.8
Majedie	79,812	6.0
Nikko	67,072	5.0
Schroder Investment Managers	68,014	5.1
State Street Global Advisers	378,150	28.2
Property	75,237	5.6
Private Equity Managers	93,089	6.9
Passive currency overlay	6,844	0.5
Internally managed (Cash)	16,733	1.3
	<b>1,340,575</b>	<b>100.00</b>

# NOTES TO THE ACCOUNTS

## 12. Financial Instruments

### a) Classification of financial instruments

31/03/2012				31/03/2013		
Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair Value through profit and loss	Loans And receivables	Financial liabilities at amortised cost
£000	£000	£000	Financial assets	£000	£000	£000
191,461			Fixed Interest Securities	219,967		
157,579			Equities	207,401		
625,581			Pooled Funds	711,647		
73,094			Property Unit Trusts	75,238		
84,150			Private Equity	93,089		
64,513			Derivatives	21,659		
	18,504		Cash		31,370	
2,354			Other investment balances	3,471		
	14,074		Debtors		9,294	
<b>1,198,732</b>	<b>32,578</b>			<b>1,332,472</b>	<b>40,664</b>	
			<b>Financial liabilities</b>			
(62,572)			Derivatives	(21,744)		
(1,199)			Other investment balances	(9)		
		(1,778)	Creditors			(1,419)
			Borrowings			
<b>(63,771)</b>		<b>(1,778)</b>		<b>(21,753)</b>		<b>(1,419)</b>
<b>1,134,961</b>	<b>32,578</b>	<b>(1,778)</b>		<b>1,310,719</b>	<b>40,664</b>	<b>(1,419)</b>

### b) Net gains and losses on financial instruments

31/03/2012			31/03/2013	
£000	Financial Assets		£000	
15,877	Fair value through profit and loss		161,710	
0	Loans and receivables		0	
	<b>Financial liabilities</b>			



## NOTES TO THE ACCOUNTS

1,262	Fair value through profit and loss	1,799
(985)	Loans and receivables	(2,355)
<b>16,154</b>	<b>Total</b>	<b>161,154</b>

### c) Fair value of financial instruments and liabilities

31/03/2012			31/03/2013	
Carrying value	Fair value		Carrying value	Fair value
£000	£000		£000	£000
		<b>Financial assets</b>		
906,170	1,198,732	Fair value	978,521	1,332,472
32,578	32,578	Loans and receivables	40,664	40,664
<b>938,748</b>	<b>1,231,310</b>	<b>Total financial assets</b>	<b>1,019,185</b>	<b>1,373,136</b>
		<b>Financial liabilities</b>		
(63,771)	(63,771)	Fair value	(21,753)	(21,753)
(1,778)	(1,778)	Financial liabilities	(1,419)	(1,419)
<b>(65,549)</b>	<b>(65,549)</b>	<b>Total financial liabilities</b>	<b>(23,172)</b>	<b>(23,172)</b>

### d) Valuation of financial instruments carried at fair value

**Level 1 - Quoted prices for similar instruments.** Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

**Level 2 - Directly observable market inputs other than Level 1 inputs.** Where an instrument is traded in a market which 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 - Inputs not based on observable market data.** The values of investment in private equity are based on valuations provided by the general partners to the private equity funds. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end.

# NOTES TO THE ACCOUNTS

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values as at 31 <sup>st</sup> March 2013	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets</b>				
Financial assets at fair value	565,651	576,836	189,985	1,332,472
Loans and receivables	40,664			40,664
<b>Total financial assets</b>	<b>606,315</b>	<b>576,836</b>	<b>189,985</b>	<b>1,373,136</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value	(9)		(21,744)	(21,753)
Financial liabilities at amortised cost	(1,419)			(1,419)
<b>Total financial liabilities</b>	<b>(1,428)</b>		<b>(21,744)</b>	<b>(23,172)</b>
<b>Net financial assets</b>	<b>604,887</b>	<b>576,836</b>	<b>168,241</b>	<b>1,349,964</b>

## 13. Nature and extent of risks rising from financial instruments

The fund maintains positions in a variety of instruments, as dictated by the statement of investment principles (SIP), and is consequently exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risks.

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities and will be unable to pay the promised benefits to members. The aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk 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 management of risk is a key objective of the Pension Fund. A policy of diversification of its asset classes and investment managers helps the Pension fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures which are put in place in order to manage risk.

### Market Risk

Market risk is the risk that the fair value or future cashflows of an institution will fluctuate because of a change in market price.

In order to manage risk, the Fund invests in a diversified pool of assets, split between a number of managers with different performance targets and investment strategies. In order to mitigate risk, the Fund regularly reviews the pension fund investment strategy together with regular monitoring of asset allocation and investment performance.

**Interest rate** risk is the risk to which the Pension Fund is exposed to fluctuations in interest rates

## NOTES TO THE ACCOUNTS

and mainly relates to changes in bonds.

To mitigate the risk, the Fund holds a fixed interest portfolio managed by Aberdeen, the appointed active bond manager.

Interest Rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis below shows the effect of a 100 basis point (1%) movement in interest rates on the net assets available to pay benefits

Asset Type	Carrying amount as at 31.03.2013	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	33,233	332	(332)
Fixed interest securities	219,967	2,200	(2,200)
<b>Total</b>	<b>253,200</b>	<b>2,532</b>	<b>(2,532)</b>

Asset Type	Carrying amount as at 31.03.2012	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	18,504	185	(185)
Fixed interest securities	191,461	1,915	(1,915)
<b>Total</b>	<b>209,965</b>	<b>2,100</b>	<b>(2,100)</b>

**Currency risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates.

The Fund has appointed two active currency managers who manage the currency risk in several countries and the fund's Japanese and European portfolios have a 50% passive currency overlay in place. Fund managers will also take account of currency risk in their investment decisions.

### Currency risk – sensitivity analysis

Following analysis of historical data, the fund's aggregate currency change has been calculated as 3.2%. A 3.2% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Asset value as at 31.03.2013	Change to net assets available to pay benefits	
		+ 3.2%	- 3.2%
	£000	£000	£000
Overseas quoted securities	450	465	436
Overseas corporate bonds (quoted)	59	61	57
<b>Total change in assets available</b>	<b>509</b>	<b>526</b>	<b>493</b>

Currency exposure – asset type	Asset value as at 31.03.2012	Change to net assets available to pay benefits	
		+ 9.6%	-9.6%
	£000	£000	£000

## NOTES TO THE ACCOUNTS

Overseas quoted securities	504	552	456
Overseas corporate bonds (quoted)	161	176	146
<b>Total change in assets available</b>	<b>665</b>	<b>728</b>	<b>602</b>

**Price risk** is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing specialist managers enables the Fund to benefit from investment expertise.

### Price risk sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of assets over the last three years, applied to the period end asset mix.

Asset type	Value as at 31.03.2013	Percentage change	Value on increase	Value on Decrease
	£000	%	£000	£000
UK Equities	468,683	12.2%	525,769	411,597
Overseas Equities	450,365	13.6%	511,705	389,025
Total Bonds	219,967	4.20%	229,184	210,750
Cash	33,233	0.00%	33,240	33,226
Alternatives	93,089	4.30%	97,073	89,105
Property	75,238	1.60%	76,412	74,064
<b>Total Assets</b>	<b>1,340,575</b>		<b>1,473,383</b>	<b>1,207,767</b>

Asset type	Value as at 31.03.2012	Percentage change	Value on increase	Value on Decrease
	£000	%	£000	£000
UK Equities	440,731	14.1%	502,830	378,632
Overseas Equities	342,429	15.7%	396,122	288,736
Total Bonds	191,461	4.6%	200,192	182,730
Cash	20,448	0.0%	20,452	20,444
Alternatives	84,150	9.3%	91,976	76,324
Property	73,094	8.8%	79,451	66,647
<b>Total Assets</b>	<b>1,152,313</b>		<b>1,291,023</b>	<b>1,013,513</b>

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The Fund reviews its exposure to credit and counterparty risk through its external investment managers. The Fund is also exposed to credit risk through its securities lending programme. This is run by the Fund's custodian, Northern Trust who manage and monitor the counterparty risk, collateral risk and the overall lending programme. The Pension Fund's bank account is held with the Co-operative bank. Surplus cash is not invested

# NOTES TO THE ACCOUNTS

with the Co-op but is placed with a selection of AAA Money Market institutions. The fund's cash holding under its treasury management arrangements as at 31.03.2013 was 16.7m (732k at 31.03.2012). This was held with the following institutions:

	Rating	Balance at 31.03.2012	Balance at 31.03.2013
<b>Money market funds</b>		£000	£000
Ignis	AAA	0	16,854
<b>Bank current account</b>			
Co-operative	A-	732	(123)
<b>Total</b>		<b>732</b>	<b>16,731</b>

## Liquidity Risk

Liquidity risk represents the possibility that the Fund may not have funds available to meet its financial obligations. The current position of the fund is that it is cash positive, which reflects the fact that contributions into the Fund exceed benefits being paid out. The Pension Fund's cash is kept in a separate bank account and the cash position is monitored on a daily basis. Surplus funds are deposited in money market funds on a short term basis. At an investment level, the Fund's investments are substantially made up of listed securities which are considered readily realisable.

## 14. Sundry Debtors & Creditors

	2011/12 £000	2012/13 £000
<b>Debtors</b>		
Pensions Administration	106	<b>106</b>
Miscellaneous	<u>61</u>	<u><b>228</b></u>
	167	<b>334</b>
<b>Creditors</b>		
Management & Custody Fees	(662)	<b>(763)</b>
Miscellaneous	<u>(100)</u>	<u><b>(17)</b></u>
	(762)	<b>(780)</b>
<b>Total</b>	<u>(595)</u>	<u><b>(446)</b></u>

## 15. Additional Voluntary Contributions

Scheme members may elect to make additional voluntary contributions to enhance their pension benefits. Contributions are made directly from scheme members to the AVC provider and are therefore not represented in these accounts.

The amount of AVC contributions paid during the year amounted to £0.494m and the market value of separately invested AVC's as at 31/03/2013 was £3.204m.

## 16. Commitments

As at 31 March 2013 the Fund had outstanding private equity commitments of a maximum of £66.43m (£65.92m at 31 March 2012).

# NOTES TO THE ACCOUNTS

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As at 31<sup>st</sup> March 2013 the Fund had forward currency contracts amounting to £21.659m of purchases and £21.744m of sales, showing an unrealised loss of £0.85m.

## 17. Securities Lending

At the year end the value of quoted equities on loan was £19.531m (£30.19m at March 2012) in exchange for which the custodian held collateral of £21.417m (£31.942m at March 2012). For the year ending 31<sup>st</sup> March 2013, the Fund received income of £57k from the lending of stock.

## 18. Contingent Liabilities

The Fund has no contingent liabilities.

## 19. Related Party Transactions

The relationship between the employers and the Pension Fund is by its very nature close, therefore each participating employer is considered a related Party as shown in notes 5 and 6.

Other related party transactions with Cardiff Council are:

- Cash invested internally by Cardiff Council (for working capital purposes) - see note 10;
- Administration expenses charged to the Fund by the Council are shown in note 8;
- Paragraph 3.9.4.3 of the Code of Practice exempts local authorities from the key management personnel disclosure requirements of IAS 24 on the basis that requirements for officer remuneration and members' allowances is detailed in section 3.4 of the Code and the disclosures required can be found in the main accounts of Cardiff Council

## 20. Post Balance Sheet Events

There are no post balance sheet events to report.

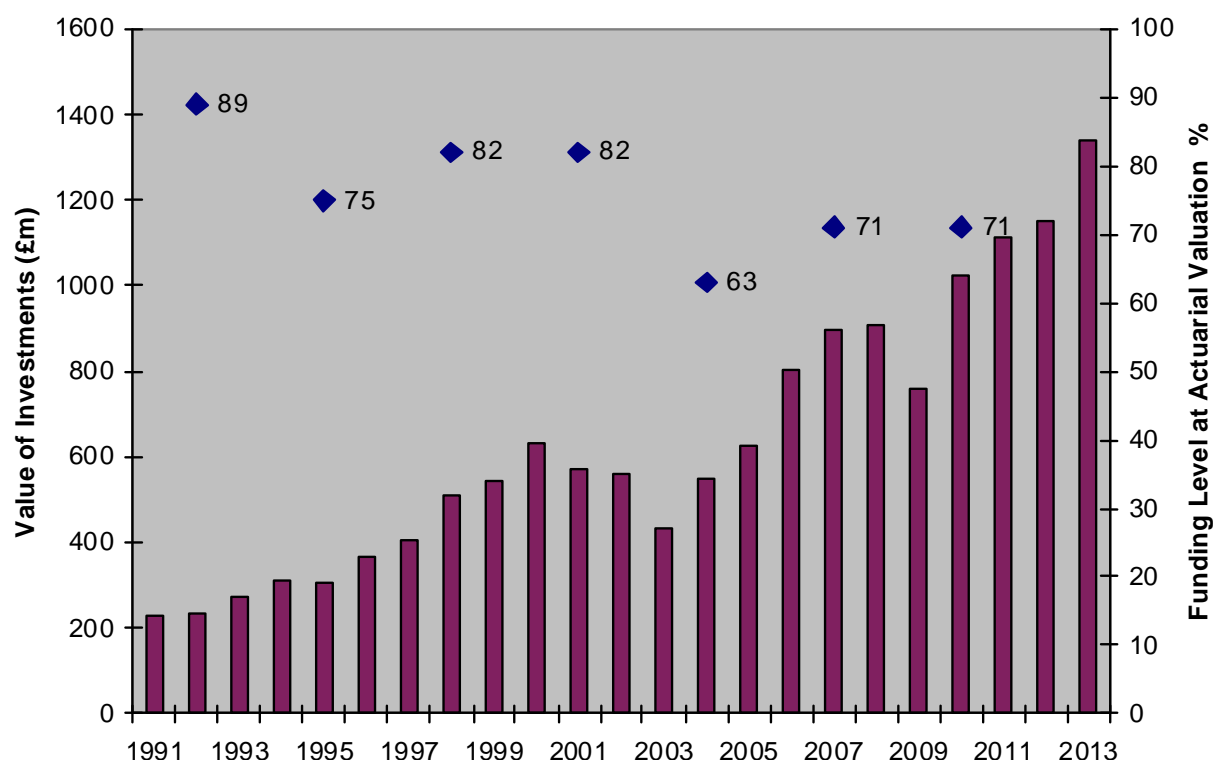
# APPENDIX 1: INVESTMENT DATA

## SUMMARY STATISTICS FOR PAST FIVE YEARS

Year End 31st March	2009	2010	2011	2012	2013
<b>MEMBERSHIP</b>					
Contributors	13,699	13,633	13,507	13,343	<b>13,402</b>
Pensioners	8,387	8,534	8,981	9,293	<b>9,552</b>
Deferred Pensioners	8,231	8,851	9,430	10,040	<b>10,658</b>
<b>FINANCIAL DATA</b>					
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross Income (excl Profits on Sales)	87.9	93.3	90.9	95.4	<b>92.9</b>
Gross Expenditure	53.9	77.5	67.9	68.3	<b>70.4</b>
Net New Money	34.0	15.8	22.4	27.1	<b>22.5</b>
Market Value of Investments	757.0	1,027.0	1,111.2	1,150.5	<b>1,340.5</b>
<b>PERFORMANCE</b>					
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Return on Investments	-17.6	34.3	7.7	2.4	<b>14.9</b>
Increase in Average Earnings	1.1	5.5	1.9	0.8	<b>-0.2</b>
Annual Pension Increase	3.9	0.0	3.1	5.2	<b>2.2</b>

# APPENDIX 1: INVESTMENT DATA

## 20 YEAR INVESTMENT MARKET VALUES



Note that between 1989 and 1993 regulations issued by central government required local authority pension funds to reduce their target level of funding from 100% to 75% of liabilities.

## ASSET ALLOCATION DURING PAST FIVE YEARS

Year Ended 31 March		2009	2010	2011	2012	2013
UK Equities	£m	274.9	387.9	412.4	401.3	468.7
	%	36.3	37.9	37.1	34.9	35.0
Overseas Equities	£m	175.7	301.4	343.3	342.4	450.4
	%	23.2	29.5	30.9	29.7	33.6
Global Bonds	£m	154.1	170.3	180.8	191.5	220.0
	%	20.4	16.7	16.3	16.6	16.4
Private Equity	£m	59.9	64.7	73.6	82.4	93.0
	%	7.9	6.3	6.6	7.2	6.9
Property	£m	34.7	41.0	45.9	73.1	75.2
	%	4.6	4.0	4.1	6.4	5.6
Cash	£m	18.0	15.0	15.0	20.4	33.2
	%	2.4	1.5	1.4	1.8	2.5
Active Currency	£m	39.7	42.1	40.2	39.4	0
	%	5.2	4.1	3.6	3.4	0
<b>Total Value</b>	£m	<b>757.0</b>	<b>1022.4</b>	<b>1111.2</b>	<b>1150.5</b>	<b>1340.5</b>
	%	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>



## APPENDIX 1: INVESTMENT DATA

<b>TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2013</b>			
	Country	Value £m	% of the Fund
<b>EQUITIES</b>			
BP	UK	5.4	0.6
Vodafone	UK	4.8	0.5
Samsung Electronic	Korea	4.5	0.5
Glaxosmithkline	UK	3.3	0.4
Royal Dutch Shell	UK	2.9	0.3
HSBC Holdings	UK	2.9	0.3
Barclays	UK	2.8	0.3
Toyota Motor Corporation	Japan	2.3	0.3
BAE Systems	UK	2.2	0.2
Royal Bank of Scotland	UK	2.2	0.2
<b>POOLED FUNDS</b>			
Blackrock Investment Indexed (formerly BGI)		162.1	12.1%
SsgA Europe Active		134.8	10.4%
SSgA UK Indexed		115.7	8.6%
SSgA USA Indexed		127.6	9.5%
Aberdeen UK Credit		83.2	6.2%
Invesco Perpetual Income Fund		71.3	5.3%
JPMorgan UK Dynamic Fund		51.5	3.8%
Aberdeen World Bonds		81.3	6.1%
Aberdeen Global Emerging Markets		48.7	3.6%

## APPENDIX 2: SUMMARY OF SCHEME BENEFITS

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The benefits of the scheme are subject to change through legislation issued by the Department for Communities and Local Government. A new scheme with a different benefits structure was introduced from 1 April 2008, with all service accrued up to 31 March 2008 preserved (including the right to an automatic lump sum). The following benefits are currently provided by the post 1 April 2008 Scheme (individual employers also have discretion in certain marginal areas):

### ***Upon Retirement***

An annual pension and lump sum usually based on service and final year's earnings. The annual pension is based on the formula:

$$\text{Final Pay} \times \text{Length of membership} \times 1/60$$

There is no automatic lump sum, although a lump sum can be drawn by commuting annual pension at the rate of £12 of lump sum for every £1 of pension given up. Under current tax legislation, lump sums are not subject to tax.

The normal retirement age is 65. Benefits are reduced for retirements before age 65 which do not satisfy the necessary qualifying conditions. If retirement is on ill-health grounds, payment of benefits is made immediately with any enhancement being related to the category of ill-health awarded.

Employees aged 55 or above who terminate employment on the grounds of redundancy or under a voluntary early retirement scheme are also entitled to an immediate payment of benefits.

### ***Upon Death***

*In Service:* A non-taxable death grant is payable to a nominated person or the member's personal representative (the choice being at the discretion of the Council). This is equivalent to three times final pay.

*After Retirement:* A lump sum death grant is payable if death occurs within ten years of normal retirement age.

In both circumstances pension benefits are also payable to a widow or widower, and dependent children, if appropriate.

### ***Other Leavers***

Employees with 3 months or more of pensionable membership, or who have brought a transfer into the pension scheme have the right to deferred retirement benefits or to a transfer of pension rights.

Employees with less than 3 months pensionable membership, who have not transferred another pension into the scheme, may take a refund of contributions or transfer membership to another pension scheme.

## FURTHER INFORMATION

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Details of membership of the Pension Scheme are provided by individual employers to all relevant employees on appointment. Further information regarding the scheme can also be found on the LGPS website ([www.lgps.org.uk](http://www.lgps.org.uk)) and the Council Finance pages of Cardiff Council's website ([www.cardiff.gov.uk](http://www.cardiff.gov.uk); or search for 'Cardiff Pension Fund'). Any significant changes to the scheme are reported to members by newsletter.

A statement of each individual's benefits is currently provided automatically on retirement, or earlier on request. Annual benefit statements are sent to all active and deferred Fund members based on the benefits accrued to 31 March each year.

Copies of this report are sent to all employers and recognised Trade Unions, and are available to all interested parties on request. Copies of the rules currently governing local government pension funds may also be inspected on request.

The Fund's Annual Report, Statement of Investment Principles, Funding Strategy Statement and Communication and Governance statement are published on Cardiff Council's website ([www.cardiff.gov.uk](http://www.cardiff.gov.uk)). Paper copies are available on request.

Further information on the Pension Fund or any pension matters may be obtained from:

Corporate Director Resources  
Cardiff Council  
County Hall  
Atlantic Wharf  
Cardiff  
CF10 4UW

Telephone enquiries should be directed to Financial Services as follows:

Scheme management and investments:	(029) 20 872975 – Gareth Henson	(Pensions Manager)
Pensions and Benefits:	(029) 20 872330 - Gerry Kiddie	(Principal Pensions Officer)
Fund accounting	(029) 20 872339 - Sue Jones	(Pensions Accountant)
E-mail enquiries to:	<a href="mailto:Pensions@cardiff.gov.uk">Pensions@cardiff.gov.uk</a>	