



Hertfordshire County Council  
Pension Fund  
Annual Report and  
Statement of Accounts  
2012/13

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## Introduction

### 1. Foreword

This report provides information for employers and other interested parties on how the Hertfordshire Pension Fund ("Pension Fund") has been managed during the year 1 April 2012 to 31 March 2013.

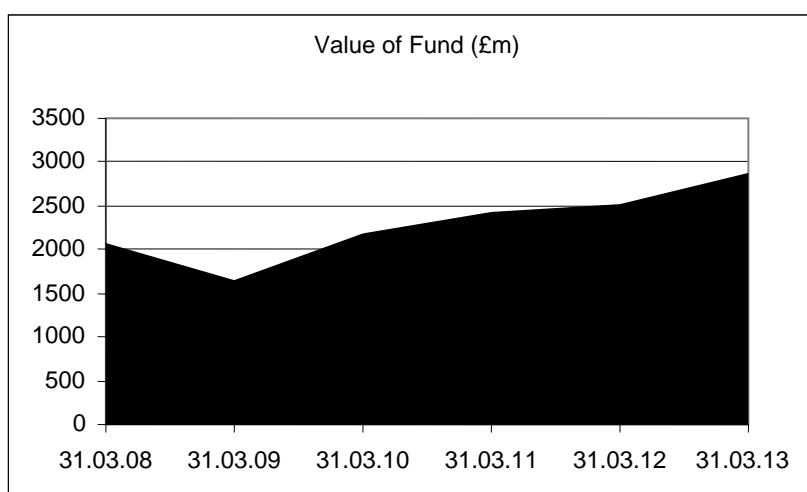
There were 254 employers and 28,728 contributing members of the Pension Fund at 31 March 2013. During the year the value of the Pension Fund increased by £387 million to £2,908 million. The overall investment return for the year was 15.1% compared to the Pension Fund's benchmark of 13.7%.

This report summarises the main features of the Pension Fund, starting with a brief outline of the Local Government Pension Scheme ("Scheme"). The Administering Authority Report then outlines the management and administrative arrangements for the Pension Fund. This is followed by the financial statements, the Fund Account and Net Asset Statement, for the year 2012/13 with comparative information for the previous year. The Fund Account shows the change in net assets available for benefits during the year, showing separately the net increase or decrease from the Pension Fund's dealings with members and the net return on investments. The Net Asset Statement discloses the net assets of the Pension Fund at the end of the year. The report concludes with an Investment Report which sets out the background against which investment took place, the Pension Fund's Investment Policy and the level of performance achieved.

### 2. Financial Summary

The table below provides a summary of the Pension Fund accounts for the year 2012/13 and a graph showing the movement of the value of the Pension Fund over the last five years.

| 2011/12<br>£000s |   | 2012/13<br>£000s |
|------------------|---|------------------|
| 2,421,651        | Value of the Pension Fund at 1 April  | 2,520,578        |
| 22,502           | Net additions / (withdrawals) from dealing with those directly involved in the scheme | 17,327           |
| 76,425           | Net returns on investments  | 369,999          |
| 98,927           | Increase / (Decrease) in the Pension Fund during the year                             | 387,326          |
| <b>2,520,578</b> | <b>Value of the Pension Fund at 31 March</b>  | <b>2,907,904</b> |



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## Scheme Administration

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### 1. Background to the Scheme

#### Legal Framework

The Scheme is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972. The Scheme is governed by the following regulations:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)

The Scheme is run by Administering Authorities in accordance with these regulations. In Hertfordshire the Administering Authority is Hertfordshire County Council.

#### Eligibility

The Scheme is available to all employees of local authorities other than teachers, fire-fighters and police officers for whom separate arrangements apply. Employees are able to join the Scheme if they have a contract of employment of three months or more duration.

Other specified bodies providing public services are included by statute or may apply for admission.

#### Employers

At 31 March 2013 there were 254 employers in the Pension Fund. Participating employers can be scheme employers or admitted bodies, as defined below:

- Scheme employers. There are two types of scheme employers (“employers”) listed in the Scheme regulations. Employees of organisations such as the County Council and District and Borough Councils are able to join the Scheme as of right. Employees of other organisations, such as Parish and Town Councils are able to join the Scheme if the employer designates that they can.
- Admitted bodies are voluntary, charitable and, in certain circumstances, private sector organisations carrying out local authority contracts, where staff can become members of the Scheme by virtue of an Admission Agreement between the Pension Fund and the relevant body. At 31 March 2013 there were 68 admitted bodies participating in the Pension Fund.

A full list of employing bodies in the Pension Fund is shown in Appendix 1 at page 62.

### 2. Funding

The Scheme is a funded scheme, financed by contributions from employees and employers and by earnings from investments. The Pension Fund has published a Funding Strategy Statement (shown in Appendix 2 at page 65), which sets out the Pension Fund’s strategy for meeting employers’ pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment.

#### Employees’ Contributions

From 1 April 2008 employees pay contributions at a rate depending on their whole time equivalent pensionable salary. The rates and salary bandings applicable during 2012/13 are shown in the table below.

| Band | Range                           | Contribution Rate |
|------|---------------------------------|-------------------|
| 1    | £0 - £13,500                    | 5.50%             |
| 2    | More than £13,501 up to £15,800 | 5.80%             |
| 3    | More than £15,801 up to £20,400 | 5.90%             |
| 4    | More than £20,401 up to £34,000 | 6.50%             |
| 5    | More than £34,001 up to £45,500 | 6.80%             |
| 6    | More than £45,501 up to £85,300 | 7.20%             |
| 7    | More than £85,300               | 7.50%             |

### Employers' Contributions

Employers' contributions are payable at rates specified by the Pension Fund Actuary following each triennial valuation. Rates are adjusted to reflect any surplus or shortfall in the Pension Fund (see page 17 for further details).

### Investment Income

The cash, which is not immediately required to pay pensions and other benefits, is invested and provides an additional source of income for the Pension Fund.

## 3. Benefits

The Scheme is a defined benefit final salary scheme which guarantees to provide benefits which are a specified fraction of a Scheme member's "final-pay". Benefits are not affected by variations in investment performance.

Full details of benefits payable are explained in the Scheme booklet which is available from the Pension Fund website at [www.yourpension.org.uk/agencies/HCC/](http://www.yourpension.org.uk/agencies/HCC/)

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) introduced a new benefit package for the Scheme, the main provisions of which are set out below.

### Age of Retirement

The normal retirement date for Scheme members is 65. The Scheme also makes provisions for the early payment of benefits from age 55 in certain circumstances.

### Retirement Benefits

For membership after 1 April 2008, the annual pension is based upon final pensionable pay multiplied by 1/60<sup>th</sup> for each year of Scheme membership. The final pensionable pay is the wage or salary on which contributions were paid over the last 12 months of service. Up to 25% of the capital value of benefits can be taken as a lump sum at a 12:1 commutation rate, i.e. £12 lump sum for every £1 of pension given up.

For membership accrued to 31 March 2008, members will receive an annual pension based on final pensionable pay multiplied by 1/80<sup>th</sup> for each year of Scheme membership and a lump sum of three times annual pension. Members can also exchange part of their pension for additional lump sum.

### Additional Benefits

The Scheme offers several ways for members to increase their benefits:

- Additional Regular Contributions to purchase additional Scheme pension in multiples of £250 up to a maximum of £5,000 per annum.
- Contributions to a money purchase Additional Voluntary Contribution scheme ("AVC"), provided by the Standard Life Assurance Company or the Equitable Life Assurance Society.

### III Health Retirement

A three tier ill health retirement provision is available depending on how likely a member is to be capable of undertaking any gainful employment in the future. Benefits are calculated in the same way as for normal retirements, with an enhancement for members in tiers 1 and 2 to compensate for premature retirement. Members in tier 3 who are likely to be capable of undertaking gainful employment within three years of retiring must undergo a medical review after 18 months. At the end of the three year period the member will either have their pension benefits deferred to age 65 or move to tier 2 following a medical assessment.

### **Death in Service**

A lump sum death grant of three years final pensionable pay is payable. Pensions are also payable to surviving spouses, civil partners, nominated co-habiting partners and dependant children based on the former employee's membership and final pay.

### **Death after Retirement**

Spouses', civil partners', nominated co-habiting partners' and dependant children's pensions are payable based on the former employee's final pensionable pay or pension. In addition, if death occurred before the pension has been paid for ten years, the balance will be paid as a lump sum.

**The benefits detailed above are guidelines only and members should apply to London Pensions Fund Authority, the Scheme Administrator, for individual estimates of benefits payable.**

### **2014 Scheme**

A new Scheme will be coming into force on 1 April 2014. The key features are:

- Career Average Re-valued Earning (CARE) scheme where pension benefits will be calculated based on earnings in each year, then re-valued in line with Consumer Price Index
- Accrual rate of 1/49<sup>th</sup>
- Normal pension age linked to State Pension Age
- 50:50 option where members may elect to pay half contributions for half the pension
- Revised salary and rates bandings and rates for part time employees based on actual pay rather than full time equivalent
- Benefits prior to 1 April 2014 protected

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## Administering Authority Report

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### 1. Management

Hertfordshire County Council (the "County Council") is the Administering Authority of the Pension Fund and administers the Scheme on behalf of the participating employers.

The Local Authority (Functions & Responsibilities) (England) Regulations 2000 (as amended), state that functions relating to the Scheme are the responsibility of the full Council. The County Council has delegated these functions to the Pensions Committee and to the County Council's Chief Finance Officer, the Deputy Chief Executive. Some of the functions relating to investment management have been delegated by the Pensions Committee to the Investment Sub-Committee. A protocol has been agreed to ensure this parallel delegation operates effectively.

The membership of the Pensions Committee is made up of ten County Council members and three District Council representatives. All employers and a staff representative, nominated by UNISON, are invited to attend meetings as observers.

The Investment Sub-Committee is made up of six members (in proportion to the political representation of the full council) plus one non-voting District Council representative.

The County Council has published a Governance Policy and Compliance Statement which is set out on the following pages. This was approved by the Pensions Committee on 14 June 2011. The statement covers policy on delegations to the Pensions Committee and Investment Sub-Committee, frequency of meetings of the Pensions Committee, training and terms of reference and describes the Pension Fund's compliance with statutory guidance issued by the Secretary of State for Communities and Local Government.

#### **Pensions Committee Membership at 31 March 2013**

##### **County Council Members:**

|                      |                              |
|----------------------|------------------------------|
| D E Lloyd (Chairman) | S Markiewicz (Vice Chairman) |
| M Bright             | C A Mitchell                 |
| N K Brook            | R G Parker                   |
| K F Emsall           | R G Tindall                  |

##### **District Council Representatives (non-voting):**

|  |            |
|--|------------|
| D Lewis (left September 2012)          | J O Ranger |
| M Mills-Bishop (joined September 2012) | J Lloyd    |

##### **Staff Representative (UNISON) (non-voting):**

G Thwaites

#### **Pensions Committee Membership from 21 May 2013 (following County Council elections in May 2013)**

##### **County Council Members:**

|                     |                         |
|---------------------|-------------------------|
| D Ashley (Chairman) | D Lloyd (Vice Chairman) |
| C Hayward           | R Parker                |
| R Henry             | S Quilty                |
| T Hone              | D Scudder               |
| J King              | A Searing               |

##### **District Council Representatives (non-voting):**

|                |            |
|----------------|------------|
| M Mills-Bishop | J O Ranger |
| J Lloyd        |            |

##### **Staff Representative (UNISON) (non-voting):**

G Thwaites

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## Administering Authority Report

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### 2. Governance Policy and Compliance Statement

This statement is prepared in accordance with regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2007 (as amended), which require administering authorities to maintain and publish a statement on its governance policy and its compliance with statutory guidance issued by the Secretary of State for Communities and Local Government. This statement was approved by the Pensions Committee on 14 June 2011.

#### Legal Framework

The terms of the Local Government Pension Scheme are contained in three sets of regulations:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)

They apply to employees of local authorities other than teachers, fire-fighters and police. Other specified bodies providing public services are included by statute or may apply for admission.

#### Responsibility

The Administering Authority for the Local Government Pension Scheme in Hertfordshire is Hertfordshire County Council (the "County Council"). Management of the Local Government Pension Scheme is a non-executive function.

The Local Authority (Functions & Responsibilities) (England) Regulations 2000 (as amended), state that the functions relating to the Local Government Pension Scheme are the responsibility of the full Council. The County Council has delegated these functions to the Pensions Committee, whose members can make decisions without reference to the full Council. Some of the functions relating to investment management have been delegated by the Pensions Committee to the Investment Sub-Committee set out in the Terms of Reference below.

In parallel to this, the County Council has delegated functions relating to the Pension Fund to the County Council's Chief Finance Officer, the Deputy Chief Executive, as specified in Annex 3 (Responsibility for Functions) of the County Council's Constitution.

#### Terms of Reference

The Pensions Committee, Investment Sub-Committee and Chief Finance Officer, the Deputy Chief Executive, are responsible for the functions set out in the following regulations:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007(as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).
- Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2006 (as amended)

To clarify this delegation, the Pensions Committee has agreed a protocol setting out the division of responsibility between itself, the Investment Sub-Committee and the Chief Finance Officer, the Deputy Chief Executive. This states that the Pensions Committee is responsible for policy matters including:

- Approval of asset allocation decisions
- Setting Administering Authority discretions
- Approval of the overall investment strategy of the Pension Fund
- Approval and review of:
  - Statement of Investment Principles
  - Funding Strategy Statement
  - Governance Policy Statement
  - Communications Strategy Statement
- Appointing (and, when necessary, dismissing) Investment Consultants
- Appointing (and, when necessary, dismissing) the Pension Fund Actuary
- Appointing (and, when necessary, dismissing) the Pension Fund Custodian
- Reviewing the cost of investment management
- Setting performance objectives for the Pension Fund



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## Administering Authority Report

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The Investment Sub-Committee is responsible for the following matters:

- Monitoring the performance of Investment Managers and the investments made
- Appointing (and, when necessary, dismissing) Investment Managers
- Reviewing asset allocation decisions
- Reviewing performance objectives for the Pension Fund

All other operational decisions to implement these policies are delegated to the County Council's Chief Finance Officer, the Deputy Chief Executive.

### Representation

The Pensions Committee is made up of ten County Council members (in proportion to the political representation of the full Council) and three (non-voting) District Council representatives elected by the Hertfordshire Local Government Association.

The Investment Sub-Committee is made up of six members (in proportion to the political representation of the full council split 4:1:1) plus one non-voting District Council representative.

The Chairperson of the Pensions Committee is ex-officio Chairperson of the Sub-Committee and its membership will be appointed by the County Council from within the membership of the Pensions Committee.

County Council members, as elected members of the Administering Authority, have voting rights in accordance with the Local Government (Committee and Political Groups) Regulations 1990 SI No 1553 5 (1)(d).

A staff representative, nominated by UNISON, is invited to attend meetings as an observer.

The County Council's Chief Finance Officer, the Deputy Chief Executive, attends meetings to advise the Pensions Committee.

An annual meeting is held for all employers in the Pension Fund to inform them of decisions made and allow them to ask questions directly to the Pensions Committee, Officers and Pension Fund advisers.

### Committee meetings and training

The Pensions Committee meets once a quarter.

The Investment Sub-Committee meet quarterly and on an ad-hoc basis.

An annual workshop, run by the Pension Fund's Investment Consultant, is held for members of the Pensions Committee to provide members with on going training on pension and investment matters and to provide a forum to discuss and debate issues in more detail. Members of the Pensions Committee also attend ad-hoc training and seminars, receive briefing material and are encouraged to continuously develop their expertise. A quarterly workshop is run for member of the Investment Sub-Committee on investment related matters. Induction training is offered to all new members of the Pensions Committee.

### Compliance with Statutory Guidance

The following table provides a summary of how the Pension Fund complies with the statutory guidance issued by the Secretary of State for Communities and Local Government.

| <b>Pension Fund Compliance Statement</b>   |                                |
|--|--------------------------------|
| <b>Principle</b>   | <b>Compliance and Comments</b> |
| <b>A. Structure</b><br>a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointment Council. | Full                           |

## Administering Authority Report

| <b>Pension Fund Compliance Statement</b>  |  |
|---|--|
| <b>Principle</b>  | <b>Compliance and Comments</b>   |
| <b>A. Structure (continued)</b>   |  |
| b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.    | Full   |
| c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.  | Full   |
| d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.   | Full   |
| <b>B. Representation</b>  |  |
| a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:  |  |
| i) employing authorities (including non-scheme employers, e.g. admitted bodies):  | Partial<br><br>The County and District Councils, whose staff make up 70% of the active membership, are represented, but no other organisations are currently represented. All employers are invited to attend as observers if they wish and to attend the annual employers' meeting.                         |
| ii) scheme members (including deferred and pensioner scheme members);   | Full<br><br>UNISON has a place on the Pensions Committee to represent all Scheme members.  |
| iii) independent professional observers, and  | No<br><br>The statutory guidance envisages "an independent professional observer could be invited to participate in the governance arrangements to enhance the experience, continuity, knowledge, impartiality and performance of committees". There is no such member of the Pensions Committee at present. |
| iv) expert advisors (on an ad-hoc basis)  | Full<br><br>The Pension Fund's Investment Adviser, Actuary and Administrator attend the Pensions Committee when appropriate.   |
| b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights | Full   |

## Administering Authority Report

| <b>Pension Fund Compliance Statement</b>  |   |
|---|---|
| <b>Principle</b>  | <b>Compliance and Comments</b>  |
| <b>C. Selection and Role of Lay Members</b>   |   |
| a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.  | Full  |
| b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.  | Full  |
| <b>D. Voting</b>  |   |
| a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.   | Full<br><br>The policy is clear that only County Council members can vote. The Pensions Committee believes that the voting arrangements are justified, because in practice the vast majority of decisions are reached by consensus. |
| <b>E. Training/Facility Time/Expenses</b>   |   |
| a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Full<br><br>Training is provided internally and externally and offered to all Pensions Committee members. Reimbursement of expenses is covered by the members' allowance schemes in their authority.                                |
| b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.  | Full  |
| c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.  | Partial<br><br>This area is in development.   |
| <b>F. Meetings (frequency/quorum)</b>   |   |
| a) That an administering authority's main committee or committees meet at least quarterly.  | Full  |
| b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.   | Full  |
| c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.  | Full<br><br>An annual employers' meeting is held to update employers on Pension Fund matters.   |
| <b>G. Access</b>  |   |
| a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.                     | Full  |

## Administering Authority Report

| Pension Fund Compliance Statement  |  |
|--|--|
| Principle  | Compliance and Comments  |
| <b>H. Scope</b><br>a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.  | Full<br><br>Issues relating to the funding and benefit structure are reported to the Pensions Committee.                                 |
| <b>I. Publicity</b><br>a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Full<br><br>The Governance Policy Statement is published in the Annual Report and Statement of Accounts and on the Pension Fund website. |

### 3. Administration

The Hertfordshire County Council is the Administering Authority of the Pension Fund and administers the Scheme in conjunction with the contracted business services listed below.

#### **Scheme Administrator providing scheme administration services for members in conjunction with County Council staff:**

- London Pensions Fund Authority (LPFA)

#### **Investment Managers during 2012/13 investing funds on behalf of the Pension Fund:**

- Baillie Gifford & Co.
- BlackRock Investment Management (UK) Ltd.
- Global Thematic Partners, LLC
- HarbourVest
- JP Morgan Asset Management (UK) Ltd.
- Jupiter Asset Management Ltd.
- LGT Capital Partners Ltd.
- Permira
- RCM (UK) Ltd.
- Standard Life Investments Ltd.
- TTP Venture Managers Ltd.
- CB Richard Ellis Investors
- Legal and General

#### **Custodian maintaining and managing investment records in relation to Pension Fund investments:**

- BNY Mellon Asset Servicing B.V.

#### **Consulting Actuary providing actuarial services:**

- Hymans Robertson

#### **Investment Consultant providing investment advice:**

- Mercer Limited

#### **Corporate Governance Adviser providing voting services:**

- Research, Recommendations and Electronic Voting Limited

#### **Performance Measurement Consultants providing independent reporting on investment performance:**

- BNY Mellon Asset Servicing B.V.

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## Administering Authority Report

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### Additional Voluntary Contributions Providers for members wishing to increase benefits:

- The Equitable Life Assurance Society
- Standard Life Assurance Company

### External Auditor:

- P O'Neill, Engagement Partner, Ernst & Young

### Key contacts

#### Administering Authority

For Investments

Patrick Towey  
Herts Finance Service  
Hertfordshire County Council  
Postal Point CHO 327  
County Hall  
Pegs Lane  
Hertford, SG13 8DQ

01992 555148

[pensions.team@hertfordshire.gov.uk](mailto:pensions.team@hertfordshire.gov.uk)

#### Legal Adviser

Kathryn Pettitt  
Chief Legal Officer  
Hertfordshire County Council

#### Scheme Administrator

For Benefits and Administration

Taryn Mutter  
London Pensions Fund Authority  
Hertfordshire Pension Team  
Postal Point CHO 033  
County Hall  
Pegs Lane  
Hertford, SG13 8DQ

01992 555466

[hertscc@lpfa.org.uk](mailto:hertscc@lpfa.org.uk)

### Administration Strategy

The Pension Fund has published an Administration Strategy ("Strategy") that sets out the quality and performance standards expected of the Pension Fund and its employers.

The Strategy has been prepared in accordance with regulation 65(1) of the Local Government Pension Scheme (Administration) Regulations 2008. This enables a Local Government Pension Scheme Fund to prepare an administration strategy to support the delivery of a high quality administration service.

The Strategy was produced in consultation with employers and subsequent revisions are made in consultation with employers and approved by the Pensions Committee. The latest version was approved by the Pensions Committee on 28 February 2013 and implemented on 1 April 2013.

The Strategy outlines the responsibilities of the Pension Fund and employers, defines the required performance standards and provides details of sanctions for non-compliance.

### Annual Performance Report

At the June 2010 meeting of the Pensions Committee, a set of key performance indicators were agreed and these are used to measure and report on the performance of the Administering Authority, the outsourced pensions administration service provider and employers. Performance is reported to the Pensions Committee on a quarterly basis as part of the Administration Review report. The Administration Review reports and minutes of the Pensions Committee meetings are accessible from [www.hertsdirect.org/your-council/civic\\_calendar/](http://www.hertsdirect.org/your-council/civic_calendar/).

The Scheme regulations require the Pension Fund to undertake an annual formal review of performance against the Strategy and this is provided in the following tables. The annual review is reported to the Pensions Committee, and circulated to all employers.

## Administering Authority Report

### 2012/13 Annual Performance Report for the Administration Strategy

#### Key Performance Indicators

Key performance indicators were agreed by the Pensions Committee at the June 2010 meeting. Performance is measured against these indicators and quarterly Administration Review reports are provided to the Pensions Committee and are accessible from [www.hertsdirect.org/your-council/civic\\_calendar/](http://www.hertsdirect.org/your-council/civic_calendar/)

Key performance indicators measure the performance of the Administering Authority, the outsourced pensions service provider and employers. The annual performance results are shown in the following table.

#### Administering Authority Administration Performance Indicators

The following indicators measure performance and compliance with statutory requirements placed on Administering Authorities for the administration of pension funds.

#### Breaches of Administration Strategy

|                |  |
|----------------|--|
| <b>Measure</b> | Performance of the Administering Authority is reviewed by periodic Internal Audit reviews and the annual external Audits.  |
| <b>Comment</b> | <ol style="list-style-type: none"> <li>1. The annual external audit was carried out between January and August 2012 by the Audit Commission. This reviewed internal controls and procedures for pensions administration and the 2011/12 Annual Report and Accounts. There were no significant findings and no breaches of the Administration Strategy. The Annual Report and Statement of Accounts is published on the Pension Fund website <a href="http://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx">http://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx</a> and the 2011/12 Audit Commission's Governance Report is accessible from <a href="http://www.hertsdirect.org/mm/16962443/16962446/item3agrpencom120912.pdf">http://www.hertsdirect.org/mm/16962443/16962446/item3agrpencom120912.pdf</a></li> <li>2. During November and December 2012, PricewaterhouseCoopers (agents of the Share Internal Audit Services) carried out an audit of the controls and procedures for pensions investments. The final audit report issued in January 2013 had a substantial assurance that effective controls are in operation.</li> <li>3. During January to March 2013, the annual assurance audit that tests compliance of systems and controls was carried out by PricewaterhouseCoopers. In addition, Ernst &amp; Young carried out the initial review of systems and controls as part of the annual external review.</li> </ol> <p>PricewaterhouseCoopers issued their audit report in April 2013 and provided a substantial assurance that effective systems and controls are in operation for pensions administration. This report also provided assurances for the external audit carried out by Ernst &amp; Young.</p> <p>Ernst &amp; Young's findings from the review of the annual report and accounts will be published as part of the Audit Results Report for the Pension Fund.</p> |

#### Scheme Administration Complaints and Internal Disputes (IDs)

|                |   |
|----------------|---|
| <b>Measure</b> | Performance is also measured against the number of complaints and Internal Disputes that may be raised by members. IDs may be raised against the Administering Authority, for decisions relating to LGPS regulations or an employer for decisions of the employer where they are able to exercise discretion in reaching a decision. The following comments relates to complaints and IDs against the Administering Authority.  |
| <b>Comment</b> | <ol style="list-style-type: none"> <li>1. There were 3 complaints against the Administering Authority about pension payments that were reduced to take account of Guaranteed Minimum Pension. All complaints and IDs were responded to and no further action has been required to date.</li> </ol> <p>There was one complaint against the Administering Authority concerning the application of Consumer Price Index for pensions increase. This complaint was not upheld since it related to an obligation on the Administering Authority to comply with LGPS regulations.</p> |

## Administering Authority Report

| <b>LPFA Administration Performance Indicators</b>   |   |                                       |   |   |
|---|---|---------------------------------------|---|---|
| The following indicators measure performance of the administration service provided by the LPFA against targets set out in the Service Level Agreement. |   |                                       |   |   |
| <b>LPFA Service Delivery Complaints</b>   |   |                                       |   |   |
| <b>Measure</b>  | Performance of the pensions administration service is measured against the number of complaints raised.   |                                       |   |   |
| <b>Comment</b>  | There were 7 formal complaints raised against LPFA relating to the delivery of pensions services. All complaints were responded to, to the satisfaction of the complainant.   |                                       |   |   |
| <b>Breaches of Service Level Agreement (SLA)</b>  |   |                                       |   |   |
| <b>Measure</b>  | Efficiency is measured by comparison of performance against SLA targets.  |                                       |   |   |
| <b>Comment</b>  | From October 2012, a new Case Management System (CMS) was implemented. The CMS system measures a greater number of processes and "Outstanding Cases" includes cases that are on hold pending response from external contacts. Therefore, SLAs that were in operation up to October 2012 are under review. New SLA targets will be set once CMS is fully implemented and operational. In the meantime, volumes of outstanding cases are kept under review and reported on a monthly basis. |                                       |   |   |
| <b>Key Processes and Outstanding Processes</b>  |   |                                       |   |   |
| <b>Measure</b>  | From 1 April to 30 September 2012, efficiency was measured by a comparison of performance against SLA targets where there should be no more than 1,500 processes outstanding at any one time. There were no breaches of this target.<br><br>From 1 October to 31 March 2013, the new CMS system was implemented and since then the SLA targets have been under review.  |                                       |   |   |
| <b>Key Processes Completed</b>  | <b>01.4.2012<br/>to<br/>30.6.2012</b>   | <b>01.7.2012<br/>to<br/>30.9.2012</b> | <b>01.10.2012<br/>to<br/>31.12.2012</b> | <b>01.01.2013<br/>to<br/>31.03.2013</b> |
| New Starters/Joiners  | 594   | 882                                   | 1,276                                   | 1,057                                   |
| Transfers in to the LGPS  | 413   | 317                                   | 466                                     | 335                                     |
| Transfers out of the LGPS   | 101   | 237                                   |   |   |
| Retirements   | 501   | 570                                   | 835                                     | 784                                     |
| Deaths  | 176   | 238                                   |   |   |
| Retirement estimates  | 561   | 522                                   | 714                                     | 588                                     |
| Deferred benefits (leavers)   | 299   | 1,493                                 | 1,217                                   | 980                                     |
| Refunds / opt-outs  | 159   | 207                                   |   |   |
| Maintenance of data   | 1,040   | 1,268                                 |   |   |
| Miscellaneous correspondence  | 192   | 276                                   | 3,751                                   | 4,514                                   |
| MSS password requests/queries   | 152   | 233                                   |   |   |
| <b>Total Key Processes Completed</b>  | 4,188   | 6,243                                 | 8,259                                   | 8,258                                   |
| <b>Outstanding processes</b>  | <b>30.6.2012</b>  | <b>30.9.2012</b>                      | <b>31.12.2012</b>                       | <b>31.03.2013</b>                       |
| Outstanding processes   | 329   | 354                                   | 1,611                                   | 1,778                                   |

## Administering Authority Report

| <b>Scheme Employer Administration Performance Indicators</b>  |  |
|---|--|
| The following indicators measure performance of employers in the administration of the LGPS against targets set out in the Administration Strategy. |  |
| <b>Employers Incurring Penalty Charges</b>  |  |
| <b>Measure</b>  | Compliance of employers to performance standards is measured by the number of penalty charges levied.  |
| <b>Comments</b>   | <p>A total of £800.00 penalty charges were levied against 2 employers for late submission of year membership and contribution returns.</p> <p>A total of £1,530 was levied against 19 employers for late payment of monthly contributions during the financial year 2012/13. At 31 March, 2013 three penalties remained outstanding and payment for these is being pursued through the County Council's debt management procedures.</p>  |
| <b>Payment of Contributions by the 19<sup>th</sup> of each month</b>  |  |
| <b>Measured by</b>  | Compliance of employers to LGPS regulations for the payment of contributions is measured by the number of employers making payment by the due date.  |
| <b>Comments</b>   | <p>Throughout the year 188 (85.5%) of employers paid contributions by the due date each month. The following provides a summary of the 32 employers that made late monthly payments during the year:</p> <ul style="list-style-type: none"> <li>1 paid late on 7 occasions</li> <li>1 paid late on 3 occasions</li> <li>4 paid late on 2 occasions</li> <li>26 paid late on 1 occasion</li> </ul> <p>During the year action has been taken to improve employers' performance in paying contributions by the due date each month. This has resulted in a reduction in the numbers of employers paying late from 49 in 2011/12 to 32 in 2012/13.</p> |

#### 4. Communication

The Pension Fund has published a Communication Policy Statement which sets out how it communicates with employers and representatives of employers, Scheme members and prospective Scheme members. It was approved by the Pensions Committee on 14 June 2011.

##### Communication Policy Statement

This Statement is prepared in accordance with regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), which requires an Administering Authority to prepare, maintain and publish a statement on its policy for communicating with members and employing authorities.

##### Employers

The following methods are used to communicate with employers in the Pension Fund:

- **Annual General Meeting**  
All employers are invited to attend to listen to presentations on topical issues and to raise questions about the Pension Fund.
- **Monthly Newsletters and Ad Hoc Bulletins**  
All employers receive monthly newsletters which provide information, advice and guidance about administering the Scheme. Ad hoc bulletins are also published to advise employers about specific issues that require attention or action, e.g. changes to Scheme regulations.
- **Annual Report and Accounts**  
A copy of this publication is sent to all employers and is available from the Pension Fund's website, [www.yourpension.org.uk/agencies/HCC/](http://www.yourpension.org.uk/agencies/HCC/)



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## Administering Authority Report

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- **Hertfordshire Chief Finance Officers' Meeting**

The Chief Finance Officer for the County Council keeps in contact with the District and Borough Councils through these meetings and keeps them up to date with pension matters.

- **Pensions Committee Reports and Minutes**

These are available on request to employers who wish to see them. They are also available from the Hertfordshire County Council website, [www.hertsdirect.org/yrccouncil/civic\\_calendar/investcomm/](http://www.hertsdirect.org/yrccouncil/civic_calendar/investcomm/)

- **Advice and Help**

County Council staff and LPFA (the Pension Fund's outsourced scheme administrator) are available to give advice on the telephone, by letter or by email. Comprehensive information and guidance is also accessible from the Pension Fund website at [www.yourpension.org.uk/agencies/HCC/](http://www.yourpension.org.uk/agencies/HCC/)

### Scheme Members

The following methods are used to communicate with Scheme members:

- **Telephone Helpline**

LPFA provides a telephone helpline for all enquiries from Scheme members on any aspect of their pension arrangements.

- **Annual Benefit Statements**

All active and deferred Scheme members receive an Annual Benefit Statement setting out the level of benefits that have been built up, along with a forecast of benefits at retirement.

- **Internet**

The Pension Fund's website provides information about Scheme benefits. Scheme members may also have access to information about their pension benefits by subscribing to an on-line service.

- **Information Letters**

Information about changes in regulations is provided to employees via their employers in a range of media, including email and letter.

- **Payslips**

All pensioners receive at least three payslips each year and messages are included whenever there is new information to be communicated.

- **Newsletter for Pensioners**

An annual newsletter is mailed to pensioners and two in-year newsletters are published and are accessible from the Pension Fund website.

### Prospective Scheme Members

The methods used to ensure that prospective members are aware of the Scheme and its benefits are:

- **Job Advertisements**

Many employers advertise the benefits of the Scheme in their job advertisements.

- **Scheme Booklet**

All new starters in the employing organisations in the Pension Fund are provided with a Scheme booklet which summarises the benefits available from the Pension Fund.

- **Induction Sessions**

Employers in the Pension Fund are encouraged to include pensions in their induction sessions for new starters.

### 5. Actuarial Valuation Report

The Pension Fund is financed by contributions from employees and employers and by investment income earned on accumulated funds not immediately required for the payment of benefits and expenses. The Pension Fund Actuary reports periodically to the County Council on the Pension Fund's solvency and to identify the contributions payable by employers to the Pension Fund in the future to meet the funding objectives of the Pension Fund.

The Pension Fund has published a Funding Strategy Statement (see page 65), which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment. The Pension Fund Actuary takes account of the Funding Strategy Statement when advising on the level of employer contributions to be paid.

#### **Actuarial Statement for 2012/13 Provided by Hymans Robertson LLP**

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

#### **Description of Funding Policy**

The funding policy is set out in the Hertfordshire County Council Funding Strategy Statement (FSS), dated 31 March 2010. In summary, the key funding principles are:

- to ensure the long-term solvency of the Pension Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Pension Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Pension Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% to 60% chance that the Pension Fund will return to full funding over 21 years.

#### **Funding Position as at the 2010 formal funding valuation**

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Pension Fund's assets, which at 31 March 2010 were valued at £2,194 million, were sufficient to meet 74.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £757 million. Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Pension Fund's funding policy as set out in its FSS.

#### **Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in my valuation report dated 29 March 2011.

#### **Method**

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

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## Administering Authority Report

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### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Pension Fund's assets at their market value. The key financial assumptions adopted for the 2010 valuation were as follows:

| Financial assumptions             | 31 March 2010       |                  |
|-----------------------------------|---------------------|------------------|
|                                   | % per annum Nominal | % per annum Real |
| Discount rate                     | 6.1%                | 2.8%             |
| Pay increases *                   | 5.3%                | 2.0%             |
| Price inflation/Pension increases | 3.3%                | 0                |

\* Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% per annum for 2010/11 and 2011/12, Retail Price Index for the following 3 years, reverting to 5.3% per annum thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard Self Administered Pension Schemes mortality tables, and included improvements based on medium cohort projections and a 1% per annum underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

|                    | Males      | Females    |
|--------------------|------------|------------|
| Current Pensioners | 21.0 years | 23.8 years |
| Future Pensioners* | 22.9 years | 25.7 years |

\* Future pensioners are currently aged 45.

The 2010 Valuation Report and Funding Strategy Statement are available on from the Pension Fund's website at [www.yourpension.org.uk/agencies/HCC/](http://www.yourpension.org.uk/agencies/HCC/).

### Experience since April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2013. It showed that the funding level (excluding the effect of any membership movements) had deteriorated since the last formal valuation because of falling real gilt yields resulting in a higher value being placed on the liabilities. This was partially offset by strong asset returns over the period.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.



### Barry McKay FFA

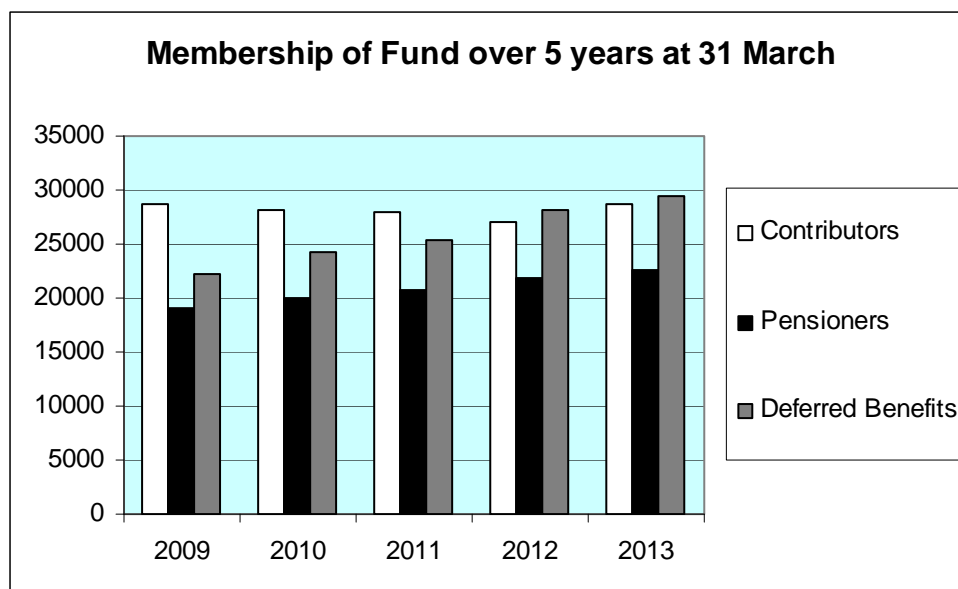
Fellow of the Institute and Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
9 May 2013

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

## Administering Authority Report

### 6. Membership

The graph below shows the changes in membership over the last five years.



| 31 March 2012 |   | 31 March 2013 |
|---------------|---|---------------|
| 26,994        | Contributors                            | 28,728        |
| 21,781        | Pensioners                              | 22,554        |
| 28,213        | Deferred Benefits (former contributors) | 29,359        |
| <b>76,988</b> | <b>Total Members</b>                    | <b>80,641</b> |

The 2011/12 membership figures have been updated from those published in the 2011/12 Annual Report following late notifications of changes of membership to ensure that the most accurate figures available are reported.

| Changes in contributor members during the year |       |
|--|-------|
| Admissions                                     | 4,759 |
| Retirements                                    | 618   |
| Other leavers                                  | 2,407 |

The table below shows an analysis of the membership of the Pension Fund between the Administering Authority, admitted bodies and other employers at 31 March 2013.

|                         | Contributors | Pensioners | Deferred Benefits |
|-------------------------|--------------|------------|-------------------|
| Administering Authority | 16,787       | 11,849     | 19,182            |
| Admitted Bodies         | 1,749        | 1,471      | 1,186             |
| Other Employers         | 10,192       | 9,234      | 8,991             |

### 1. Statement of Responsibilities

#### **Hertfordshire County Council's Responsibilities**

Hertfordshire County Council is the Administering Authority (Authority) of the Pension Fund. The Authority is required to:

- make arrangements for the proper administration of the financial affairs of the Pension Fund and to secure that one of its officers has responsibility for the administration of those affairs. In this Authority that officer is the Chief Finance Officer;
- manage the affairs of the Pension Fund to secure economic, efficient and effective use of the Pension Fund's resources and safeguard its assets; and
- approve the Statement of Accounts.

#### **The Chief Finance Officer's Responsibilities**

The Chief Finance Officer is responsible for the preparation of the Pension Fund's statement of accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom.

In preparing this statement of accounts, the Chief Finance Officer has:

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

The Chief Finance Officer has also:

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

### 2. Independent Auditor's Report to the Members of Hertfordshire County Council

#### Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 5 and 6.1 to 6.21. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Hertfordshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 20 the Chief Finance Officer is responsible for the preparation of the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the (Strategic Director of Resources) and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the pension funds financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

#### Opinion on other matters

In our opinion, the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Peter O'Neill  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Reading

20 September 2013

## Financial Statements

### 3. Fund Account

| 2011/12  |                  |   |      | 2012/13   |                  |
|----------|------------------|---|------|-----------|------------------|
| £000s    | £000s            |   | Note | £000s     | £000s            |
| 31,142   |                  | Contributions receivable from members   | 6.1  | 29,952    |                  |
| 109,937  |                  | Contributions receivable from employers   | 6.1  | 114,386   |                  |
| 12,314   |                  | Transfers in from other schemes   | 6.2  | 7,914     |                  |
| 2        |                  | Other income  |      | 3         |                  |
|          | <b>153,395</b>   | <b>Additions from dealings with those directly involved in the Scheme</b>                     |      |           | <b>152,255</b>   |
| (92,504) |                  | Pensions  |      | (100,223) |                  |
| (25,421) |                  | Commutation of pensions and lump sum retirement benefits                                      |      | (21,854)  |                  |
| (2,481)  |                  | Lump sum death benefits   |      | (2,695)   |                  |
|          | <b>(120,406)</b> | <b>Benefits payable to members</b>  | 6.3  |           | <b>(124,772)</b> |
| (9)      |                  | Refunds of contributions  |      | (11)      |                  |
| (1)      |                  | State scheme premiums   |      | (2)       |                  |
| (8,492)  |                  | Transfers out to other schemes  | 6.4  | (8,251)   |                  |
|          | <b>(8,502)</b>   | <b>Payments to and on account of leavers</b>  |      |           | <b>(8,264)</b>   |
| (1,871)  |                  | Administrative expenses   | 6.5  | (1,750)   |                  |
| (49)     |                  | Interest  |      | (105)     |                  |
| (65)     |                  | Bad debts and increase in provision for doubtful debtors                                      |      | (37)      |                  |
|          | <b>(1,985)</b>   | <b>Total administrative expenses and other payments</b>                                       |      |           | <b>(1,892)</b>   |
|          | <b>22,502</b>    | <b>Net additions / (withdrawals) from dealings with those directly involved in the Scheme</b> |      |           | <b>17,327</b>    |
| 75,488   |                  | Investment Income   | 6.6  | 69,642    |                  |
| (3,839)  |                  | Taxes on income   |      | (2,993)   |                  |
| (8,594)  |                  | Investment Management Expenses  | 6.7  | (10,275)  |                  |
| 13,370   |                  | Profits and losses on disposals of investments and changes in value of investments            | 6.8  | 313,625   |                  |
|          | <b>76,425</b>    | <b>Net Return on Investments</b>  |      |           | <b>369,999</b>   |
|          | <b>98,927</b>    | <b>Net increase / (decrease) in the net assets available for benefits during the year</b>     |      |           | <b>387,326</b>   |

## Financial Statements

### 4. Net Assets Statement

| 31 March 2012 |                  |   | Note        | 31 March 2013 |                  |
|---------------|------------------|---|-------------|---------------|------------------|
| £000s         | £000s            |   |             | £000s         | £000s            |
|               |                  | <u>Fixed interest securities</u>  |             |               |                  |
| 126,173       |                  | Public sector fixed interest securities                                   |             | 190,122       |                  |
| 233,856       |                  | Other fixed interest securities   |             | 232,634       |                  |
|               |                  | <u>Equities</u>   |             |               |                  |
| 657,634       |                  | UK Equities   |             | 681,504       |                  |
| 633,454       |                  | Overseas Equities   |             | 666,952       |                  |
|               |                  | <u>Index linked securities</u>  |             |               |                  |
| 86,801        |                  | Public sector index linked securities                                     |             | 106,767       |                  |
| 13,148        |                  | Other index linked securities   |             | 12,430        |                  |
|               |                  | <u>Pooled investment vehicles</u>   |             |               |                  |
| 143,400       |                  | Property  |             | 154,785       |                  |
| 356,454       |                  | Unit Trusts   |             | 427,218       |                  |
| 127,232       |                  | Other managed funds   |             | 339,739       |                  |
|               |                  | <u>Derivatives</u>  |             |               |                  |
| 1,787         |                  | Forward foreign exchange contracts  | 6.10        | 1,742         |                  |
| 128,210       |                  | Cash deposits   |             | 88,415        |                  |
| 38,367        |                  | Other investment balances   |             | 36,524        |                  |
|               | <b>2,546,516</b> | <b>Total investment assets</b>  |             |               | <b>2,938,832</b> |
|               |                  | <u>Derivatives</u>  |             |               |                  |
| (57)          |                  | Forward foreign exchange contracts  | 6.10        | (302)         |                  |
| (46,684)      |                  | Other investment balances   |             | (57,118)      |                  |
|               | <b>(46,741)</b>  | <b>Total investment liabilities</b>                                       |             |               | <b>(57,420)</b>  |
|               | <b>2,499,775</b> | <b>Total investment assets and liabilities</b>                            | <b>6.9a</b> |               | <b>2,881,412</b> |
| 1,173         |                  | Non current assets  |             | 4,787         |                  |
|               | <b>1,173</b>     | <b>Total non current assets and liabilities</b>                           |             |               | <b>4,787</b>     |
| 23,448        |                  | Current assets  | 6.11        | 25,690        |                  |
| (3,818)       |                  | Current liabilities   | 6.12        | (3,985)       |                  |
|               | <b>19,630</b>    | <b>Total current assets and liabilities</b>                               |             |               | <b>21,705</b>    |
|               | <b>2,520,578</b> | <b>Net assets of the Scheme available to fund benefits as at 31 March</b> | <b>6.9b</b> |               | <b>2,907,904</b> |

S Pickup, Deputy Chief Executive  
20 September 2013



### 5. Statement of Accounting Policies

#### Basis of Preparation

The accounts have been prepared in accordance with the provisions of the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards, as amended for the UK public sector.

The accounts summarise the transactions and net assets of the Pension Fund. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits at the Net Asset Statement date is detailed in section 6.15.

#### Valuation of Assets

Investments, including foreign currencies, are shown in the accounts at market value. Market value is deemed to be the fair value of the investments. Market value is determined as follows:

- Market-quoted securities for which there is a readily available market price, are valued at bid price at the close of business on the balance sheet date.
- Fixed interest securities are recorded at net market value based on their current yields.
- Pooled investment vehicles are valued at the closing bid price if both bid and offer prices are quoted by the respective Investment Managers. If only a single price is quoted, investments are valued at the closing single price.
- Unquoted investments for which market quotations are not readily available are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Indirect private equity investments are interests in limited partnerships and are stated at the partnership's estimate of fair value. Investments are valued based on the fund's share of the net assets of the private equity fund. For private equity limited partnerships there is usually a time delay in receiving information from the private equity Investment Managers. The valuations shown in the Net Assets Statement for these investments are the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the balance sheet date.
- Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract.
- Investment assets and liabilities include cash balances held by the Investment Managers and debtor and creditor balances in respect of investment activities as these form part of the net assets available for investment.
- Rights issues are processed on ex date. If the value of the rights on ex date is 15% or more of the value of the underlying security, cost is allocated from the parent to the rights. If the value is less than 15%, the rights are allocated at zero cost.

#### Cash and Cash Equivalents

Cash is cash in hand and deposits with any financial institution, repayable without penalty and on notice of not more than twenty four hours. Cash equivalents comprise investments that are held to meet short-term liabilities rather than for investment or other purposes. Bank overdrafts, repayable on demand and which form an integral part of the County Council's treasury management function, are also included as a component of cash and cash equivalents.

#### Foreign Currency Translation

All investments are shown in sterling. The market value of overseas securities and cash is shown in sterling based on exchange rates applicable at 31 March 2013.

Gains and losses on exchange arising from foreign currency investment and cash balances are included within the Fund Account for the year.

#### Acquisition Costs

Acquisition costs of investments are included in the purchase price.

#### Administrative and Investment Management Expenses

Administrative and investment management expenses are accounted for on an accruals basis. The external Investment Managers' fees are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management. Where an Investment Manager's fee note has not been received for the final period, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2012/13, £1,603,470 was based on such estimates.

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## Financial Statements

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### VAT

The Pension Fund is exempt from VAT and is therefore able to recover such deductions. Investment management and administrative expenses are therefore recognised net of any recoverable VAT.

### Benefits Payable

Pension and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### Contributions

Normal contributions both from members and employers are accounted for on an accruals basis, as the percentage rate certified by the Pension Fund Actuary in the payroll period to which they relate.

Pension strain contributions and employers' augmentation contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset. Any amount not due to be received within 12 months is shown as a non current asset in the Net Asset Statement.

### Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have joined or left the Pension Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme (Administration) regulations 2008 (as amended). Transfer values are treated on a cash basis as the amount payable or receivable by the Pension Fund is not determined until payment is actually made and accepted by the recipient.

### Investment Income

Investment income in the form of interest on fixed interest stocks and cash deposits and announced dividends on equity securities is accrued as at 31 March 2013.

Accrued interest on investment cash balances, available for sale assets and cash balances not held for investment purposes has been added to the carrying value of the cash deposit at 31 March 2013.

The Pension Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Tax is deducted from dividends paid on UK equities, which is not recoverable. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. Provision is made for the estimated sums to be recovered and income grossed up accordingly. Irrecoverable tax is accounted for as a Pension Fund expense as it arises.

### Security Lending

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) permit the Pension Fund to lend up to 35% of its securities from its portfolio of stocks to third parties in return for collateral. The Pension Fund has set a limit of 20% of the total Fund value. The securities on loan are included in the Net Assets Statement to reflect the Pension Fund's continuing economic interest of a proprietary nature in these securities.

### Additional Voluntary Contribution Investments

The County Council has arrangements with the Standard Life Assurance Company and the Equitable Life Assurance Society to enable employees to make Additional Voluntary Contributions (AVCs) to enhance their pension benefits. AVCs are invested separately from the Pension Fund's main assets and the assets purchased are specifically allocated to provide additional benefits for members making AVCs. As these contributions do not form part of the Pension Fund's investments, the value of AVC investments are excluded from the Pension Fund's Net Assets Statement in accordance with regulation 4(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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## Financial Statements

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### Events after the Net Asset Statement date

There were no material post Net Asset Statement events relating to the position as at 31 March 2013, at the date of the accounts.

### Prior period adjustments

There were no material prior period adjustments in 2012/13 that were required to be disclosed.

### Critical judgements in applying accounting policies and significant estimation techniques

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Net Asset date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- **Valuation of private equity investments:** The valuations for private equity investments shown in the Net Assets Statement are based on the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the Net Asset date. This may result in a variance between the valuation included in the Financial Statements and the actual value of the Pension Fund's investments as at 31 March 2013 issued by each of the private equity Investment Managers. At 31 March 2013 private equity investments totalled £121,745,048.
- **Contractual commitments:** Commitments to the private equity funds are made in local currency (sterling, euros and US dollars). The total remaining commitment to each private equity fund at 31 March 2013 has been converted to base currency, based on exchange rates applicable at the Net Asset date. The exact timing and amounts of when the Pension Fund's commitment will be drawn down is uncertain and therefore the actual payments made by the Pension Fund may be different from the estimates.
- **Actuarial present value of promised retirement benefits:** Estimation of the liability to pay retirement benefits depends on a number of complex judgements relating to the discount rate used to value the liabilities, the rate at which salaries increase, and changes in retirement ages and mortality rates. The consulting actuary to the Pension Fund, Hymans Robertson, is engaged to provide the Pension Fund with expert advice about the assumptions to be applied. Further information about the key assumptions used to calculate the actuarial present value of promised retirement benefits is included in section 6.15.
- **Provision for doubtful debt:** In 2012/13 a provision for doubtful debt was made of £87,651. The provision was created for all invoiced debt at the 31 March 2013 (£1,772,020). This is based on the County Council's policy of providing for doubtful debt as follows:

| Age of debt at 31 March 2013 | Provision created |
|------------------------------|-------------------|
| 0 – 274 days                 | 0%                |
| 275 – 456 days               | 35%               |
| 457 – 639 days               | 50%               |
| Over 639 days                | 100%              |

### Accounting standards issued but not yet adopted

IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments, as amended in 2011, will be adopted under the Code of Practice for Local Authority Accounting from the financial year 2013/14. No material impacts on the financial statements of the Pension Fund are expected.

## Financial Statements

### 6. Notes to the Accounts

#### 6.1 Contributions Receivable

| 2011/12 |                |                                       | 2012/13 |                |
|---------|----------------|---------------------------------------|---------|----------------|
| £000s   | £000s          |                                       | £000s   | £000s          |
|         |                | <u>Members</u>                        |         |                |
| 30,511  |                | Normal                                | 29,495  |                |
| 631     |                | Additional                            | 457     |                |
|         | <b>31,142</b>  | <b>Total Members</b>                  |         | <b>29,952</b>  |
|         |                | <u>Employers</u>                      |         |                |
| 79,459  |                | Normal                                | 77,417  |                |
| 30,478  |                | Deficit Funding                       | 36,969  |                |
|         | <b>109,937</b> | <b>Total Employers</b>                |         | <b>114,386</b> |
|         | <b>141,079</b> | <b>Total contributions receivable</b> |         | <b>144,338</b> |

Members' additional contributions represent contributions from members to purchase additional years of membership or pension in the Scheme.

Employers' normal contributions represent the ongoing contributions paid into the Pension Fund by employers in accordance with the Rates and Adjustments Certificate, issued by the Pension Fund Actuary. These reflect the cost of benefits accrued by current members over the year.

Employers' deficit funding includes:

- £26,259,190 (£25,349,679 in 2011/12) past service adjustment which represents the additional contributions required from employers towards the deficit where an employer's funding level is less than 100%, as per the Rates and Adjustments Certificate. The deficit recovery period varies depending on the individual circumstances of each employer. For statutory bodies, the Pension Fund normally targets the recovery of any deficit over a period not exceeding 20 years. For Transferee Admission Bodies the deficit recovery period would be the shorter of the end of the employer's contract or the expected future working lifetime of the remaining Scheme members. Further information can be found in the Pension Fund's Funding Strategy Statement on page 65 and accessible from [www.yourpension.org.uk/agencies/HCC/](http://www.yourpension.org.uk/agencies/HCC/).
- £1,556,319 (£815,258 in 2011/12) paid by employers in excess of the minimum contribution levels required by the Pension Fund Actuary in the Rates and Adjustments Certificate.
- £2,082,198 (£4,313,519 in 2011/12) towards early retirements representing the actuarial strain on the Pension Fund where a member retires early and is entitled to immediate access to their benefits. This includes contributions from employers towards the cost of enhancing/augmenting members' benefits.
- £420,000 payments were made in respect of termination payments (£nil in 2011/12) where an employer had ceased to be a participating employer in the Pension Fund.
- £6,651,000 in respect of the deficit arising from transfer of the Magistrates Court staff to the civil service pension scheme in 2005. Payments are due in 10 annual instalments and the fair value of these payments has been recognised in the Fund account for 2012/13. Instalments due within 12 months are shown as a current asset. Instalments due after 12 months are shown in the accounts as a non current asset.

Contributions received are further analysed by type of employer:

| 2011/12        |                                       | 2012/13        |
|----------------|---------------------------------------|----------------|
| £000s          |                                       | £000s          |
| 65,854         | Administering Authorities             | 57,956         |
| 61,373         | Other Scheduled Bodies                | 73,305         |
| 13,852         | Admitted Bodies                       | 13,077         |
| <b>141,079</b> | <b>Total contributions receivable</b> | <b>144,338</b> |

## Financial Statements

### 6.2 Transfers in from other schemes

The Pension Fund received £7,914,358 in relation to individual members' transfers of benefits into the Pension Fund (£12,314,252 in 2011/12). No amounts were received during the year for group transfers from other schemes.

### 6.3 Benefits Payable

| 2011/12<br>£000s |                               | 2012/13<br>£000s |
|------------------|-------------------------------|------------------|
| 54,949           | Administering Authorities     | 57,107           |
| 57,079           | Other Scheduled Bodies        | 58,280           |
| 8,378            | Admitted Bodies               | 9,385            |
| <b>120,406</b>   | <b>Total benefits payable</b> | <b>124,772</b>   |

### 6.4 Transfers out to other schemes

The Pension Fund paid £8,251,127 in relation to individual members' transfers of benefits out of the Pension Fund (£8,492,684 in 2011/12). No amounts were paid during the year for group transfers to other schemes.

Transfers are shown on a cash basis, in line with accounting policy.

### 6.5 Administrative Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), allow the Administering Authority to charge pension administration expenses direct to the Pension Fund. The expenses listed below include a charge made for the work carried out on the Pension Fund by the County Council's Finance Service on pension administration and investment matters. Expenses incurred by the Pension Fund's Investment Managers are listed in section 6.7.

| 2011/12<br>£000s |                                      | 2012/13<br>£000s |
|------------------|--------------------------------------|------------------|
| 1,677            | Administration and processing        | 1,566            |
| 123              | Actuarial Fees                       | 120              |
| 41               | Audit Fees                           | 27               |
| 30               | Legal and other professional fees    | 37               |
| <b>1,871</b>     | <b>Total administrative expenses</b> | <b>1,750</b>     |

## Financial Statements

### 6.6 Investment Income

#### a) Analysis of Investment Income

| 2011/12<br>£000s |   | 2012/13<br>£000s |
|------------------|---|------------------|
|                  | <u>Income from fixed interest securities</u>  |                  |
| 3,712            | Public Sector                                 | 4,318            |
| 11,652           | Other   | 10,405           |
|                  | <u>Dividends from equities</u>                |                  |
| 28,407           | UK  | 26,030           |
| 19,475           | Overseas                                      | 14,750           |
|                  | <u>Income from index linked securities</u>    |                  |
| 3,312            | Public Sector                                 | 2,907            |
| 298              | Other   | 396              |
|                  | <u>Income from pooled investment vehicles</u> |                  |
| 6,636            | Property                                      | 8,633            |
| 571              | Other managed funds                           | 1,375            |
| 794              | Interest on cash deposits                     | 432              |
|                  | <u>Other investment income</u>                |                  |
| 326              | Securities lending                            | 231              |
| 109              | Class action proceeds                         | 161              |
| 0                | Underwriting commission                       | 1                |
| 196              | Other   | 3                |
| <b>75,488</b>    | <b>Total investment income</b>                | <b>69,642</b>    |

#### b) Securities Lending

The Pension Fund has an arrangement with its Custodian to lend securities from within its portfolio of stocks to third parties in return for collateral. Collateralised lending generated income of £231,416 for 2012/13 (£325,892 for 2011/12). This is included within investment income in the Fund Account.

The Pension Fund obtains collateral at 102% of the market value of securities loaned for collateral denominated in the same currency as that of the loans, or 105% in the case of cross-currency collateral. The market value of securities on loan and collateral held at 31 March 2013 and 2012 is shown in the table below, analysed by collateral type.

| 2011/12                                     |                          |                                    | 2012/13                                     |                          |
|---|--------------------------|------------------------------------|---|--------------------------|
| Market value of securities on loan<br>£000s | Collateral held<br>£000s |                                    | Market value of securities on loan<br>£000s | Collateral held<br>£000s |
| 26,008                                      | 27,609                   | Government debt and Supranationals | 43,219                                      | 45,642                   |
| 944   | 991                      | Euroclear (Triparty)               | 0   | 0                        |
| 0   | 0                        | G10 Debt (Triparty)                | 697   | 733                      |
| 0   | 0                        | US Government Debt (Bilateral)     | 364   | 396                      |
| 7,341                                       | 7,740                    | UK Equity DBV                      | 0   | 0                        |
| 19,434                                      | 19,920                   | UK Gilt DBV                        | 32,629                                      | 33,041                   |
| <b>53,727</b>                               | <b>56,260</b>            | <b>Total</b>                       | <b>76,909</b>                               | <b>79,812</b>            |

## Financial Statements

### 6.7 Investment Management Expenses

The Pension Fund's Investment Managers are remunerated on the basis of fees calculated as a percentage of assets under management. Some Investment Managers also have a performance related fee, payable where performance exceeds the performance target, as set out in Appendix C to the Statement of Investment Principles on page 54.

The Pension Fund's assets are held in custody by an independent custodian. The Custodian is responsible for the safekeeping of the Pension Fund's financial assets, the settlement of transactions, income collection, tax reclamation and other administrative actions in relation to the Pension Fund's investments.

The Pension Fund's performance measurement service is provided by BNY Mellon. An analysis of the Pension Fund's performance is shown in the Investment Performance section on pages 57-61.

| 2011/12<br>£000s |   | 2012/13<br>£000s |
|------------------|---|------------------|
| 7,912            | Administration and management               | 9,678            |
| 480              | Custody                                     | 375              |
| 166              | Investment Consultancy                      | 187              |
| 36               | Performance measurement services            | 35               |
| <b>8,594</b>     | <b>Total investment management expenses</b> | <b>10,275</b>    |

### 6.8 Profit and Losses on the Disposal of Investments and Changes in the Value of Investments

#### a) Profits and Losses on the Disposal of Investments and Changes in the Value of Investments

| Value at<br>31 March<br>2011<br>£000s |   | Purchases<br>at cost and<br>derivative<br>payments<br>£000s | Sale<br>proceeds<br>and<br>derivative<br>receipts<br>£000s | Profits and<br>losses on<br>disposals<br>and change<br>in value of<br>investments<br>£000s | Value at<br>31 March<br>2012<br>£000s |
|---------------------------------------|---|---|--|--|---------------------------------------|
|                                       | <u>Fixed interest securities</u>                |   |  |  |                                       |
| 127,585                               | Public Sector                                   | 398,851   | (408,151)  | 7,888  | 126,173                               |
| 203,970                               | Other   | 105,689   | (81,150)   | 5,347  | 233,856                               |
|                                       | <u>Equities</u>                                 |   |  |  |                                       |
| 691,991                               | UK  | 164,115   | (210,522)  | 12,050   | 657,634                               |
| 921,687                               | Overseas  | 685,566   | (920,983)  | (52,816)   | 633,454                               |
|                                       | <u>Index linked securities</u>                  |   |  |  |                                       |
| 88,659                                | Public Sector                                   | 42,783  | (59,883)   | 15,242   | 86,801                                |
| 10,806                                | Other   | 6,695   | (5,233)  | 880  | 13,148                                |
|                                       | <u>Pooled investment vehicles</u>               |   |  |  |                                       |
| 123,386                               | Property  | 22,394  | (6,184)  | 3,804  | 143,400                               |
| 14,177                                | Unit trusts                                     | 334,747   | (8,412)  | 15,942   | 356,454                               |
| 124,510                               | Other managed funds                             | 11,670  | (13,848)   | 4,900  | 127,232                               |
|                                       | <u>Derivatives</u>                              |   |  |  |                                       |
| 82                                    | Futures   | 383   | (171)  | (294)  | 0                                     |
| (4,055)                               | Forward foreign exchange                        | 39,206  | (33,430)   | 9  | 1,730                                 |
| 85,175                                | Cash deposits                                   | 55,345  | (12,728)   | 418  | 128,210                               |
| <b>2,387,973</b>                      | <b>Subtotal</b>                                 | <b>1,867,444</b>  | <b>(1,760,695)</b>   | <b>13,370</b>  | <b>2,508,092</b>                      |
| <b>6,175</b>                          | <b>Net other investment balances</b>            |   |  |  | <b>(8,317)</b>                        |
| <b>2,394,148</b>                      | <b>Total investments assets / (liabilities)</b> |   |  |  | <b>2,499,775</b>                      |

## Financial Statements

| Value at<br>31 March<br>2012 |   | Purchases<br>at cost and<br>derivative<br>payments | Sale<br>proceeds<br>and<br>derivative<br>receipts | Profits and<br>losses on<br>disposals<br>and change<br>in value of<br>investments | Value at<br>31 March<br>2013 |
|------------------------------|---|--|---|---|------------------------------|
| £000s                        |   | £000s  | £000s   | £000s   | £000s                        |
|                              | <u>Fixed interest securities</u>                |  |   |   |                              |
| 126,173                      | Public Sector                                   | 549,827  | (491,358)   | 5,480   | 190,122                      |
| 233,856                      | Other   | 133,105  | (152,467)   | 18,140  | 232,634                      |
|                              | <u>Equities</u>                                 |  |   |   |                              |
| 657,634                      | UK  | 111,754  | (208,807)   | 120,923   | 681,504                      |
| 633,454                      | Overseas  | 447,749  | (497,953)   | 83,702  | 666,952                      |
|                              | <u>Index linked securities</u>                  |  |   |   |                              |
| 86,801                       | Public Sector                                   | 84,410   | (72,844)  | 8,400   | 106,767                      |
| 13,148                       | Other   | 278  | (1,605)   | 609   | 12,430                       |
|                              | <u>Pooled investment vehicles</u>               |  |   |   |                              |
| 143,400                      | Property  | 41,246   | (29,355)  | (506)   | 154,785                      |
| 356,454                      | Unit trusts                                     | 12,166   | 0   | 58,598  | 427,218                      |
| 127,232                      | Other managed funds                             | 213,240  | (22,452)  | 21,719  | 339,739                      |
|                              | <u>Derivatives</u>                              |  |   |   |                              |
| 1,730                        | Forward foreign exchange                        | 14,352   | (11,235)  | (3,407)   | 1,440                        |
| 128,210                      | Cash deposits                                   | 0  | (39,762)  | (33)  | 88,415                       |
| <b>2,508,092</b>             | <b>Subtotal</b>                                 | <b>1,608,127</b>                                   | <b>(1,527,838)</b>                                | <b>313,625</b>  | <b>2,902,006</b>             |
| <b>(8,317)</b>               | <b>Net other investment balances</b>            |  |   |   | <b>(20,594)</b>              |
| <b>2,499,775</b>             | <b>Total investments assets / (liabilities)</b> |  |   |   | <b>2,881,412</b>             |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at year end and profits and losses realised on the sale of investments during the year. Derivative receipts and payments correspond to the sterling equivalent amount of forward foreign exchange settled during the year. The sale proceeds and derivative receipts for cash deposits represent the net movement in cash held by the Investment Managers during the year, dependent on whether this is a net positive or negative movement. The change in market value of cash results from gains and losses on foreign currency cash transactions.

### b) Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.7 million (£2.6 million in 2011/12). In addition to these costs, 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 Pension Fund.



## Financial Statements

### 6.9 Investment Analysis

#### a) Analysis of Investments Assets at Market Value

| 2011/12 |                  |   | 2012/13 |                  |
|---------|------------------|---|---------|------------------|
| £000s   | £000s            |   | £000s   | £000s            |
|         |                  | <b>Investment assets</b>                        |         |                  |
|         |                  | <u>Fixed interest securities</u>                |         |                  |
| 75,710  |                  | UK Public Sector                                | 125,758 |                  |
| 50,463  |                  | Overseas Public Sector                          | 64,364  |                  |
| 196,120 |                  | UK other  | 181,928 |                  |
| 37,736  |                  | Overseas other                                  | 50,706  |                  |
|         | <b>360,029</b>   | <b>Total fixed interest securities</b>          |         | <b>422,756</b>   |
|         |                  | <u>Equities</u>                                 |         |                  |
| 657,634 |                  | UK quoted                                       | 681,504 |                  |
| 633,454 |                  | Overseas quoted                                 | 666,952 |                  |
|         | <b>1,291,088</b> | <b>Total equities</b>                           |         | <b>1,348,456</b> |
|         |                  | <u>Index linked securities</u>                  |         |                  |
| 86,801  |                  | UK Public Sector                                | 106,767 |                  |
| 0       |                  | Overseas Public Sector                          | 0       |                  |
| 11,459  |                  | UK other  | 10,658  |                  |
| 1,689   |                  | Overseas other                                  | 1,772   |                  |
|         | <b>99,949</b>    | <b>Total index linked securities</b>            |         | <b>119,197</b>   |
|         |                  | <u>Pooled investment vehicles</u>               |         |                  |
| 117,055 |                  | UK Property                                     | 128,262 |                  |
| 26,345  |                  | Overseas Property                               | 26,523  |                  |
| 72,986  |                  | UK unit trusts                                  | 88,111  |                  |
| 283,468 |                  | Overseas unit trusts                            | 339,107 |                  |
| 18,920  |                  | UK managed funds                                | 20,715  |                  |
| 108,312 |                  | Overseas managed funds                          | 319,024 |                  |
|         | <b>627,086</b>   | <b>Total pooled investment vehicles</b>         |         | <b>921,742</b>   |
|         |                  | <u>Derivatives</u>                              |         |                  |
| 1,787   |                  | Forward foreign exchange                        | 1,742   |                  |
|         | <b>1,787</b>     | <b>Total derivatives</b>                        |         | <b>1,742</b>     |
|         |                  | <u>Cash</u>                                     |         |                  |
| 128,210 |                  | Cash deposits                                   | 88,415  |                  |
|         | <b>128,210</b>   | <b>Total Cash</b>                               |         | <b>88,415</b>    |
|         |                  | <u>Other investment Balances</u>                |         |                  |
| 26,480  |                  | Amounts receivable from the sale of investments | 26,321  |                  |
| 11,887  |                  | Investment income due                           | 10,203  |                  |
|         | <b>38,367</b>    | <b>Total other investment Balances</b>          |         | <b>36,524</b>    |
|         | <b>2,546,516</b> | <b>Total investment assets</b>                  |         | <b>2,938,832</b> |

**Note: Table continues overleaf**

## Financial Statements

| 2011/12  |                  |   | 2012/13  |                  |
|----------|------------------|---|----------|------------------|
| £000s    | £000s            |   | £000s    | £000s            |
|          |                  | <b>Investment liabilities</b>                                   |          |                  |
|          |                  | <u>Derivative contracts</u>                                     |          |                  |
| (57)     |                  | Forward foreign exchange contracts                              | (302)    |                  |
|          | (57)             | <b>Total derivatives contracts</b>                              |          | <b>(302)</b>     |
|          |                  | <u>Other investment balances</u>                                |          |                  |
| (46,290) |                  | Amounts payable for the purchase of investments                 | (56,815) |                  |
| (394)    |                  | Non recoverable tax payable                                     | (303)    |                  |
|          | <b>(46,684)</b>  | <b>Total other investment balances</b>                          |          | <b>(57,118)</b>  |
|          | <b>46,741</b>    | <b>Total investment liabilities</b>                             |          | <b>57,420</b>    |
|          | <b>2,499,775</b> | <b>Total investments assets and liabilities at market value</b> |          | <b>2,881,412</b> |

One individual holding exceeded 5% of the total net assets available to fund benefits at 31 March 2013. This was LGT Capital – Crown Phoenix (HCC alternatives portfolio).

Four individual holdings exceeded 5% of their asset class at 31 March 2013. These were LGT Capital – Crown Phoenix (HCC alternatives portfolio), LGIM UK Equity Index, LGIM Europe Index Hedged and LGIM N America Equity Index Hedged, which are all Pooled Funds.

Cash deposits (including cash and cash instruments) and other investment balances (including accrued dividend entitlements) are accounted for as investment assets as these form part of the net assets available for investment within the investment portfolio.

### b) Analysis by Investment Manager

The value of investments held by each Investment Manager together with investments in private equity limited partnerships on 31 March were:

| 31 March 2012    |            |   | 31 March 2013    |            |
|------------------|------------|---|------------------|------------|
| £000s            | %          |   | £000s            | %          |
| 339              | 0          | AllianceBernstein Ltd.  | 0                | 0          |
| 321,295          | 12.8       | Baillie Gifford & Co.   | 342,774          | 11.9       |
| 499,626          | 20.0       | BlackRock Investment Management (UK) Ltd.                                     | 546,748          | 19.0       |
| 324,516          | 13.0       | Jupiter Asset Management Ltd.   | 325,818          | 11.3       |
| 155,089          | 6.2        | CB Richard Ellis Investors  | 161,899          | 5.6        |
| 68,828           | 2.7        | HarbourVest   | 79,763           | 2.8        |
| 5,056            | 0.2        | Permira   | 5,039            | 0.2        |
| 46,666           | 1.9        | Standard Life Investments   | 50,806           | 1.7        |
| 478              | 0          | TTP Venture Managers Ltd.   | 298              | 0          |
| 241,818          | 9.7        | Global Thematic Partners, LLC   | 275,653          | 9.6        |
| 246,706          | 9.9        | JP Morgan Asset Management (UK) Ltd.  | 188,941          | 6.6        |
| 237,237          | 9.5        | RCM (UK) Ltd.   | 279,250          | 9.7        |
| 351,786          | 14.1       | Legal and General   | 421,633          | 14.6       |
| 0                | 0          | LGT Capital Partners Ltd  | 202,005          | 7.0        |
| 335              | 0          | Residual funds from previous portfolios                                       | 785              | 0          |
| <b>2,499,775</b> | <b>100</b> | <b>Subtotal: Funds externally managed</b>                                     | <b>2,881,412</b> | <b>100</b> |
| <b>20,803</b>    |            | <b>Funds held at Hertfordshire County Council and non-investment balances</b> | <b>26,492</b>    |            |
| <b>2,520,578</b> |            | <b>Net Assets of the Scheme</b>   | <b>2,907,904</b> |            |

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The market values in the table overleaf include the value of investments, cash and net current assets held by each Investment Manager at 31 March 2013. The funds held by Hertfordshire County Council include net current assets, non current assets and cash required to manage the cash flow associated with the payment of benefits and collection of contributions.

Residual funds from previous portfolios represent residual cash and investment income still due to the portfolios previously run by the outgoing Investment Managers following the restructure of the Pension Fund in previous financial years. Alliance Bernstein ceased to be an investment manager for the Pension Fund during 2011/12 and the funds in relation to this manager represent residual cash and investment income. LGT Capital Partners Ltd was appointed as a new Investment Manager for the Pension Fund in 2012/13 following a European Union tender process.

### c) Encumbrance of Assets

The Custodian has a lien over the Pension Fund's assets in order to recover any outstanding debts. This is held for the protection of the Custodian and has never been invoked.

### 6.10 Derivatives

The Pension Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Pension Fund does not hold derivatives for speculative purposes.

#### Forward Foreign Exchange Contracts

Forward foreign exchange contracts are over the counter contracts with non-exchange counterparties. The counterparties at 31 March 2012 and 31 March 2013 were UK and overseas investment banks. The contracts in the table below represent various forward contracts involving 13 foreign currencies (six at 31 March 2012). Forward foreign exchange contracts are used to hedge against foreign currency movements.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

| 2011/12          |                     |                |             | Duration       | 2012/13          |                     |                    |              |
|------------------|---------------------|----------------|-------------|----------------|------------------|---------------------|--------------------|--------------|
| Currency Payable | Currency Receivable | Fair Value     |             |                | Currency Payable | Currency Receivable | Fair Value         |              |
| £000s            | £000s               | Asset<br>£000s | Liability   | £'000          | £000s            | Asset<br>£000s      | Liability<br>£000s |              |
| (78,293)         | 79,919              | 1,644          | (17)        | Within 1 month | (100,229)        | 100,860             | 933                | (302)        |
| (32,011)         | 32,111              | 140            | (40)        | 1-3 months     | (48,454)         | 49,263              | 809                | 0            |
| (296)            | 300                 | 3              | 0           | 3-6 months     | 0                | 0                   | 0                  | 0            |
| <b>(110,600)</b> | <b>112,330</b>      | <b>1,787</b>   | <b>(57)</b> | <b>Total</b>   | <b>(148,683)</b> | <b>150,123</b>      | <b>1,742</b>       | <b>(302)</b> |

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### 6.11 Current Assets

| 2011/12<br>£000s |                                  | 2012/13<br>£000s |
|------------------|----------------------------------|------------------|
| 12,785           | Contributions due from employers | 14,753           |
| 42               | Cash balances                    | 0                |
| 8,905            | Available for sale assets        | 10,779           |
| 1,574            | VAT due from HMRC                | 11               |
| 200              | Other debtors and prepayments    | 235              |
| (58)             | Provision for Doubtful Debt      | (88)             |
| <b>23,448</b>    | <b>Total current assets</b>      | <b>25,690</b>    |

Current assets are further analysed by type of debtor organisation.

| 2011/12 |               |                                | 2012/13 |               |
|---------|---------------|--------------------------------|---------|---------------|
| £000s   | £000s         |                                | £000s   | £000s         |
| 2,063   |               | Central government bodies      | 107     |               |
| 8,941   |               | Other local authorities        | 8,704   |               |
| 25      |               | NHS bodies                     | 103     |               |
| 3,530   |               | Other entities and individuals | 6,085   |               |
|         | <b>14,559</b> | <b>Total debtors</b>           |         | <b>14,999</b> |
| (58)    |               | Provision for doubtful debt    | (88)    |               |
| 42      |               | Cash balances                  | 0       |               |
| 8,905   |               | Available for sale assets      | 10,779  |               |
|         | <b>8,889</b>  | <b>Total cash balances</b>     |         | <b>10,691</b> |
|         | <b>23,448</b> | <b>Total current assets</b>    |         | <b>25,690</b> |

### 6.12 Current Liabilities

| 2011/12<br>£000s |                                  | 2012/13<br>£000s |
|------------------|----------------------------------|------------------|
| 902              | Tax payable to HMRC              | 1,001            |
| 1,725            | Investment Management Fees       | 1,900            |
| 347              | Other creditors                  | 578              |
| 844              | Unpaid Benefits                  | 383              |
| 0                | Cash Balances                    | 123              |
| <b>3,818</b>     | <b>Total current liabilities</b> | <b>3,985</b>     |

Cash balance of £122,534 in the table above include cash balances of £23,845 less cash in transit in the form of unrepresented cheques and payments committed for payment by BACs totalling £146,379.

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Current liabilities are further analysed by type of creditor organisation.

| 2011/12<br>£000s |                                  | 2012/13<br>£000s |
|------------------|----------------------------------|------------------|
| 903              | Central government bodies        | 1,001            |
| 0                | Other local authorities          | 0                |
| 2,915            | Other entities and individuals   | 2,861            |
| 0                | Cash Balances                    | 123              |
| <b>3,818</b>     | <b>Total current liabilities</b> | <b>3,985</b>     |

### 6.13 Financial Instruments

#### a) Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading. No financial assets were re-classified during 2012/13. All financial instruments are carried in the balance sheet at their fair value.

The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

| 31 March 2012                               |                                |                                    |  |                                    | 31 March 2013                               |                                |                                    |  |
|---|--------------------------------|------------------------------------|--|------------------------------------|---|--------------------------------|------------------------------------|--|
| Fair value through profit and loss<br>£000s | Loans and receivables<br>£000s | Available for sale assets<br>£000s | Financial liabilities at amortised cost<br>£000s |                                    | Fair value through profit and loss<br>£000s | Loans and receivables<br>£000s | Available for sale assets<br>£000s | Financial liabilities at amortised cost<br>£000s |
| 360,029                                     | 0                              | 0                                  | 0  | Fixed interest securities          | 422,756                                     | 0                              | 0                                  | 0  |
| 1,291,088                                   | 0                              | 0                                  | 0  | Equities                           | 1,348,456                                   | 0                              | 0                                  | 0  |
| 99,949                                      | 0                              | 0                                  | 0  | Index linked securities            | 119,197                                     | 0                              | 0                                  | 0  |
| 627,086                                     | 0                              | 0                                  | 0  | Pooled investment vehicles         | 903,218                                     | 21,777                         | 0                                  | 0  |
| 1,787                                       | 0                              | 0                                  | 0  | Derivatives                        | 1,742                                       | 0                              | 0                                  | 0  |
| 0   | 1,632                          | 126,578                            | 0  | Cash deposits                      | 0   | 8,341                          | 80,074                             | 0  |
| 38,367                                      | 00                             | 0                                  | 0  | Other investment balances          | 36,524                                      | 0                              | 0                                  | 0  |
| 0   | 1,173                          | 0                                  | 0  | Non current assets                 | 0   | 4,787                          | 0                                  | 0  |
| 0   | 14,543                         | 8,905                              | 0  | Current assets                     | 0   | 14,911                         | 10,779                             | 0  |
| <b>2,418,306</b>                            | <b>17,348</b>                  | <b>135,483</b>                     | <b>0</b>   | <b>Total financial assets</b>      | <b>2,831,893</b>                            | <b>49,816</b>                  | <b>90,853</b>                      | <b>0</b>   |
| (57)  | 0                              | 0                                  | 0  | Derivatives                        | (3,555)*                                    | 0                              | 0                                  | 0  |
| (46,684)                                    | 0                              | 0                                  | 0  | Other investment balances          | (57,118)                                    | 0                              | 0                                  | 0  |
| 0   | 0                              | 0                                  | (3,818)  | Current liabilities                | 0   | 0                              | 0                                  | (3,985)  |
| <b>(46,741)</b>                             | <b>0</b>                       | <b>0</b>                           | <b>(3,818)</b>                                   | <b>Total financial liabilities</b> | <b>(60,673)</b>                             | <b>0</b>                       | <b>90,853</b>                      | <b>(3,985)</b>                                   |
| <b>2,371,565</b>                            | <b>17,348</b>                  | <b>135,483</b>                     | <b>(3,818)</b>                                   | <b>Total</b>                       | <b>2,771,220</b>                            | <b>49,816</b>                  | <b>90,853</b>                      | <b>(3,985)</b>                                   |

\* Includes forward foreign exchange contracts held within Alternatives Pooled Fund

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

| 2011/12<br>£000s |  | 2012/13<br>£000s |
|------------------|--|------------------|
| 12,952           | Fair Value through profit and loss               | 313,658          |
| 587              | Loans and receivables                            | (358)            |
| (169)            | Available for sale assets                        | 325              |
| 0                | Financial liabilities measured at amortised cost | 0                |
| <b>13,370</b>    | <b>Total gains and losses</b>                    | <b>313,625</b>   |

### c) 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 at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed securities are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2: Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3: Financial instruments at level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

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

|   | 31 March 2013    |                |                |                  |
|---|------------------|----------------|----------------|------------------|
|   | Level 1          | Level 2        | Level 3        | Total            |
|   | £000s            | £000s          | £000s          | £000s            |
| <u>Financial assets</u>                 |                  |                |                |                  |
| Fair value through profit and loss      | 2,553,503        | 156,629        | 121,761        | 2,831,893        |
| Loans and receivables                   | 49,816           | 0              | 0              | 49,816           |
| Available for sale assets               | 90,853           | 0              | 0              | 90,853           |
| <u>Financial liabilities</u>            |                  |                |                |                  |
| Fair value through profit and loss      | (57,118)         | (3,555)        | 0              | (60,673)         |
| Financial liabilities at amortised cost | (3,985)          | 0              | 0              | (3,985)          |
| <b>Net financial assets</b>             | <b>2,633,069</b> | <b>153,074</b> | <b>121,761</b> | <b>2,907,904</b> |

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|   | 31 March 2012    |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
|   | Level 1<br>£000s | Level 2<br>£000s | Level 3<br>£000s | Total<br>£000s   |
| <u>Financial assets</u>                 |                  |                  |                  |                  |
| Fair value through profit and loss      | 2,164,280        | 145,187          | 108,839          | 2,418,306        |
| Loans and receivables                   | 17,348           |                  |                  | 17,348           |
| Available for sale assets               | 135,483          |                  |                  | 135,483          |
| <u>Financial liabilities</u>            |                  |                  |                  |                  |
| Fair value through profit and loss      | (46,684)         | (57)             |                  | (46,741)         |
| Financial liabilities at amortised cost | (3,818)          |                  |                  | (3,818)          |
| <b>Net financial assets</b>             | <b>2,266,609</b> | <b>145,130</b>   | <b>108,839</b>   | <b>2,520,578</b> |

### 6.14 Nature and Extent of Risks arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

#### a) Overall procedures for managing risk

The principle powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Pension Fund has prepared a Statement of Investment Principles which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. Further information can be found in the Statement of Investment Principles on pages 47-54.

Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's treasury management strategy and lending policy ("Treasury Management Strategy"), prepared in accordance with the CIPFA Prudential Code, CIPFA Treasury Management in the Public Services Code of Practice and the legal framework and investment guidance set out and issued through the Local Government Act 2003. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Pension Fund's financial instrument exposure.

Investment performance by external Investment Managers and the Administering Authority is reported to the Pensions Committee quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns. For Pension Fund cash held by the Administering Authority, performance of the treasury function is assessed against treasury management performance measures modelled on the CIPFA Treasury Management Code of Practice which has been adopted by the County Council.

#### b) Credit risk and counterparty risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Pension Fund's financial assets and liabilities. Therefore credit risk on investments is reflected in the market risk, in the other price risk figures given in section d) Market Risk.

In addition the Pension Fund reviews its exposure to credit and counterparty risk on its investments through its external Investment Managers by the review of the Managers' annual internal control reports to ensure that Managers exercise reasonable care and due diligence in its activities for the Pension Fund, such as in the selection and use of brokers. The Investment Management Agreement for the Pension Fund's bond manager prescribes the investment restrictions on the securities it can invest in, including the minimum acceptance criteria for investments. The Pension Fund's custodian BNY Mellon provides exception reports to Officers to monitor the compliance of individual Investment Managers with their respective Investment Management Agreements.

For cash managed by the Administering Authority, credit risk arises from its deposits with banks and financial institutions. The Pension Fund's Treasury Management Strategy for 2012/13 sets out the type and minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard & Poor's and outlines the process to be followed for credit rating downgrades.

At the 31 March 2013, £10,778,958 was held by the Administering Authority in AAA rated money market funds.

### **c) Liquidity risk**

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a cashflow management system that seeks to ensure that cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. At 31 March 2013 £10,656,424 (100%) of the cash held by the Administering Authority was held in money market funds and bank accounts.

The Pension Fund has set a cap of £20 million on the amount of cash held by the Administering Authority to balance the need for the Pension Fund to be as fully invested as possible whilst maintaining liquidity to avoid the need to sell assets at inopportune times. Where there are surplus funds in excess of the cap, these funds are distributed to Investment Managers, after taking advice from the Pension Fund's Investment Consultant.

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable. The Pension Fund defines liquid assets as assets which can be converted into sterling cash within three months. At 31 March 2013 the value of illiquid assets was £276,545,922 (9.6% of total fund assets).

### **d) Market risk**

Market risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices.

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. The change in the market value of its investments during the year was £313,625,394.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Details of these can be found in the Pension Fund's Statement of Investment Principles on pages 47-54.

The Pension Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.



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Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure that the agreed limit on maximum exposure to any one issuer or class of asset is not breached.

For cash managed by the Administering Authority, the Pension Fund has set institution and group limits to diversify the Pension Fund's investment across a range of individual holdings, sectors and countries.

### e) 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 these changes are caused by factors specific to the individual instrument or issuer or factors affecting all such instruments in the market.

The Pension Fund is exposed to changes in equity and bond prices, as the future price is uncertain. All securities investments present a risk of loss of capital. This risk is mitigated using diversification and policies on selecting investments as discussed above.

In consultation with the Pension Fund Actuary, the Pension Fund has determined the movements in market price risk that are reasonably possible for the 2013/14 reporting period. The potential price changes disclosed are reasonably consistent with a one-standard deviation movement in the value of assets.

The one year expected volatility in market prices are shown in the table below, along with the changes in the value of the Pension Fund's investment assets and liabilities if the market price of investments increase or decrease in line with these movements. The total fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets in line with mean variance portfolio theory. The prior year comparative is shown overleaf.

| Asset Class   | Value as at<br>31 March 2013 | Change       | Value on<br>Increase | Value on<br>Decrease |
|---|------------------------------|--------------|----------------------|----------------------|
|   | £000s                        | %            | £000s                | £000s                |
| UK Equities, Unit Trusts and Pooled Funds                     | 789,972                      | 16.0%        | 916,367              | 663,576              |
| Global equities, Unit Trusts and Pooled Funds (ex UK)         | 1,006,075                    | 19.0%        | 1,197,229            | 814,920              |
| Property  | 154,785                      | 14.5%        | 177,229              | 132,341              |
| Fixed Interest Corporate Bonds                                | 258,046                      | 10.4%        | 284,883              | 231,209              |
| Fixed Interest Public Sector Bonds                            | 190,122                      | 7.9%         | 205,141              | 175,102              |
| Index-Linked Bonds  | 119,197                      | 5.9%         | 126,229              | 112,164              |
| Private Equity  | 121,745                      | 27.8%        | 155,590              | 87,900               |
| Commodities   | 10,868                       | 13.8%        | 12,368               | 9,368                |
| High yield debt/convertible bonds/insurance linked securities | 46,259                       | 13.1%        | 52,319               | 40,199               |
| Overseas Real Estate Investment Trusts                        | 6,565                        | 13.1%        | 7,425                | 5,705                |
| Absolute return/Diversified Growth                            | 72,580                       | 11.8%        | 81,145               | 64,016               |
| Cash and accrued income                                       | 87,867                       | 0.8%         | 88,570               | 87,164               |
| Other   | 17,331                       | 0.6%         | 17,436               | 17,228               |
| <b>Total Fund</b>   | <b>2,881,412</b>             | <b>12.0%</b> | <b>3,227,181</b>     | <b>2,535,642</b>     |

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| Asset Class   | Value as at<br>31 March 2012 | Change       | Value on<br>Increase | Value on<br>Decrease |
|---|------------------------------|--------------|----------------------|----------------------|
|   | £000s                        | %            | £000s                | £000s                |
| UK Equities, Unit Trusts and Pooled Funds             | 749,013                      | 17.0         | 876,345              | 621,681              |
| Global equities, Unit Trusts and Pooled Funds (ex UK) | 917,041                      | 19.7         | 1,097,698            | 736,384              |
| Property  | 143,400                      | 14.5         | 164,193              | 122,607              |
| Fixed Interest Corporate Bonds                        | 234,235                      | 10.3         | 258,361              | 210,109              |
| Fixed Interest Public Sector Bonds                    | 125,794                      | 7.8          | 135,606              | 115,982              |
| Index-Linked Bonds                                    | 99,949                       | 5.9          | 105,846              | 94,052               |
| Private Equity  | 108,720                      | 28.5         | 139,705              | 77,735               |
| Cash and accrued income                               | 121,623                      | 0.8          | 122,596              | 120,650              |
| <b>Total Fund</b>                                     | <b>2,499,775</b>             | <b>12.98</b> | <b>2,824,246</b>     | <b>2,175,304</b>     |

### f) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates has been advised by the Pension Fund Actuary, as a sensible level to indicate interest rate sensitivity.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates. Movement in bond values have been calculated to include the impact of modified duration. Modified duration expresses the measurable change in the value of a security in response to a change in interest rates.

| Asset Class                          | Value at<br>31 March 2013 | Increase<br>100 BPS | Decrease<br>100 BPS |
|--------------------------------------|---------------------------|---------------------|---------------------|
|                                      | £000s                     | £000s               | £000s               |
| Cash at Custodian                    | 88,415                    | 884                 | (884)               |
| Cash held by Administering Authority | 10,656                    | 107                 | (107)               |
| Bonds (direct investments)           | 541,953                   | (56,634)            | 56,634              |
| Bond (pooled funds)                  | 58,036                    | (2,412)             | 2,412               |
| <b>Total</b>                         | <b>699,060</b>            | <b>(58,055)</b>     | <b>58,055</b>       |

| Asset Class                          | Value at<br>31 March 2012 | Increase<br>100 BPS | Decrease<br>100 BPS |
|--------------------------------------|---------------------------|---------------------|---------------------|
|                                      | £000s                     | £000s               | £000s               |
| Cash at Custodian                    | 128,210                   | 1,282               | (1,282)             |
| Cash held by Administering Authority | 8,947                     | 89                  | (89)                |
| Bonds (direct investments)           | 459,978                   | (48,389)            | 48,389              |
| <b>Total</b>                         | <b>597,135</b>            | <b>(47,018)</b>     | <b>47,018</b>       |

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### g) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2013, the Pension Fund had overseas investments (excluding forward foreign exchange contracts) of £1,468,447 and £34,562 cash denominated in currencies other than sterling.

The Pension Fund Actuary has advised that the one year expected standard deviation for an individual currency at the 31 March 2013 is 13%. This assumes no diversification, and in particular, that interest rates remain constant. An analysis of the impact this would have on the Fund is given in the table below (the prior year comparator is shown).

| Asset Class                   | Value as at<br>31 March 2013 | Increase<br>13% | Decrease<br>13%  |
|-------------------------------|------------------------------|-----------------|------------------|
|                               | £000s                        | £000s           | £000s            |
| Overseas Fixed Interest Bonds | 115,070                      | 14,959          | (14,959)         |
| Overseas Equity               | 666,952                      | 86,704          | (86,704)         |
| Overseas Index Linked Bonds   | 1,772                        | 230             | (230)            |
| Overseas Property             | 26,523                       | 3,448           | (3,448)          |
| Overseas Unit Trusts          | 339,108                      | 44,084          | (44,084)         |
| Overseas Managed Funds        | 319,023                      | 41,473          | (41,473)         |
| Foreign currencies            | 34,562                       | 4,493           | (4,493)          |
| <b>Total</b>                  | <b>1,503,010</b>             | <b>195,391</b>  | <b>(195,391)</b> |

| Asset Class                   | Value as at<br>31 March 2012 | Increase<br>13% | Decrease<br>13%  |
|-------------------------------|------------------------------|-----------------|------------------|
|                               | £000s                        | £000s           | £000s            |
| Overseas Fixed Interest Bonds | 89,358                       | 11,617          | (11,617)         |
| Overseas Equity               | 639,134                      | 83,087          | (83,087)         |
| Overseas Index Linked Bonds   | 1,689                        | 220             | (220)            |
| Overseas Property             | 26,345                       | 3,425           | (3,425)          |
| Overseas Unit Trusts          | 273,572                      | 35,564          | (35,564)         |
| Overseas Managed Funds        | 118,208                      | 15,367          | (15,367)         |
| Foreign currencies            | 19,202                       | 2,496           | (2,496)          |
| <b>Total</b>                  | <b>1,167,508</b>             | <b>151,776</b>  | <b>(151,776)</b> |

External Investment Managers manage this risk through the use of forward foreign exchange contracts and futures, to hedge currency exposures back to the base currency. Further information can be found in section 6.10.

The Treasury Management Strategy does not permit the Administering Authority to invest in foreign currency denominated deposits.

### 6.15 Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Pension Fund at 31 March 2013 and 31 March 2012 are set out in the following table. This is the underlying commitment of the Pension Fund in the long term to pay retirement benefits to its active (employee members), deferred and pensioner members.

| 31 March 2012<br>£m |   | 31 March 2013<br>£m |
|---------------------|---|---------------------|
| 3,703               | Present value of promised retirement benefits | 4,426               |

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Liabilities have been projected using a roll forward approximation from the latest formal valuation as at 31 March 2010. The liability at 31 March 2013 is estimated to comprise of £2,183 million in respect of employee members, £881 million in respect of deferred members and £1,362 million in respect of pensioners. The principal assumptions used by the Pension Fund Actuary were:

| 31 March 2012 |   | 31 March 2013 |
|---------------|---|---------------|
| % per annum   |   | % per annum   |
|               | <b>Financial assumptions</b>            |               |
| 2.5%          | Inflation/pension increase rate         | 2.8%          |
| 4.8%          | Salary increase rate                    | 5.1%          |
| 4.8%          | Discount rate                           | 4.5%          |
|               | <b>Mortality assumptions</b>            |               |
|               | Longevity at 65 for current pensioners: |               |
| 21.0          | • Men                                   | 21.0          |
| 23.8          | • Women                                 | 23.8          |
|               | Longevity at 65 for future pensioners:  |               |
| 22.9          | • Men                                   | 22.9          |
| 25.7          | • Women                                 | 25.7          |

Allowance has been made for future pensioners to elect to exchange 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post April 2008 service.

The actuarial present value of promised retirement benefits is sensitive to changes in actuarial assumptions. The significant changes and their impact on the value of the Pension Fund's liabilities between 31 March 2012 and 31 March 2013 were:

| Actuarial assumption  | £ m        | %            |
|---|------------|--------------|
| Lower actual pensions increase than expected                              | (6)        | (0.1%)       |
| Higher expectation of price and salary inflation at 2013 compared to 2012 | 230        | 5.2%         |
| Lower expected discount rate at 2013 compared to 2012                     | 241        | 5.4%         |
| <b>Total increase in liabilities due to changes in assumptions</b>        | <b>465</b> | <b>10.5%</b> |

The assumptions used by the Pension Fund Actuary to calculate the present value of promised retirement benefits are those required by the Code of Practice on Local Authority Accounting 2012/13. The liability set out in the table is used for statutory accounting purposes and should not be compared against the value of liabilities calculated on a funding basis, which is used to determine contribution rates payable by employers in the Pension Fund. Further information on the Pension Fund's policy for funding its liabilities is set out in section 6.16.

### 6.16 Funding Policy

The Pension Fund's approach to funding its liabilities is set out in its Funding Strategy Statement. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

The Pension Fund Actuary is required to report on the "solvency" of the Pension Fund at least every three years.

The last actuarial valuation of the Pension Fund was carried out as at 31 March 2010 to determine contribution rates for the financial years 2011/12 to 2013/14. The market value of the Pension Fund's assets at the valuation date was £2,194 million and represented 74.3% of the Pension Fund's accrued liabilities, allowing for future pay increases.

In accordance with the Scheme regulations, employer contribution rates were set to meet 100% of the Pension Fund's existing and prospective liabilities.

## Financial Statements

The contribution rates were calculated using the projected unit actuarial method (or the attained age method for employers closed to new entrants) and the main actuarial assumptions were as follows:

|                               |      |
|-------------------------------|------|
| Rate of return on investments | 6.1% |
| Rate of general pay increases | 5.3% |
| Rate of price inflation       | 3.3% |

Further information can be found in the Funding Strategy Statement on page 65 and Actuarial Valuation report on page 17.

### 6.17 Additional Voluntary Contributions (AVCs)

Scheme members have the option to make AVCs to enhance their pension benefits. These contributions are invested separately from the Pension Fund, with either the Standard Life Assurance Company or the Equitable Life Assurance Society.

| 2011/12       |              |                |              |            |                |                               | 2012/13       |              |                |              |            |              |
|---------------|--------------|----------------|--------------|------------|----------------|-------------------------------|---------------|--------------|----------------|--------------|------------|--------------|
| Standard Life |              | Equitable Life |              | Total AVCs |                |                               | Standard Life |              | Equitable Life |              | Total AVCs |              |
| £000s         | £000s        | £000s          | £000s        | £000s      | £000s          |                               | £000s         | £000s        | £000s          | £000s        | £000s      | £000s        |
|               | 5,285        |                | 2,158        |            | 7,443          | <b>Value at 1 April</b>       |               | 4,910        |                | 1,947        |            | 6,857        |
|               |              |                |              |            |                | <u>Income</u>                 |               |              |                |              |            |              |
| 294           |              | 17             |              | 311        |                | Contributions received        | 227           |              | 19             |              | 246        |              |
| 0             |              | 0              |              | 0          |                | Transfer values received      | 88            |              | 0              |              | 88         |              |
|               | <b>294</b>   |                | <b>17</b>    |            | <b>311</b>     | <b>Total Income</b>           |               | <b>315</b>   |                | <b>19</b>    |            | <b>334</b>   |
|               |              |                |              |            |                | <u>Expenditure</u>            |               |              |                |              |            |              |
| (769)         |              | (252)          |              | (1,021)    |                | Retirement benefits           | (513)         |              | (257)          |              | (770)      |              |
| (104)         |              | (16)           |              | (120)      |                | Transfer values paid          | (113)         |              | (18)           |              | (131)      |              |
| 0             |              | (9)            |              | (9)        |                | Refunds                       | 0             |              | 0              |              | 0          |              |
| 0             |              | 0              |              | 0          |                | Lump sum death benefit        | 0             |              | (3)            |              | (3)        |              |
|               | <b>(873)</b> |                | <b>(277)</b> |            | <b>(1,150)</b> | <b>Total expenditure</b>      |               | <b>(626)</b> |                | <b>(278)</b> |            | <b>(904)</b> |
|               | <b>204</b>   |                | <b>49</b>    |            | <b>253</b>     | <b>Change in market value</b> |               | <b>487</b>   |                | <b>100</b>   |            | <b>587</b>   |
|               | <b>4,910</b> |                | <b>1,947</b> |            | <b>6,857</b>   | <b>Value at 31 March</b>      |               | <b>5,086</b> |                | <b>1,788</b> |            | <b>6,874</b> |

### 6.18 Related parties

#### a) Hertfordshire County Council

The County Council incurred costs of £1,531,194 in relation to the administration of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses. The County Council also contributed £57,956,200 to the Pension Fund in 2012/13.

#### b) Pensions Committee

Seven members of the County Council Pensions Committee were councillor members of the Hertfordshire Local Government Pension Scheme during 2012/13. Two members of the Pensions Committee were in receipt of pension benefits from the Scheme during the year.

#### c) Key Management Personnel

Two employees of Hertfordshire County Council held key positions in the financial management of the Hertfordshire County Council Pension Fund during 2012/13. Both employees were members of the Hertfordshire Local Government Pension Scheme during the year.

Key management positions were the Chief Finance Officer and Assistant Director of Finance. These staff were employed by the Administering Authority and spent a proportion of their time on the financial management of the Pension Fund. The costs relating to these staff therefore comprise an element of the reimbursement from the Fund to the County Council of £1.5 million.

## Financial Statements

The remuneration paid by Hertfordshire County Council to key management personnel of the Pension Fund were:

| Position   | Year    | Salary  | Benefits in kind | Total remuneration excluding pension contributions | Pension contributions | Total remuneration |
|--|---------|---------|------------------|--|-----------------------|--------------------|
| Director of Resources & Performance <sup>1</sup> | 2012/13 | 125,076 | 0                | 125,076  | 25,766                | 150,842            |
|  | 2011/12 | 148,867 | 0                | 148,867  | 30,557                | 179,424            |
| Assistant Director of Finance <sup>2</sup>       | 2012/13 | 16,500  | 211              | 16,711   | 3,399                 | 20,110             |
|  | 2011/12 | 0       | 0                | 0  | 0                     | 0                  |

<sup>1</sup> The Director of Resources & Performance left on 3 February 2013. Following a restructure this post no longer exists

<sup>2</sup> The Assistant Director of Finance assumed acting S151 Officer responsibility with effect from 1 February 2013

### 6.19 Contingent Liabilities and Contractual Commitments

The Pension Fund had no contingent liabilities.

At 31 March 2013, the Pension Fund had a contractual commitment of a further £68.4 million to private equity limited partnerships based on exchange rates applicable at the balance sheet date (£46.8 million at 31 March 2012).

At 31 March 2013, the Pension Fund had a contractual commitment of a further £71.4 million to CBRE, the Pension Fund's property manager (£17.3 million at 31 March 2012) and a further £66.9m to LGT Capital Partners Limited, the Pension Fund's alternatives Investment Manager.

### 6.20 Contingent Assets

The Pension Fund has entered into a process to reclaim withholding tax made by other European Union (EU) countries, based on precedent cases in some EU countries that tax has been withheld unfairly under EU law. Claims have been submitted in the Netherlands, France and Germany.

The Pension Fund's claims are set out below in both Euros and Sterling (calculated using exchange rates as at 31 March 2013). In the Netherlands the claims process has already gone through the Courts and therefore this value has been accrued in the accounts, since this income will be received once supporting claims documentation is submitted. The other two claims are subject to legal processes. Based on precedent and legal advice, the Pension Fund expects to be successful in these claims. Therefore the amounts below are contingent assets for the Pension Fund.

| Country      | Value at 31 March 2013 | Value at 31 March 2013 |
|--------------|------------------------|------------------------|
|              | €                      | £                      |
| France       | 148,273                | 125,390                |
| Germany      | 190,683                | 161,254                |
| <b>Total</b> | <b>338,956</b>         | <b>286,644</b>         |

### 6.21 Statement of Investment Principles

Regulation 12.1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) requires the Pension Fund to publish a Statement of Investment Principles. This is set out on pages 47-54.

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## Investment Report

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### 1. Investment Management

#### Powers of Investment

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) and require an administering authority to invest any pension fund money that is not needed immediately to make payments from the pension fund.

These regulations permit a range of investments, subject to specific restrictions. Investments may be made:

- in any security on any recognised stock exchange (no single holding to exceed 10% of the value of all investments);
- in unlisted securities (subject to a maximum of 10% of the total value of investments);
- in Unit Trusts and other Managed Funds subject to a maximum of 25% of the total value of investments with any one Investment Manager;
- by deposit with any bank (subject to a maximum of 10% of the value of all investments to any one bank, excepting National Savings Bank) or local authority (the total of such deposits not to exceed 10% of the total value of all investments).

The regulations require that the administering authority's investment policy must be formulated with a view to:

- the advisability of investing pension fund money in a wide variety of investments;
- the suitability of particular investments and types of investments;
- obtaining proper advice at reasonable intervals about their investments.

A local authority may elect to impose its own restrictions in addition to the legal restraints laid down in the regulations. The additional limits which have been determined by the County Council are set out in the Pension Fund's Statement of Investment Principles on pages 47-54.

#### Responsibility for Investing the Pension Fund

The Pensions Committee of the County Council is responsible for setting the overall investment strategy of the Pension Fund and monitoring investment performance. During 2010/11 the Pensions Committee set up a sub-committee to review the investment strategy.

The majority of the Pension Fund's investments are managed by external Investment Managers, who have substantial discretionary powers regarding their individual portfolios. The split of the Pension Fund between these managers at 31 March 2013 is shown in the following table.

| Investment Manager                             | % of Fund |
|--|-----------|
| Baillie Gifford & Co.                          | 11.9%     |
| BlackRock Investment Management (UK) Ltd.      | 19.0%     |
| CB Richard Ellis Investors                     | 5.6%      |
| Global Thematic Partners, LLC                  | 9.6%      |
| Jupiter Asset Management Ltd                   | 11.3%     |
| JPMorgan Asset Management (UK) Ltd.            | 6.6%      |
| Legal and General Investment Management Ltd.   | 14.6%     |
| LGT Group – Private Banking & Asset Management | 7.0%      |
| RCM (UK) Ltd.                                  | 9.7%      |
| Private Equity                                 | 4.7%      |

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## Investment Report

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An amount of cash is held by the County Council in order to manage the payment of members' pension benefits and the collection of contributions. This is invested in accordance with the Pension Fund's Treasury Management Strategy which is reviewed annually by the Pensions Committee. The 2012/13 Treasury Management Strategy was approved by the Pensions Committee on 29 February 2012.

The Statement of Investment Principles details the extent to which the Administering Authority complies with principles of good governance and investment practice, set out in the Myners review of Institutional Investment in the UK.

### 2. Statement of Investment Principles 2013

#### 1. Introduction

- 1.1 The County Council is responsible for the administration of the Pension Fund. The County Council has a statutory duty to ensure that any funds not immediately required to pay pension benefits, are suitably invested.
- 1.2 As required by statute, the County Council has approved a Statement of Investment Principles ("Statement") which is applied to the management of the Pension Fund's investments. This was last approved by the Pensions Committee in June 2011 and has been revised to take account of subsequent changes.
- 1.3 In accordance with government guidelines, the extent to which the Pension Fund complies with the statutory guidance "Investment decision making and disclosure in the Local Government Pension Scheme: A Guide to the Application of The Myners Principles" is set out at Appendix A to this Statement

#### 2. Who Makes the Investment Decisions?

- 2.1 Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Pensions Committee. The committee determines the strategic management of the assets based upon the professional advice it receives and the investment objectives as set out in section 6. The Investment Sub-Committee is responsible for monitoring the performance of the Investment Managers and the investments made, review asset allocation decisions and the performance objectives for the Pension Fund. In addition the Investment Sub-Committee can appoint (and, when necessary, dismiss) Investment Managers.
- 2.2 Day to day operational decisions are delegated to the County Council's Chief Finance Officer, the Deputy Chief Executive.
- 2.3 The Pension Fund's governance arrangements are set out in full in the Governance Policy and Compliance Statement which is accessible from the Pension Fund's website [www.yourpension.org.uk/agencies/HCC/](http://www.yourpension.org.uk/agencies/HCC/)

#### 3. What are the Investment Objectives of the Pension Fund?

- 3.1 To comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), specifically to ensure that all:
  - funds are suitably invested;
  - investments are diversified;
  - relevant investment limits are not exceeded;
  - Investments and investment arrangements are regularly monitored and reviewed.
- 3.2 To ensure that the Pension Fund has sufficient assets to pay Scheme benefits.
- 3.3 To achieve a long term rate of return on the invested funds (both capital gains and income) which assists in controlling the level of employers' contributions to the Pension Fund and also the cost of the pensions to the local taxpayers where appropriate by:
  - i) As a minimum, matching the Pension Fund Actuary's rate of return assumptions made when assessing the Pension Fund's level of funding; and
  - ii) Exceeding the Pension Fund's benchmark by 1% measured over three year rolling periods.



3.4 The Statement of Investment Principles is linked to the Funding Strategy Statement, which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund while not unnecessarily restraining the investment strategy set out in this document. The two strategies set out the common objective of the Pension Fund to maximise returns on investments to control the level of employers' contributions.

#### 4. Achieving the Investment Objectives

4.1 The Fund sets a long-term investment strategy (the mix of asset types) to have regard to the Fund's liability structure and its investment objectives. This strategy is usually reviewed at least every three years after each actuarial valuation but is monitored on an ongoing basis to facilitate any necessary changes.

4.2 The Pensions Committee having taken appropriate professional advice, has made the arrangements set out below to reduce the risk that one or more of the investment objectives for the Pension Fund are not achieved over the long term.

##### 1. Suitable Investments

The Pensions Committee considers that the following types of investments, within specific limits, are suitable for the purposes of a pension fund:

- cash, bank deposits and other short term money market investments;
- quoted fixed interest securities, individual securities and pooled investment vehicles;
- quoted equity investments, individual securities and pooled investment vehicles;
- property unit trusts;
- derivative instruments, but not to be used for speculative purposes;
- alternative asset classes including commodities and absolute return strategies;
- unquoted equity investments and private equity pooled vehicles.

##### 2. Fund Benchmark and Asset Allocation

The Pension Fund has adopted a specific benchmark which has been approved by the Pensions Committee, following appropriate professional advice from the Investment Consultant, Investment Managers and the performance measurement consultant. The composition of the Pension Fund benchmark is set out at Appendix B to this Statement.

The weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. The asset allocation set out in the benchmark is designed to spread the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

##### 3. Investment Management Choice

The main choices when selecting a fund management style are:

- Active or passive – making independent decisions when buying or selling investments (“active”) or buying stocks to replicate a specific index (“passive”).
- Multi-asset or specialist – investing across a broad range of asset classes (“multi-asset”) or in a narrow, specific asset class (“specialist”).

The Pension Fund currently uses “active, specialist”, “active, multi-asset” and “passive, specialist” Investment Managers only on the advice of the Investment Consultant to increase the potential return of the Pension Fund.

The number of Investment Managers and the share of the Pension Fund by type as at 31 March 2013 are shown in the following table, along with comparative figures for March 2012.

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| Share of total Pension Fund at 31 March 2012 |                               |                               | Share of total Pension Fund at 31 March 2013 |                               |
|--|-------------------------------|-------------------------------|--|-------------------------------|
| %  | Number of Investment Managers |                               | %  | Number of Investment Managers |
| 81.1   | 7                             | External, active, specialist  | 73.7   | 7                             |
|  |                               | External, active, multi-asset | 7.0  | 1                             |
| 14.1   | 1                             | External, passive, specialist | 14.6   | 1                             |
| 4.8  | 4                             | Private Equity                | 4.7  | 4                             |

The percentages in the table above are calculated using the value of investments, cash and net current assets held by each Investment Manager at 31 March. The Pension Fund has moved part of its funds to an actively managed multi-asset portfolio with LGT, funded from Baillie Gifford, JPMorgan and Jupiter.

Full details of the Investment Managers, their mandates and fee basis are shown at Appendix C.

All the Investment Managers need the approval of the Chief Finance Officer, the Deputy Chief Executive, to acquire shares in any securities that are not listed on a recognised stock exchange.

#### 4. Responsible ownership including Social, Environmental and Ethical Considerations.

The Investment Managers are expected to apply their professional expertise to maintain suitably diversified portfolios for a pension fund. When making investment decisions the Investment Managers are expected to take account of what they reasonably believe are all relevant considerations.

The Pension Fund routinely votes on all matters raised by the largest 350 listed UK companies where it owns shares. The Pension Fund's voting policy is to vote in accordance with the current principles of corporate governance best practice, as advised by the ISS Governance, except when the advice of the Investment Managers indicates such action would not be in the best financial interests of the Pension Fund.

#### 5. Investment Restrictions

The following investment restrictions apply to the funds under management:

- i) all limits determined under the Local Government Pension Scheme Investment and Management of Funds) Regulations 2009 (as amended); and
- ii) additional limits which have been determined by the County Council:

|  |   |   |
|--|---|---|
| Private Equity                                 | - | Total investments are not to exceed a maximum of 7.5% of the value of the Pension Fund. In general the Pensions Committee expects private equity to be no more than 5%. The 2.5% headroom allows for fluctuations in the value of other assets. |
| Options, futures and contracts for differences | - | A maximum of 25% of UK equity portfolio. Only to be used to protect against possible adverse fluctuations in the values of other investments or cash in the portfolio.  |
| Individual equity holdings                     | - | The total holding in a single company is not to exceed 5% of the issued share capital.  |

Any breaches of the restrictions above are reported to the next available meeting of the Pensions Committee.

#### 6. Investment Performance Management

The investment performance of Investment Managers is measured by an independent organisation. This service has been provided by the Pension Fund's custodian, BNY Mellon Asset Servicing B.V. since January 2012. Quarterly reports are provided to the Chief Finance Officer, the Deputy Chief Executive and quarterly to the Pensions Committee.

### **7. Monitoring of Investment Managers**

The Pensions Committee meets quarterly to review the performance of the Pension Fund's Investment Managers. The Investment Sub-Committee was set up by the Pensions Committee in 2010 and is responsible for monitoring the performance of Investment Managers and the investments made by the managers. The Investment Sub-Committee meets quarterly and will typically meet each manager at least once a year.

### **8. Actuarial Valuation**

The Pension Fund is subject to triennial valuations by an independent actuary. Employers' contributions are determined by the Pension Fund Actuary to ensure that in the long term the Pension Fund's assets will match its liabilities. The framework for this is set out in the Funding Strategy Statement.

### **9. Stock Lending**

The Pension Fund operates a stock lending programme through its custodian bank. The Pension Fund limits the lending to 20% of the total of its portfolios and ensures that the collateral is in cash or bonds and is valued on a daily basis to be on average 105% of the value of the stock which has been lent.

### **10. Custody Arrangements**

The Pension Fund's assets are held in custody by an independent custodian, where reasonable controls have been certified by an appropriate auditor.

## **5. Compliance with this Statement**

- 5.1 The Pension Fund will monitor compliance with this Statement in particular, it will ensure its investment decisions are exercised with a view to giving effect to the principles contained in this Statement, so far as is reasonably practicable.

## **6. Compliance with Myners**

- 6.1 The Myners principles cover the arrangements for effective investment management decision making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.
- 6.2 The Pension Fund supports the principles and complies with the principles as set out in appendix A to this Statement.

## **7. Review of this Statement**

- 7.1 The Pension Fund will review this Statement in response to any material changes to any aspects of the Pension Fund, its liabilities, finances and its attitude to risk which it judges to have a bearing on the stated investment policy.

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### Appendix A to the Statement of Investment Principles 2013

| Compliance with Myners Principles   |  |
|---|--|
| Principle   | Current Position   |
| <p><b>1. Effective Decision Making</b></p> <p><i>Administering authorities should ensure that:</i></p> <ul style="list-style-type: none"> <li>• <i>decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;</i></li> <li>and</li> <li>• <i>those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</i></li> </ul> | <p>Day to day operational decisions are delegated to the County Council's Chief Finance Officer, the Deputy Chief Executive, who, with relevant members of staff, regularly attends seminars and briefing sessions to maintain a high level of skills and knowledge in investment matters.</p> <p>Members of the Pensions Committee act in the role of trustees for the Pension Fund. They attend training sessions organised by the County Council. Members of the Investment Sub-Committee receive quarterly workshops on investments and pension related issues.</p> <p>Both Members and Officers involved with making investment decisions take advice from appropriately qualified professionals where appropriate.</p> <p>The CIPFA Knowledge and Skills framework is available to all Members and Officers as a learning tool for the development of Member knowledge of pension investments and the regulatory background.</p> <p><b>Development Areas</b></p> <ul style="list-style-type: none"> <li>• Develop a medium term business plan for the Pension Fund.</li> </ul> |
| <p><b>2. Clear Objectives</b></p> <p><i>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.</i></p>  | <p>The Pension Fund's main investment objective, as set out in this Statement of Investment Principles, acknowledges the need to meet the Pension Fund's liabilities and states that the aim is to ensure the impact on local taxpayers is minimised.</p> <p>The Statement of Investment Principles is circulated to the Pension Fund's advisors and investment managers and is published on the Pension Fund's website.</p> <p>The following investment objectives for the Fund were agreed in 2011, following a comprehensive investment strategy review:</p> <ul style="list-style-type: none"> <li>- <b>Return objective:</b> To achieve 100% funding on an ongoing basis over a 20 year period from 2011 (i.e. by 2031), with a probability of 67%.</li> <li>- <b>Risk objective:</b> Limiting the likelihood of a fall in funding level to below 65% at the 2013 Actuarial Valuation to a one in ten probability.</li> </ul>   |
| <p><b>3. Risk and Liabilities</b></p> <p><i>In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</i></p>  | <p>The Pension Fund's main investment objective, as set out in this Statement of Investment Principles, acknowledges the need to meet the Pension Fund's liabilities and states that the aim is to ensure the impact on local taxpayers is minimised.</p> <p><b>Development Areas</b></p> <ul style="list-style-type: none"> <li>• Consider the form and structure of liabilities as well as non-investment risks more explicitly in the next review of strategy.</li> <li>• Develop a pension fund specific risk management framework.</li> </ul>   |

## Investment Report

### Appendix A to the Statement of Investment Principles 2013 (continued)

| Principle   | Current Position  |
|---|---|
| <p><b>4. Performance Assessment</b></p> <p><i>Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.</i></p> <p><i>Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.</i></p>  | <p>The Pensions Committee formally measures performance of Investment Managers and investments on a quarterly basis.</p> <p>Performance measurement services are provided by BNY Mellon from 1 January 2012, including daily exception reporting on Investment Manager compliance with their Investment Manager Agreements.</p> <p><b>Development Areas</b></p> <ul style="list-style-type: none"> <li>• Develop a framework to formally measure the performance of the Pension Fund's advisors.</li> <li>• Develop a framework to enable the Pensions Committee to make an assessment of their effectiveness.</li> </ul> |
| <p><b>5. Responsible ownership</b></p> <p><i>Administering authorities should:</i></p> <ul style="list-style-type: none"> <li>• <i>adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents</i></li> <li>• <i>include a statement of their policy on responsible ownership in the statement of investment principles</i></li> <li>• <i>report periodically to scheme members on the discharge of such responsibilities.</i></li> </ul> | <p>The Pension Fund's Investment Managers have adopted the Institutional Shareholders' Committee Statement of Principles.</p> <p>A statement regarding responsible ownership is included in the Statement of Investment Principles, which is part of the Annual Report published on the Pension Fund website for all scheme members to access.</p>  |
| <p><b>6. Transparency and reporting</b></p> <p><i>Administering authorities should:</i></p> <ul style="list-style-type: none"> <li>• <i>act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives</i></li> <li>• <i>provide regular communication to scheme members in the form they consider most appropriate.</i></li> </ul>   | <p>The Pension Fund communicates with its stakeholders through the publication, on the Pension Fund's website, of the following documents, in addition to this Statement:</p> <ul style="list-style-type: none"> <li>• Governance Statement</li> <li>• Annual report</li> <li>• Communication Statement</li> </ul> <p>In addition a meeting is held for all employers on an annual basis.</p> <p>Communication with Scheme members is through the website and through the Pension Fund's employers.</p>   |

## Investment Report

### Appendix B to the Statement of Investment Principles 2013

| Asset Class           | Allocation % | Benchmark  |
|-----------------------|--------------|--|
| UK Equity             | 13.4         | FTSE All-Share Index   |
| UK Equity smaller cap | 6.0          | FTSE All-Share Index ex-top 20 stocks                            |
| Overseas Equity       | 4.1          | FTSE North America Index <sup>(a)</sup>                          |
|                       | 4.1          | FTSE Developed Europe (ex-UK) Index <sup>(a)</sup>               |
|                       | 2.4          | FTSE Japan Index <sup>(a)</sup>                                  |
|                       | 2.4          | FTSE AW Developed Asia Pacific (ex-Japan) Index <sup>(a)</sup>   |
|                       | 0.8          | FTSE Israel Index / FTSE Emerging Markets Index                  |
| Global Equity         | 26.0         | MSCI AC World Index (NDR)  |
| Fixed Interest Gilts  | 3.2          | FTSE A All Stocks Gilts Index                                    |
| Index-Linked Gilts    | 3.2          | FTSE A Over 5 Year Index-Linked Gilts Index                      |
| Corporate Bonds       | 6.4          | BofAML EuroSterling Index  |
| Overseas Bonds        | 3.2          | Barclays Capital Global Aggregate 500 (ex-UK) (GBP Hedged) Index |
| Property              | 4.0          | IPD UK All Balanced Funds Index                                  |
|                       | 4.0          | IPD Adjusted Global Index  |
| Alternatives          | 10.8         | 3 month sterling LIBOR   |
| Private Equity        | 5.0          | FTSE All-Share Index   |
| Cash                  | 1.0          | 7 Day Sterling LIBID   |
| <b>Total</b>          | <b>100.0</b> |  |

<sup>(a)</sup> 70% of overseas equity is GBP hedged

## Investment Report

### Appendix C to the Statement of Investment Principles 2013

| Pension Fund Investment Managers at 31 March 2013 |                                     |                                      |                                      |                     |
|---|-------------------------------------|--------------------------------------|--------------------------------------|---------------------|
| Investment Manager                                | Value of Portfolio at 31/03/2013 £m | Type of Mandate                      | Performance Target % above benchmark | Fee Type            |
| Jupiter Asset Management Ltd.                     | 325.8m                              | Active, Specialist, UK Equities      | 2%                                   | Performance Related |
| Baillie Gifford & Co.                             | 342.8m                              | Active, Specialist, UK Equities      | 1.25%                                | Fixed Fee           |
| Legal and General Investment Management Ltd.      | 421.6m                              | Passive, Specialist, Global Equities | 0%                                   | Ad valorem          |
| Global Thematic Partners, LLC                     | 275.7m                              | Active, Specialist, Global Equities  | 3% - 5%                              | Ad valorem          |
| JPMorgan Asset Management (UK) Ltd                | 188.9m                              | Active, Specialist, Global Equities  | 4%                                   | Performance Related |
| RCM (UK) Ltd                                      | 279.3m                              | Active, Specialist, Global Equities  | 3% - 4%                              | Ad valorem          |
| BlackRock Investment Management (UK) Ltd.         | 546.8m                              | Active, Specialist, Bonds            | 0.75%                                | Performance Related |
| Permira   | 5.0m                                | Active, Specialist, Private Equity   | Not applicable                       | Performance Related |
| HarbourVest                                       | 79.8m                               | Active, Specialist, Private Equity   | Not applicable                       | Performance Related |
| Standard Life Investments                         | 50.8m                               | Active, Specialist, Private Equity   | Not applicable                       | Performance Related |
| TTP Ventures                                      | 0.3m                                | Active, Specialist Private Equity    | Not applicable                       | Performance Related |
| CB Richard Ellis Investors                        | 161.9m                              | Active, Specialist Property          | 1.0%                                 | Performance Related |
| LGT Capital Partners Ltd                          | 202.0m                              | Active, Multi-Asset Alternatives     | 4%                                   | Ad valorem          |

- Fee types:**
- Fixed Fee** - fee is fixed amount, indexed by RPI annually
  - Ad valorem** - based only on the value of the portfolio
  - Performance Related** - additional fees payable where performance exceeds the target

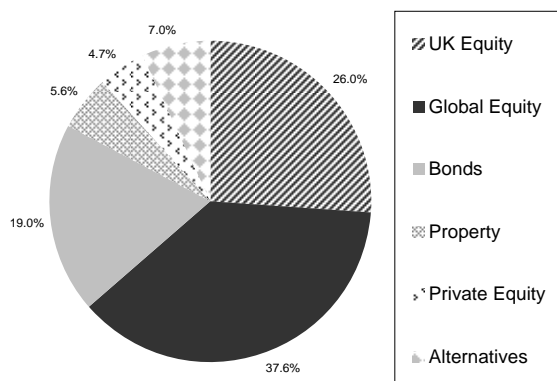
## Investment Report

### 3. Investment Policy

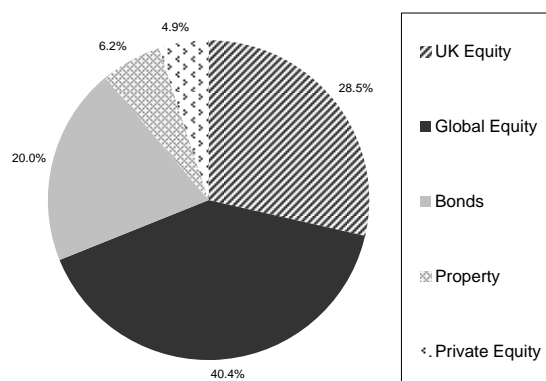
Appendix B of the Statement of Investment Principles on page 53 sets out the target asset allocation of the Pension Fund for 2012/13, in line with the Pension Fund's specific benchmark.

The actual distribution of the Pension Fund within the main asset classes is shown below at 31 March 2013 and at 31 March 2012 for comparison.

**Distribution of Pension Fund at 31 March 2013**



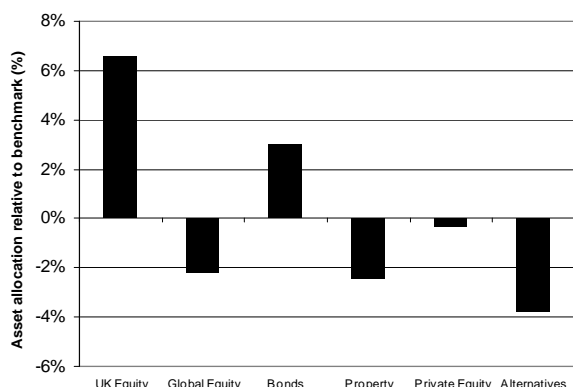
**Distribution of Pension Fund at 31 March 2012**



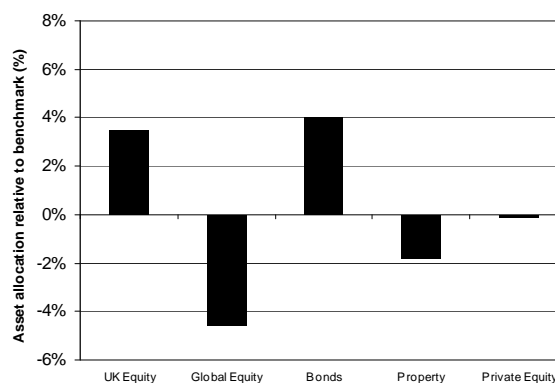
The change in the asset distribution over the period reflects the new investment mandate funded with LGT Capital. This mandate is a multi-asset alternative asset class investment which aims to provide further diversification to the Pension Fund and to contribute exposure to different return drivers over time. This new mandate was funded from UK and global equities.

The actual asset allocation of the Pension Fund relative to the benchmark allocation is shown below at 31 March 2013 with 31 March 2012 for comparison:

**Actual asset allocation relative to benchmark allocation as at 31 March 2013**



**Actual asset allocation relative to benchmark allocation as at 31 March 2012**



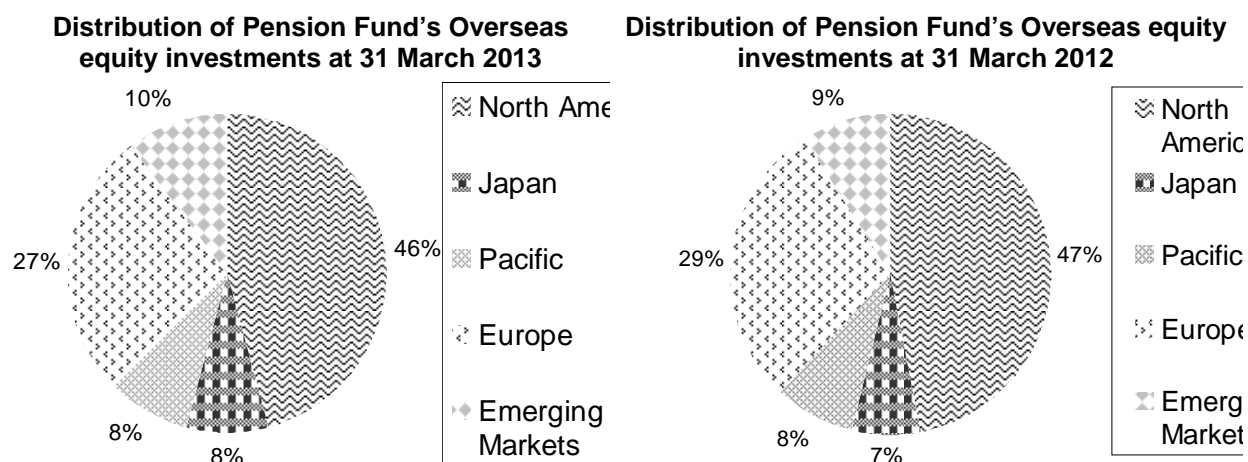
This highlights that at 31 March 2013, the Pension Fund's allocation to UK equities and bonds were overweight relative to the benchmark allocation. The allocations to global equities, property, private equity and alternatives were underweight compared with the benchmark allocation.

The variations compared to the benchmark can be attributed to the multi-asset alternatives mandate with LGT Capital not yet being fully funded by 31 March 2013 and the benchmark allocation to bonds is subject to upward revision overtime.



## Investment Report

The regional distribution of the Pension Fund's overseas equity investments are shown below at 31 March 2013 and at 31 March 2012 for comparison.



The top ten largest equity holdings of the Pension Fund are shown below at 31 March 2013 and at 31 March 2012 for comparison.

| Ten Largest Equity Holdings at 31 March 2013 | Market Value<br>£ millions | % of Total<br>Investments |
|--|----------------------------|---------------------------|
| British American Tobacco                     | 23.9                       | 1.3                       |
| Vodafone Group                               | 23.5                       | 1.3                       |
| Reed Elsevier                                | 23.0                       | 1.2                       |
| Bunzl  | 18.0                       | 1.0                       |
| Legal & General Group                        | 17.9                       | 1.0                       |
| HSBC   | 16.3                       | 0.9                       |
| Standard Chartered                           | 14.8                       | 0.8                       |
| BG Group                                     | 14.4                       | 0.8                       |
| Royal Dutch Shell                            | 13.9                       | 0.7                       |
| Unilever Plc                                 | 13.0                       | 0.7                       |

| Ten Largest Equity Holdings at 31 March 2012 | Market Value<br>£ millions | % of Total<br>Investments |
|--|----------------------------|---------------------------|
| British American Tobacco                     | 28.1                       | 1.1                       |
| Vodafone Group                               | 26.4                       | 1.1                       |
| Glaxosmithkline                              | 25.7                       | 1.0                       |
| BG Group plc                                 | 18.3                       | 0.7                       |
| Royal Dutch Shell B                          | 18.2                       | 0.7                       |
| BP plc                                       | 17.1                       | 0.7                       |
| Bunzl  | 16.2                       | 0.7                       |
| Reed Elsevier                                | 16.0                       | 0.6                       |
| Unilever Plc                                 | 15.0                       | 0.6                       |
| Apple Inc                                    | 14.5                       | 0.6                       |

#### **4. Review of World Markets** **Courtesy of Jupiter Asset Management**

The aftershocks of the global financial crisis continued to create uncertainty for equity markets during the period under review. Once again, the ups and downs of markets were driven by global concerns. The “ups” were an improving US housing market, a belief that the euro would not fracture and prospects for further financial support from global central banks, even in Japan. The “downs” were the knock-on effects of slower growth in the troubled Eurozone, political gridlock in US “fiscal cliff” negotiations and slower growth in China.

Having earlier responded in Pavlovian fashion to the European Central Bank’s long term refinancing operation, markets consolidated in the second quarter of 2012. Sovereign debt concerns resurfaced, Spanish government bond yields rose sharply and weak economic data from China rekindled concerns about a sharp slowdown in the world’s second largest economy.

Markets fell sharply in May, after an inconclusive election in Greece favoured anti-bailout parties. However, the result of Greece’s second election proved to be a sideshow when Spain became the fourth member of the Eurozone to ask for a bailout for its banking system (but not a full state bailout).

A profound change in mood swept across markets over the summer after the head of the European Central Bank said he was prepared to do whatever it took to preserve the euro. This promise was enough to calm bond markets and sustain equities for the rest of the year.

From mid-November onwards, stock markets began to rally in the wake of a bold decision by the US central bank to target the labour market and commit to open-ended quantitative easing (QE). This marked a profound change in policy and encouraged equity markets, whereas bond markets responded by raising their inflation expectations.

In the UK, the Chancellor said he would transfer the interest from the gilts purchased via QE to the Treasury to pay down public debt and lower future debt issuance. The move was equivalent to extra QE of £35bn by early 2013, with a further £15bn or so annually thereafter. In other economies too, there were signs that independent central banks were becoming more subservient to governments as a result of the global financial crisis.

As 2012 ended, the brinkmanship over the US “fiscal cliff” was avoided with a last minute fix that focused exclusively on tax. Global equity markets then rallied strongly in the first quarter of 2013. The US stock market reached a new high, supported by positive economic data and the Federal Reserve’s \$85bn a month QE programme. However, Europe remained an area of concern after elections in Italy failed to produce a clear winner, while Cyprus became the fifth country to experience the economic consequences of the euro in a ham-fisted bailout.

The Bank of Japan’s transformation from a conservative major central bank to the most aggressive led to a spike in the domestic equity market and falls in the yen. Its actions could yet have unintended consequences as it joins the list of central banks resorting to evermore unorthodox monetary policies to help governments out of their debt crises. These policies might not be stimulating economies much but share prices nevertheless responded with alacrity.

#### **5. Investment Performance**

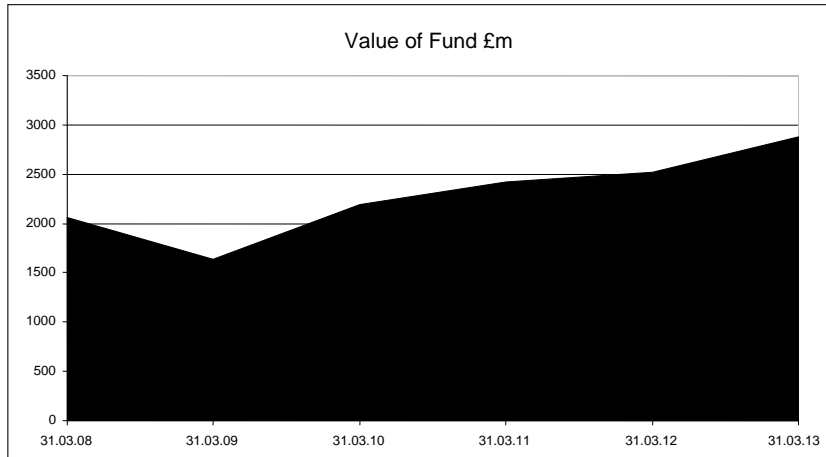
In order to monitor the performance of the Investment Managers, the Pension Fund participates in performance measurement services. In 2012/13 these services were provided by BNY Mellon Asset Servicing B.V. The performance of the Investment Managers is reported to the Pensions Committee on a quarterly basis.

Over the twelve months to 31 March 2013 the Pension Fund’s return was 15.1%.

## Investment Report

### Change in the Pension Fund's Total Assets

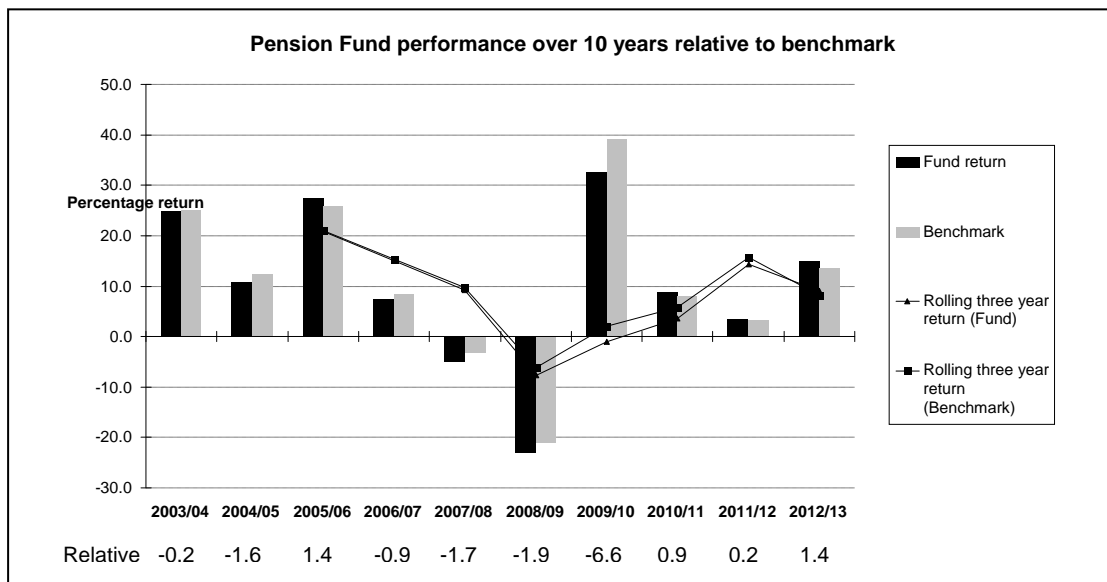
The following graph provides an illustration of the change in value of the Pension Fund over the five years to 31 March 2013. Over the period, the value of the Pension Fund increased from £2,066 million at 31 March 2008 to £2,908 million at 31 March 2013.



### Comparison with the Pension Fund's Benchmark

The Pension Fund's performance is analysed against a customised benchmark, as set out in the Statement of Investment Principles on pages 47-54. The following graph shows the annual investment returns of the Pension Fund compared to the benchmark over the last ten years. This illustrates that the Pension Fund has performed above benchmark in four of the last ten years, three of which were the last three years.

Overlaid on the chart is a rolling three year annualised return on the Pension Fund's assets compared with the equivalent figures for the benchmark.



The table below shows the long term performance of the Pension Fund against the benchmark.

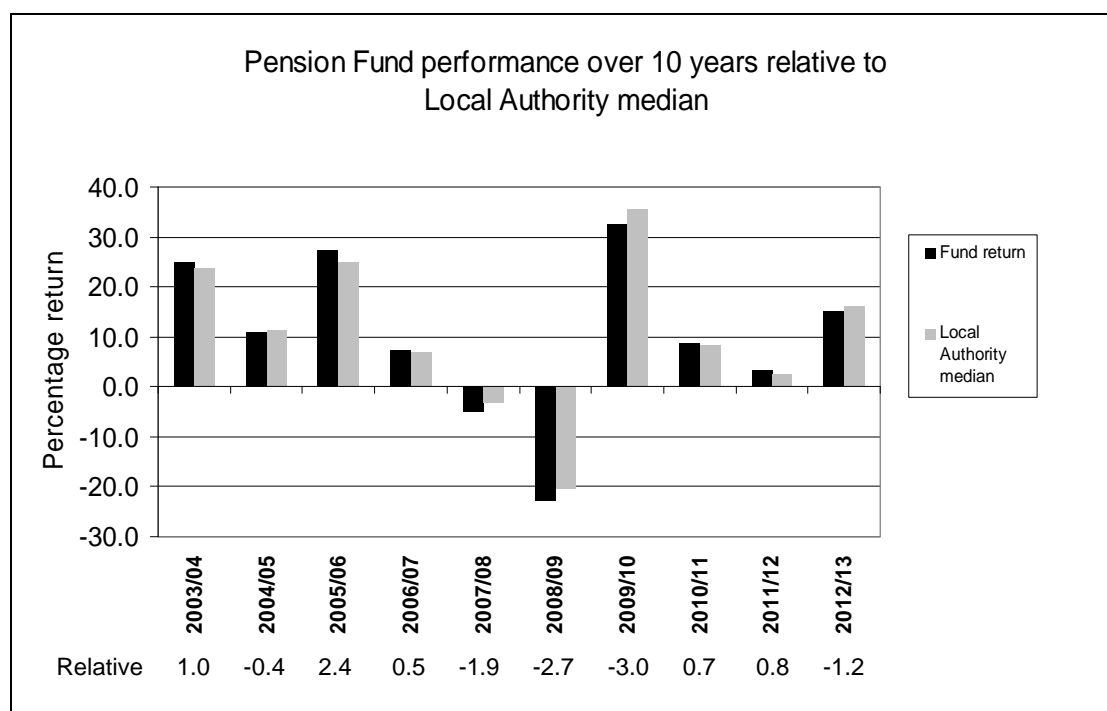
|                     | Pension Fund | Benchmark | Relative Performance |
|---------------------|--------------|-----------|----------------------|
| 3 year % per annum  | 9.2          | 8.3       | 0.9                  |
| 5 year % per annum  | 5.8          | 6.8       | (1.0)                |
| 10 year % per annum | 9.1          | 10.0      | (0.9)                |

## Investment Report

### Performance Comparisons

The following graph shows the performance of the Pension Fund over the last ten financial years relative to the median (or middle) fund in the local authority list.

It should however be noted that each local authority pension scheme has their own objectives, relating to their specific liability profiles (the nature and term of the pensions due to be paid out) and the asset classes held by their Fund. Whilst the following analysis highlights the performance of the Fund relative to other local authorities, each pension scheme will have their own methods to analyse performance and have different requirements on the returns they are expecting to achieve in practice.

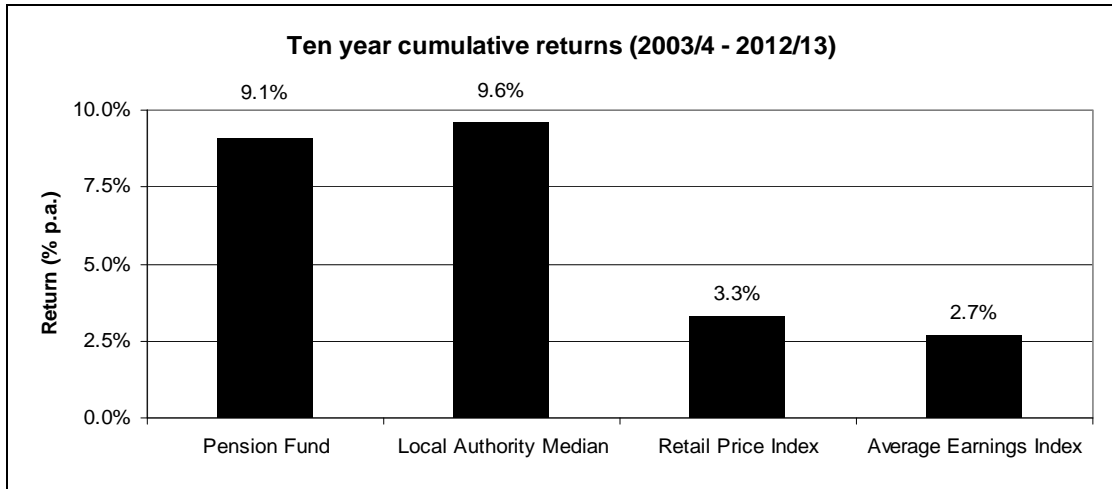


The table below shows the long term performance of the Pension Fund against the local authority median.

|                     | Pension Fund | Local authority median | Relative Performance |
|---------------------|--------------|------------------------|----------------------|
| 3 year % per annum  | 9.0          | 8.9                    | 0.1                  |
| 5 year % per annum  | 5.8          | 6.9                    | (1.1)                |
| 10 year % per annum | 9.1          | 9.6                    | (0.5)                |

## Investment Report

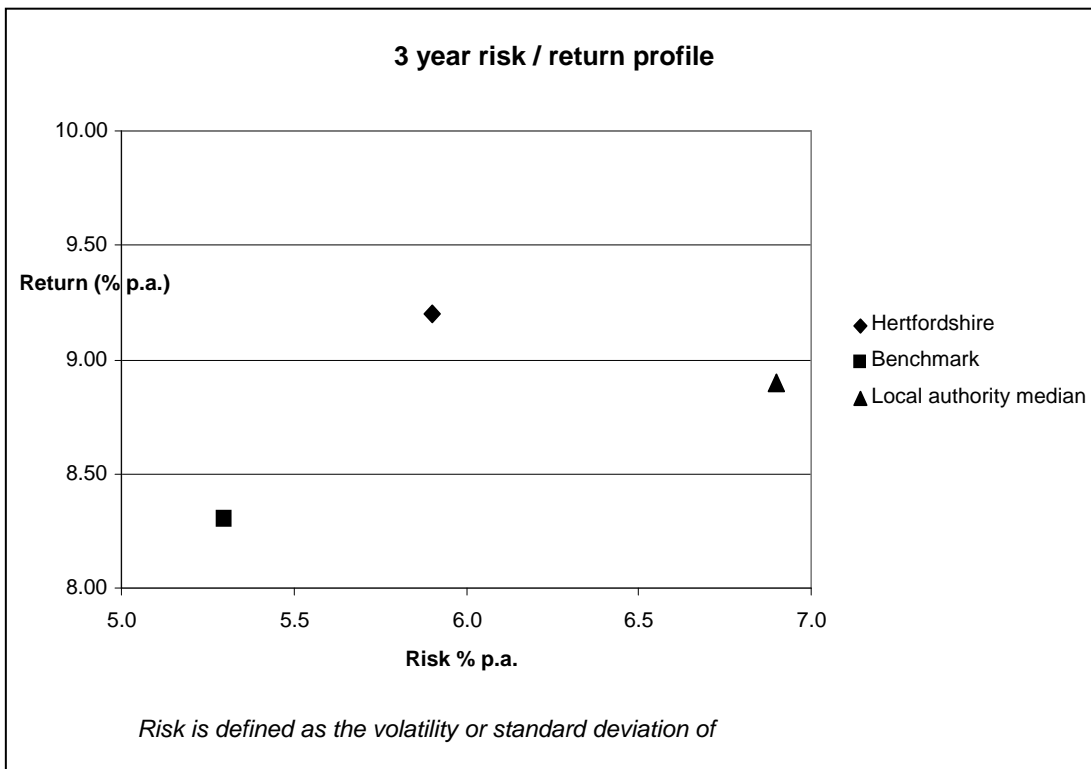
The ten year cumulative returns for 2003/4 to 2012/13 are shown in the chart below.



The chart above shows that over the last ten financial years, the Pension Fund's performance outperformed retail price inflation and average earnings, but marginally underperformed the local authority median. Again, it should be noted that each individual local authority pension scheme has different objectives and liabilities.

### Risk comparisons

The chart below highlights the risk and return profile of Pension Fund relative to its benchmark and the local authority median manager over the last three years.



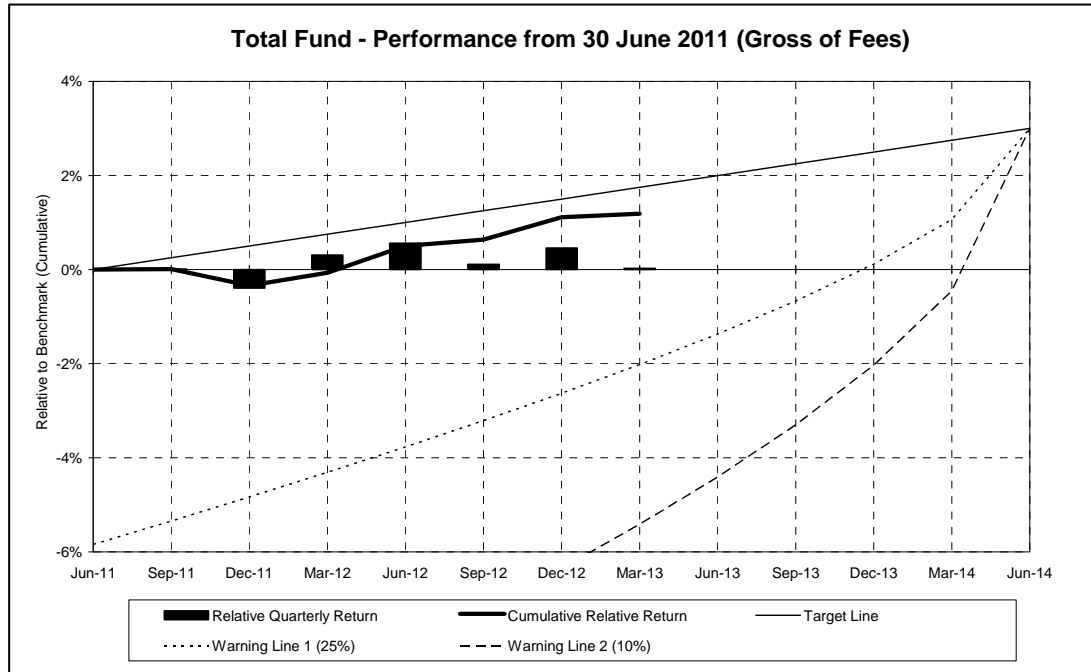
This highlights that the Pension Fund's returns have been less volatile compared the local authority median, but more volatile compared to the Pension Fund's benchmark. The Pension Fund did however generate higher returns than both the benchmark and the local authority median over this three year period.

### Control chart

The control chart below highlights the performance of the Pension Fund over time against its targets to put perspective on any significant deviation above or below the target.

## Investment Report

The chart spans three years which is the period over which the majority of Investments Managers are expected to meet their target.



The lines on the charts are as follows:

### The Benchmark Return

This is the horizontal line, at point 0%, representing the benchmark return. If an Investment Manager's performance were exactly in line with the benchmark return, the performance line (see below) would follow this horizontal line exactly.

### Relative Quarterly Return

The bars represent the deviation of the Pension Fund's investment returns over each quarterly relative to each Investment Manager's benchmark. A positive bar (above zero) represents positive performance, a negative bar (below zero) represents negative performance.

### Cumulative Relative Return

This solid line represents the cumulative performance achieved by each Investment Manager relative to the benchmark return. Because active investment management produces uneven returns, the performance line will not exactly follow the target line. Instead the performance will fluctuate with the expectation that the performance line will meet or exceed the target line by the end of the period.

### The Target Line

This is a simplistic representation of cumulative added value over the period. If, for example, an Investment Manager has a target to achieve a return of 0.5% p.a. in excess of the benchmark return, the graph will show the target of 1.5% added value by the end of the three year period.

### The Warning Line 1 (25%)

Investment Managers operate with different styles and the degree of volatility experienced during their progress towards the target will vary between Investment Managers. In order to give an indication of an "acceptable" level of volatility we have included a warning line (25%). This line is drawn in such a way that we would expect variations in cumulative performance not to bring the performance line below the warning line under normal circumstances. The warning line is plotted such that at any point above the line there is a better than a one in four chance (this level of chance is thought to be appropriate) of the target being reached within the time frame, while below the line the chance is less than one in four.

### The Warning Line 2 (10%)

The warning line (10%) is similar to the warning line (25%) but the chance of meeting the original target at this level is much lower at one in ten.

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**Appendices to the Annual Report and Statement of Accounts 2012/13**  
**Appendix 1: List of Employing Bodies**

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**Appendix 1: List of Employing Bodies**

**Scheme employers:**

**Councils and other bodies whose employees have a statutory right to be in the Scheme**

|  |  |
|--|--|
| Hertfordshire County Council (including schools) | Police and Crime Commissioner                  |
| North Herts District Council                     | Hertfordshire Probation Trust                  |
| Dacorum Borough Council                          | Hertford Regional College                      |
| East Hertfordshire District Council              | Hertfordshire Valuation Tribunal               |
| Hertsmere Borough Council                        | North Hertfordshire College                    |
| Broxbourne Borough Council                       | Oaklands College                               |
| St Albans District Council                       | University of Hertfordshire                    |
| Stevenage Borough Council                        | West Herts College                             |
| Three Rivers District Council                    | West Hertfordshire Crematorium Joint Committee |
| Watford Borough Council                          | Welwyn Hatfield District Council               |

**Academies**

|                                     |  |
|-------------------------------------|--|
| Applecroft Primary School           | Parmiter's School                        |
| Beaumont School*                    | Presdales School*                        |
| Berrygrove*                         | Queens' School                           |
| Birchwood High School               | Rickmansworth School                     |
| Bishop Hatfield Girls School        | Roundwood Park School                    |
| Bovingdon Primary Academy           | Roysia Middle School                     |
| Bushey Meads School                 | Samuel Ryder Academy*                    |
| Chauncey School                     | Sandringham School                       |
| Dame Alice Owen's School            | Sir John Lawes School                    |
| Fleetville Infants*                 | St. Albans Girls' School                 |
| Fleetville Juniors*                 | St Catherine of Siena*                   |
| Francis Combe Academy               | St. Clement Danes School                 |
| Freman College                      | St George's School (Harpenden)*          |
| Garden City Academy (GCA)*          | St George's School*                      |
| Goffs School                        | St. John of Arc Catholic School          |
| Hammond Academy                     | St John's Catholic Primary*              |
| Hertswood Lower School*             | St Mary's Catholic School*               |
| Hitchin Boys School*                | St Mary's Church of England High School* |
| Hitchin Girls School                | St Mary's RC Primary*                    |
| Hockerill Anglo-European College    | St. Michael's Catholic High School       |
| John Henry Newman School*           | St Thomas More*                          |
| Kings Langley School*               | Stanborough School                       |
| Knightsfield*                       | Summercroft Primary                      |
| Leventhorpe School                  | The Broxbourne School                    |
| Links ESC*                          | The Bushey Academy                       |
| Little Reddings Primary School      | The Greneway School                      |
| Longdean School                     | The John Henry Newman School             |
| Loreto College*                     | The John Warner School                   |
| Mandeville Primary School*          | The Knights Templar School               |
| Marlborough School*                 | The Sele School*                         |
| Marlborough School*                 | The Wroxham School                       |
| Meridian School                     | Tring School*                            |
| Monkswalk School*                   | Verulam School                           |
| Mount Grace School                  | Watford Grammar School for Boys          |
| Nicholas Breakspear Catholic School | Watford Grammar School for Girls         |
| Northgate Primary*                  | Woolgrove School*                        |
| Onslow St. Audrey's School          | Yavneh College                           |
| Our Lady Catholic School*           |  |

\* New Scheme Employer for 2012/13

**Appendices to the Annual Report and Statement of Accounts 2012/13**  
**Appendix 1: List of Employing Bodies**

**Employers who can designate their employees to be in the Scheme**

|                                      |                                    |
|--------------------------------------|------------------------------------|
| Abbots Langley Parish Council        | Markyate Parish Council            |
| Aldenham Parish Council              | Nash Mills Parish Council          |
| Art Café                             | North Mymms Parish Council         |
| Berkhamsted Town Council             | Redbourn Parish Council            |
| Bishops Stortford Town Council       | Royston Town Council               |
| Buntingford Town Council             | Sandridge Parish Council           |
| Chorleywood Parish Council           | Sawbridgeworth Town                |
| Colney Heath Parish Council          | St Stephens Parish Council Council |
| Croxley Green Parish Council         | Stanstead Abbots Parish Council    |
| E2BN                                 | Tring Town Council                 |
| Elstree and Borehamwood Town Council | Universitybus Ltd                  |
| Harpenden Town Council               | Walkern Parish Council             |
| Hatfield Town Council                | Ware Town Council                  |
| Hertford Town Council                | Watford Rural Parish Council       |
| Kings Langley Parish Council*        | Welwyn Parish Council              |
| Kimpton Parish Council               | Wheathampstead Parish Council      |
| Knebworth Parish Council             | Woolmer Green Parish Council       |
| London Colney Parish Council         |                                    |

**Employers Who Participate by Virtue of an Admission Agreement**

|   |   |
|---|---|
| Action for Children                                   | Hitchin Markets Ltd                               |
| Affinity Sutton                                       | John O'Conner (Grounds Maintenance) Ltd           |
| Aldenham Renaissance Limited                          | Letchworth Garden City Heritage Foundation        |
| Balfour Beatty Limited*                               | MACE Ltd  |
| Broxbourne Housing Association                        | Mears Building Contactors Ltd **                  |
| Carers in Hertfordshire                               | Mitie Property Services                           |
| Caterlink*  | National Car Parks Limited                        |
| Caterplus   | North Herts Homes                                 |
| Churchill Contract Services*                          | Northgate Information Solutions UK                |
| Citizens Advice Bureau in Hertsmere                   | Office and General Environmental Services Limited |
| Citizens Advice Service in Three Rivers               | Opus (UK) Ltd*                                    |
| Crime Reduction Initiative* (CRI)                     | Pre School Learning Alliance*                     |
| Community Building Services Ltd                       | Principle Cleaning **                             |
| CP Plus   | Quantum Care Ltd                                  |
| Dacorum Council for Voluntary Service                 | Radlett Centre Trust                              |
| Dacorum Sports Trust                                  | Ringway Infrastructure Service*                   |
| Dorchester Solutions*                                 | Riversmead Housing Association                    |
| Edwards and Blake Limited                             | Serco   |
| Elstree Film Studios                                  | Serco Shared Managed Service                      |
| Evergreen, The Cleaning Company Limited               | Sports and Leisure Management Ltd **              |
| Exemplas  | SLM (east herts)                                  |
| Fusion Lifestyle                                      | Steria Services Ltd                               |
| Goldsborough Home Care                                | Stevenage Leisure **                              |
| Group for the Rootless of Watford                     | St Mary's Trading Ltd (Allsorts)                  |
| Haywards Services                                     | The Fairway Public House Limited                  |
| Hertford Museum Trust                                 | Thrive Homes                                      |
| Hertfordshire Action on Disability                    | Udata Infrastructure UK Ltd                       |
| Hertfordshire Association of Parish and Town Councils | Veolia ES (UK) PLC (formerly Cleanaway Limited)   |
| Hertfordshire Careers Service                         | Watford Community Housing Trust                   |
| Hertfordshire Care Trust                              | Watford Council for Voluntary Services            |
| Hertfordshire Community Meals Ltd                     | Watford and District YMCA                         |
| Hertsmere Leisure Trust **                            | Welwyn and Hatfield Community Housing Trust       |
| Hertfordshire Partnership NHS Foundation Trust        | Welwyn Hatfield Leisure Limited                   |
| Highfield Park Trust                                  | Welwyn Hatfield Sports Centre Trust Limited       |

\* New scheme Employer for 2012/13

\*\* Employer with more than one admission agreement



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**Appendices to the Annual Report and Statement of Accounts 2012/13**  
**Appendix 1: List of Employing Bodies**

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**Employers with no Active Members and Whose Pensioners are/will be Paid From the Pension Fund**

|   |  |
|---|--|
| Age Concern                                     | Kameleon 4 Ltd (formerly Dorchester Solutions)     |
| ARP Trading Ltd                                 | Lee Valley Water Company                           |
| Aspire Leisure Trust                            | Leonard Cheshire                                   |
| Association of Charity Officers                 | Letchworth Garden City Council                     |
| Central Parking Systems                         | North Herts Hospice Care Association               |
| Chauncy Housing Association                     | Offley Place Ltd                                   |
| Churchill Contract Services Ltd                 | Pirton Parish Council                              |
| Codicote Parish Council                         | Pro-Action Herts                                   |
| Colesseum Theatre                               | Rickmansworth and Uxbridge Valley Water Co         |
| Colne Valley Water Company                      | Rhodes Museum Foundation                           |
| Commission for the New Towns - Stevenage,       | Shenley Parish Council                             |
| Hemel Hempstead and Welwyn Garden City          | Shenley Park Trust                                 |
| DC Leisure Management Ltd                       | Society of Education Officers                      |
| Department of Transport - Road Construction Tax | South West Herts Business Partnership              |
| Department of Transport - Motor Tax             | St Albans Diocesan Board for Social Responsibility |
| Digica FMS                                      | St Albans Citizens Advice Bureau                   |
| East of England IDB Limited                     | St Albans Society for the Deaf                     |
| East Herts Citizens Advice Bureau               | Stevenage Homes                                    |
| Elstree Film and Television Studios Limited     | Superclean Services Wolthorpe Ltd                  |
| Europa Services Ltd                             | Thames Water Authority                             |
| Hayward Services                                | TSG Mechanical Ltd                                 |
| Hertfordshire Family Mediation Service          | Turners Industrial Cleaning (Stevenage) Limited    |
| Hemel Hempstead Day Centre Limited              | Watford Sheltered Workshop                         |
| Hertfordshire Housing Consortium                | Watford Town Centre Partnership Ltd                |
| Hertfordshire Magistrates Courts Committee      | Wellfield Trust                                    |
| Hertfordshire Training and Enterprise Council   | West Hertfordshire Computer Consortium             |
| Herts E-Learning Partnership                    | Weston Voluntary Nursery                           |
| Hockerill College                               | Womans Royal Voluntary Society                     |

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## Appendices to the Annual Report and Statement of Accounts 2012/13

### Appendix 2: Funding Strategy Statement 2011

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#### 1. Introduction

This is the Funding Strategy Statement (FSS) of the Hertfordshire Pension Fund ("Pension Fund"), which is administered by Hertfordshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Pension Fund Actuary, Hymans Robertson LLP, and after consultation with the Pension Fund's employers and Investment Advisers, Mercer and is effective from 31 March 2011.

#### 1.1 Regulatory Framework

Local Government Pension Scheme ("Scheme") members' accrued benefits are guaranteed by statute. Scheme members' contributions are fixed in the Scheme regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to Scheme members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant); replaced from 1<sup>st</sup> April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), regulations 35 and 36;
- the Rates and Adjustments Certificate, which can be found appended to the Pension Fund Actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Pension Fund Actuary carries out triennial valuations to set employers' contributions, and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Pension Fund. The FSS applies to all employers participating in the Pension Fund.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Pension Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:
  - FSS guidance produced by CIPFA; and
  - its Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Pension Fund Actuary must have regard to the FSS as part of the Pension Fund valuation process.

#### 1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years alongside the triennial valuations, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Pension Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Patrick Towey in the first instance at [patrick.towey@hertfordshire.gov.uk](mailto:patrick.towey@hertfordshire.gov.uk) or on 01992 555148.

#### 2. Purpose

##### 2.1 Purpose of FSS

The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:

- "to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;

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- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This Statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

## **2.2 Purpose of the Pension Fund**

The Pension Fund is a vehicle by which Scheme benefits are delivered. The Pension Fund:

- receives contributions, transfer payments and investment income;
- pays Scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the Pension Fund are summarised in Annex B.

## **2.3 Aims of the Funding Policy**

The objectives of the Pension Fund's funding policy include the following:

- to ensure the long-term solvency of the Pension Fund and of the share of the Pension Fund attributable to individual employers or pools of employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the Investment Strategy of the Pension Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from an employer defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to minimise the cost of the Scheme to employers.

## **3. Solvency Issues and Target Funding Levels**

### **3.1 Derivation of Employer Contributions**

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the **“future service rate”**; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Pension Fund's solvency target, **“past service adjustment”**. Where there is a funding surplus then there may be a contribution reduction and, conversely, if there is a funding deficit then contributions may increase. The surplus or deficit is spread over an appropriate period.

The Pension Fund Actuary is required by the regulations to report the **Common Contribution Rate**, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the deficit under (b) is currently spread over a period of 20 years.

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The Pension Fund Actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer or pool of employers, together with individual past service adjustments according to employer-specific spreading and phasing periods. The circumstances in which it is agreed to pool contributions for some employers are set out in sections 3.7.8.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer's rate with the Common Contribution Rate. It also identifies which employers' contributions have been pooled with others.

Any costs of non ill-health early retirements must be paid as lump sum payments in addition to the contributions described above, either at the time of the employer's decision or by instalments shortly thereafter.

Employers' contributions are expressed in the Rates and Adjustments Certificate as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss the impact of making one-off capital payments with the Administering Authority before making such payments.

### 3.2 Solvency and Target Funding Levels

The Pension Fund Actuary is required to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Pension Fund Actuary's **ongoing funding basis**. This ratio is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Pension Fund Actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority. The ongoing funding basis assumes employers in the Pension Fund are an ongoing concern and is described in section 3.3.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the Pension Fund. However, the Pension Fund reserves the right to adopt the following approach for Admission Bodies (other than Transferee Admission Bodies) where:

- the Admission Body's admission agreement has no guarantor;
- the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe;
- the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Contribution rates will be set by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment out-performance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the admission agreement terminates or the last active member leaves in order to protect other employers in the Pension Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Pension Fund Actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Pension Fund operates the same target funding level for all ongoing employers or pools of employers of 100% of accrued liabilities valued on the ongoing funding basis. Please refer to section 3.8 for the treatment of departing employers.

### 3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Pension Fund based on past experiences of Local Government Pension Scheme funds advised by the Pension Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is

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uncertain. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Pension Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Pension Fund's investments. The investment return assumption makes allowance for anticipated returns from the Pension Fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Pension Fund Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Pension Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Pension Fund as at 31 March 2010, this is equivalent to taking credit for excess returns on equities of 2.0% p.a. over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% p.a. on the other non-equity assets.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

Details of other significant financial assumptions and their derivation are given in the formal valuation report of the Pension Fund Actuary.

### **3.4 Future Service Contribution Rates**

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for Admission Bodies that are not a Transferee Admission Body and that have no guarantor in place).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that Admission Bodies must specify in their admission agreement and employment contracts, the conditions for admission to the Pension Fund for all eligible new staff.

#### **3.4.1 Employers which admit new entrants**

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the **Projected Unit Method** with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

#### **3.4.2 Employers which do not admit new entrants**

Certain Admission Bodies have closed the Scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

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To give more long term stability to such employers' contributions, the **Attained Age** funding method is adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Pension Fund Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Pension Fund and include an allowance for benefits payable on death in service and ill health retirement. They also make allowance for members who are expected to leave before retirement with a deferred pension.

#### 3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

Over the period between the 2007 and 2010 valuations and subsequent triennial valuation period, the combined effect of these adjustments for individual employers applied by the Pension Fund Actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual, part-time and full-time);
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed leavers;
- the difference between actual and assumed amounts of pension ceasing on death; and
- the additional costs of any non ill-health retirements relative to any extra payments made;

Actual investment returns achieved on the Pension Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Pension Fund occur automatically within this process. Unless the Pension Fund Actuary is advised otherwise, it is assumed that a sum broadly equivalent to the reserve required on the ongoing basis is exchanged between the two employers (where the transfer is on a "fully funded" basis).

The Pension Fund Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation (and see also section 3.6 below), including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of refunds of contributions or individual transfers to other pension funds;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

#### 3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Pension Fund Actuary is required to apportion the assets of the whole fund between the employers or pools of employers at each triennial valuation using the income and expenditure figures provided for certain cashflows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Pension Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Pension Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Pension Fund Actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

### **3.7 Stability of Employer Contributions**

#### **3.7.1 Solvency issues and target funding levels**

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Pension Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:

- capping of employer contribution rate increases / decreases within a pre-determined range (“Stabilisation”);
- the pooling of contributions amongst employers with similar characteristics;
- the use of extended deficit recovery periods;
- the phasing in of contribution increases / decreases.

#### **3.7.2 Stabilisation**

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Pension Fund Actuary to carry out extensive modelling to explore the long term effect on the Pension Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there were no material events occurring before 1 April 2012 which rendered the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Pension Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Pension Fund if possible.

The Pension Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The Scheme regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities within reasonably stable employer contribution rates. The role of the Pension Fund Actuary, in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

#### **3.7.3 Deficit Recovery Periods**

The Administering Authority instructs the Pension Fund Actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the following table.

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| Type of Employer   | Maximum Length of Deficit Recovery  |
|--|---|
| Statutory bodies with tax raising powers or government funded  | a period to be agreed with each employer not exceeding 20 years   |
| Community Admission Bodies with funding guarantees   | a period to be agreed with each employer not exceeding 20 years   |
| Transferee Admission Bodies  | the period from the start of the revised contributions to the end of the employer's contract                              |
| Community Admission Bodies which are closed to new entrants but whose admission agreements continue after last active member retires | a period equivalent to the expected future working lifetime of the remaining Scheme members allowing for expected leavers |
| All other types of employer  | a period equivalent to the expected future working lifetime of the remaining Scheme members allowing for expected leavers |

This **maximum** period is used in calculating each employer's **minimum** contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate, which for the 2010 valuation is April 2011; contribution rates for 2010/11 having already been set at the level advised by the 2007 valuation (and which may include contributions towards the deficit where employers are contributing at more than the future service rate). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

#### **3.7.4 Surplus Spreading Periods**

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions but this will be at the discretion of the Administering Authority.

#### **3.7.5 Phasing in of Contribution Rises**

Phasing in of contribution rises will not be available to Transferee Admission Bodies.

Requests from other employers to phase in contribution rises will be considered by the Administering Authority if stability of contributions is an issue.

#### **3.7.6 Phasing in of Contribution Reductions**

Any contribution reductions may be phased in over a period agreed with the Administering Authority for all employers except:

- Transferee Admission Bodies; and
- employers where the contribution reduction is due to significant additional contributions having been paid to the Pension Fund since the last valuation for the purpose of reducing the deficit;

who, for the 2010 valuation, may elect to reduce their contribution rate with effect from 1 April 2012 or from 1 April 2011 with the agreement of the Administering Authority and the Pension Fund Actuary.

#### **3.7.7 The Effect of Opting for Longer Spreading or Phasing-In**

Employers which are permitted and elect to use a longer deficit spreading period or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed, for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.



### **3.7.8 Pooled Contributions**

#### **3.7.8.1 Smaller Employers**

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. The maximum number of active members to participate in a pool is set at 15 employees, unless expressly agreed otherwise by the employer concerned, those in the pool and the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

At the 2004, 2007 and 2010 valuations separate pools were operated for Town and Parish Councils, small Scheduled Bodies and small Admission Bodies.

#### **3.7.8.2 Other Contribution Pools**

Schools are also pooled with their funding Council.

Those employers whose experience has been pooled for the purpose of setting employer contribution rates are identified in Annex A.

### **3.8 Admission Bodies Ceasing**

Admission agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

Admission agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These admission agreements can however be terminated at any point.

The Pension Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the Scheme;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the admission agreement that they have failed to remedy to the satisfaction of the Pension Fund;
- A failure by the Admission Body to pay any sums due to the Pension Fund within the period required by the Pension Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Pension Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Pension Fund Actuary to carry out a special valuation, as required under Regulation 78 of the 1997 regulations (38 of the 2008 regulations), to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- a) For Transferee Admission Bodies at the end of the contract, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- b) For Community Admission Bodies which elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the Pension Fund Actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

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- c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Body's members and assets to the guarantor, without needing to crystallise any deficit.

Under a) and b), any shortfall would be levied on the departing Admission Body as a capital payment. Spreading of any payment will only be permitted in special circumstances and with the agreement of the Administering Authority and the Pension Fund Actuary.

In the event that the Pension Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

- a) In the case of Transferee Admission Bodies the awarding authority will be liable;
- b) In the case of Admission Bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Pension Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

As an alternative to b) above where the ceasing Admission Body is continuing in business the Pension Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Pension Fund reserves the right to revert to a "gilt cessation basis" and seek immediate payment of any funding shortfall identified.

### **3.9 Early Retirement Costs**

#### **3.9.1 Non Ill-Health retirements**

The Pension Fund Actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to any part of their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions to the Fund. These contributions may, at the absolute discretion of the Administering Authority, be spread over an appropriate period of time to be advised by the Administering Authority. In any event the spread period cannot exceed the period to the member's normal retirement date.

#### **3.9.2 Ill-health monitoring**

The Pension Fund will monitor each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

### **3.10 Admitted Bodies with new Admission Agreements**

The Pension Fund requires the following from Admission Bodies wishing to join the Pension Fund or Admission Bodies entering into further admission agreements.

Transferee Admission Bodies will be required to have a guarantee from the transferring Scheduled Body and also provide a bond if requested by the Administering Authority. The bond is required to cover the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields.

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In the case of existing Admission Bodies entering into a further admission agreement, the Pension Fund may also require employers to include their current deficit within the bond amount. The bond amount will be reassessed by the Pension Fund Actuary on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies to join the Pension Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities, and also provide a bond if requested.

These measures reduce the risk to the Pension Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

#### 4. Links to Investment Strategy

The Funding and Investment Strategy are inextricably linked. The Investment Strategy is set by the Administering Authority after taking investment advice from the Pension Fund's Investment Advisers.

##### 4.1 Investment Strategy

The Investment Strategy currently being pursued is described in the Pension Fund's Statement of Investment Principles.

The Investment Strategy is set for the long-term, but is reviewed regularly, to ensure that it remains appropriate to the Pension Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was approximately 75% of the total Pension Fund assets.

The Investment Strategy of lowest risk – but not necessarily the most cost-effective in the long term – would be one which provides cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Pension Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Pension Fund and the secure nature of most employers' covenants.

The same Investment Strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

##### 4.2 Consistency with Funding Basis

The Pension Fund's Investment Adviser's current best estimate of the long-term real return from equities is around 4% a year in excess of the return available from investing in index-linked government bonds.

The funding policy anticipates returns of around 1.6% a year above index linked yields, that is, 2.4% a year less than the best estimate return.

The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Pension Fund's assets invested in equities (or equity type investments), currently around 75% of all the Pension Fund's assets.

Assets invested in property holdings are assumed to deliver long-term real returns of 1% more than the prevailing redemption yield on Government bonds. Currently 6% of the Pension Fund's assets are invested in property.

Non equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.4% per annum more than the prevailing redemption yield on Government bonds.

Thus, the employer contributions anticipate returns from the Pension Fund's assets which in the Pension Fund Actuary's opinion have a better than 50:50 chance of being delivered over the long-term (measured over periods in excess of 20 years).

However, in the short term (such as the three yearly assessments at formal valuations) there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns

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will fall short of this target. The stability measures described in section 3 will damp down, but not remove, the effect on employers' contributions.

The Pension Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

**4.3 Balance between risk and reward**

Prior to implementing its current Investment Strategy, the Administering Authority considered the balance between risk and reward. The strategy has been set to achieve a long term return on investing the assets in order to assist in controlling the level of employer contributions, with sufficient diversification across asset classes to reduce risk.

**4.4 Intervaluation Monitoring of Funding Position**

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of interim valuations. It reports back to employers through issuing reports and letters and by inviting the Pension Fund Actuary to speak to the Annual Employers' meeting.

**5 Key Risks and Controls**

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below.

**5.1 Financial Risks**

| Risk   | Summary of Control Mechanisms  |
|--|--|
| <b>Pension Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term</b> | Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.<br>Analyse progress at three yearly valuations for all employers.<br>Inter-valuation roll-forward of liabilities between formal valuations at whole fund level.   |
| <b>Inappropriate long-term investment strategy</b>   | Set Pension Fund specific benchmark after taking advice from the Pension Fund's Investment Advisers balancing risk and reward.   |
| <b>Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities</b>   | Inter-valuation monitoring, as above.<br>Some investment in bonds helps to mitigate this risk.   |
| <b>Active investment manager under-performance relative to benchmark</b>   | Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. This will be supplemented with an analysis of absolute returns against those underpinning the valuation.<br>This gives an early warning of contribution rises ahead. In the short term, volatility is damped down by stability measures on contributions. However, if under-performance is sustained over periods over 5 years employer contributions would rise more.<br>Investment managers would be changed following persistent under-performance. |
| <b>Pay and price inflation significantly more than anticipated</b>   | The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.<br>Inter-valuation monitoring, as above, gives early warning.<br>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.  |
| <b>Effect of possible increase in employer's contribution rate on service delivery and Admission / Scheduled Bodies</b>                          | Seek feedback from employers on their ability to absorb short-term contribution rises.<br>Mitigate impact through stabilisation, deficit spreading and phasing in of contribution rises where security is not an issue.  |

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**5.2 Demographic Risks**

| Risk   | Summary of Control Mechanisms  |
|--|--|
| <b>Ill-health retirements significantly more than anticipated.</b> | Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built into the triennial valuation.   |
| <b>Pensioners living longer</b>                                    | Set mortality assumptions with some allowance for future increases in life expectancy.<br><br>The Pension Fund Actuary monitors combined experience of around 50 pension funds to look for early warnings of lower pension amounts ceasing than assumed in funding.<br><br>Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs. |
| <b>Deteriorating patterns of early retirements</b>                 | Employers are charged the extra capital cost of non ill-health retirements following each individual decision.<br><br>Employer ill-health retirement experience will be monitored.   |

**5.3 Regulatory**

| Risk  | Summary of Control Mechanisms  |
|---|--|
| <b>Changes to regulations, e.g. more favourable benefits package, potential new entrants to Scheme, e.g. part-time employees<br/>Changes to national pension requirements and/or HMRC rules e.g. tax relief changes</b> | The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.<br><br>It considers all consultation papers issued by the CLG and comments where appropriate.<br><br>The Administering Authority will consult employers where it considers that it is appropriate.<br><br>Copies of all submissions are available for employers on request.<br><br>The Administering Authority may seek actuarial advice on the cost of impact of any regulatory changes. |

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**5.4 Governance**

| <b>Risk</b>  | <b>Summary of Control Mechanisms</b>   |
|--|--|
| <p><b>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</b></p>                                    | <p>The Administering Authority will monitor membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.</p> <p>The Pension Fund Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 regulations; 38 of the 2008 regulations) between triennial valuations.</p>   |
| <p><b>Administering Authority not advised of an employer closing to new entrants.</b></p>  | <p>Deficit contributions are expressed as monetary amounts for employers whose membership profile is subject to change.(see Annex A).</p>  |
| <p><b>Administering Authority failing to commission the Pension Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</b></p> | <p>In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with contractors to inform it of forthcoming changes.</p> <p>The contract end dates are monitored on the Administering Authority's employers' database.</p>  |
| <p><b>An employer ceasing to exist with insufficient funding or adequacy of a bond.</b></p>  | <p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> <li>• Seeking a funding guarantee from another Scheme employer, or external body, wherever possible.</li> <li>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</li> <li>• Vetting prospective employers before admission.</li> <li>• Where permitted under the regulations requiring a bond to protect the Pension Fund from the extra cost of early retirements on redundancy if the employer failed and other factors.</li> </ul> |

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**Annex A: Funding Strategy Statement 2011**

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods discussed in section 3.73 and 3.75.

**2010 VALUATION REPORT**  
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| Employer code                         | Employer name                               | Minimum Contributions for the Year Ending |                       |                       |
|---------------------------------------|---|---|-----------------------|-----------------------|
|                                       |   | 31 March 2012                             | 31 March 2013         | 31 March 2014         |
| 1                                     | Hertfordshire County Council (and Schools)  | 20.6%                                     | 20.6%                 | 20.6%                 |
| 101                                   | Broxbourne Borough Council                  | 15.7% plus £97,000                        | 15.7% plus £186,000   | 15.7% plus £274,000   |
| 102                                   | Dacorum Borough Council                     | 16.0% plus £1,624,000                     | 16.0% plus £1,783,000 | 16.0% plus £1,943,000 |
| 103                                   | East Herts District Council                 | 16.6% plus £428,000                       | 16.6% plus £428,000   | 16.6% plus £428,000   |
| 104                                   | Hertsmeire Borough Council                  | 16.1% plus £976,000                       | 16.1% plus £976,000   | 16.1% plus £976,000   |
| 105                                   | North Herts District Council                | 15.5% plus £661,000                       | 15.5% plus £667,000   | 15.5% plus £693,000   |
| 106                                   | St Albans District Council                  | 16.8% plus £1,011,000                     | 16.8% plus £1,011,000 | 16.8% plus £1,011,000 |
| 107                                   | Stevenage Borough Council                   | 16.8% plus £1,152,000                     | 16.8% plus £1,152,000 | 16.8% plus £1,152,000 |
| 108                                   | Three Rivers District Council               | 16.1% plus £205,000                       | 16.1% plus £205,000   | 16.1% plus £205,000   |
| 109                                   | Watford Borough Council                     | 15.9% plus £1,120,000                     | 15.9% plus £1,120,000 | 15.9% plus £1,120,000 |
| 110                                   | Welwyn & Hatfield District Council          | 17.0% plus £787,000                       | 17.0% plus £838,000   | 17.0% plus £888,000   |
| <b>Parish and Town Council's Pool</b> |   |   |                       |                       |
| 68                                    | Welwyn Parish Council                       | 22.6%                                     | 23.6%                 | 24.6%                 |
| 90                                    | Aldenham Parish Council                     | 22.6%                                     | 23.6%                 | 24.6%                 |
| 91                                    | Walkern Parish Council                      | 22.6%                                     | 23.6%                 | 24.6%                 |
| 93                                    | Buntingford Town Council                    | 22.6%                                     | 23.6%                 | 24.6%                 |
| 94                                    | Hatfield Town Council                       | 22.6%                                     | 23.6%                 | 24.6%                 |
| 120                                   | Knebworth Parish Council                    | 22.6%                                     | 23.6%                 | 24.6%                 |
| 121                                   | Ware Town Council                           | 22.6%                                     | 23.6%                 | 24.6%                 |
| 122                                   | Bishop's Stortford Town Council             | 22.6%                                     | 23.6%                 | 24.6%                 |
| 123                                   | Sawbridgeworth Town Council                 | 22.6%                                     | 23.6%                 | 24.6%                 |
| 124                                   | North Mymms Parish Council                  | 22.6%                                     | 23.6%                 | 24.6%                 |
| 125                                   | Hertford Town Council                       | 22.6%                                     | 23.6%                 | 24.6%                 |
| 126                                   | Tring Town Council                          | 22.6%                                     | 23.6%                 | 24.6%                 |
| 130                                   | Croxley Green Parish Council                | 22.6%                                     | 23.6%                 | 24.6%                 |
| 131                                   | Berkhamsted Town Council                    | 22.6%                                     | 23.6%                 | 24.6%                 |
| 134                                   | Abbots Langley Parish Council               | 22.6%                                     | 23.6%                 | 24.6%                 |
| 137                                   | Kimpton Parish Council                      | 22.6%                                     | 23.6%                 | 24.6%                 |
| 138                                   | Royston Town Council                        | 22.6%                                     | 23.6%                 | 24.6%                 |
| 139                                   | Harpenden Town Council                      | 22.6%                                     | 23.6%                 | 24.6%                 |
| 140                                   | Elstree & Borehamwood Town Council          | 22.6%                                     | 23.6%                 | 24.6%                 |
| 148                                   | Chorleywood Parish Council                  | 22.6%                                     | 23.6%                 | 24.6%                 |
| 149                                   | Colney Heath Parish Council                 | 22.6%                                     | 23.6%                 | 24.6%                 |
| 202                                   | Hertfordshire Association of Local Councils | 22.6%                                     | 23.6%                 | 24.6%                 |
| 216                                   | Sandridge Parish Council                    | 22.6%                                     | 23.6%                 | 24.6%                 |
| 217                                   | St Stephens Parish Council                  | 22.6%                                     | 23.6%                 | 24.6%                 |
| 224                                   | Markyate Parish Council                     | 22.6%                                     | 23.6%                 | 24.6%                 |
| 226                                   | Nash Mills Parish Council                   | 22.6%                                     | 23.6%                 | 24.6%                 |
| 229                                   | Watford Rural Parish Council                | 22.6%                                     | 23.6%                 | 24.6%                 |
| 231                                   | Stanstead Abbots Parish Council             | 22.6%                                     | 23.6%                 | 24.6%                 |
| 232                                   | London Colney Parish Council                | 22.6%                                     | 23.6%                 | 24.6%                 |
| 258                                   | Redbourn Parish Council                     | 22.6%                                     | 23.6%                 | 24.6%                 |
| 281                                   | Codicote Parish Council                     | 22.6%                                     | 23.6%                 | 24.6%                 |
| 290                                   | Wheathampstead Parish Council               | 22.6%                                     | 23.6%                 | 24.6%                 |
| 291                                   | Woolmer Green Parish Council                | 22.6%                                     | 23.6%                 | 24.6%                 |

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| Employer code                     | Employer name                               | Minimum Contributions for the Year Ending |                       |                       |
|-----------------------------------|---|---|-----------------------|-----------------------|
|                                   |   | 31 March 2012                             | 31 March 2013         | 31 March 2014         |
| <b>Small Admitted Bodies Pool</b> |   |   |                       |                       |
| 74                                | Hertfordshire Action on Disability          | 30.4%                                     | 30.4%                 | 30.4%                 |
| 136                               | Dacorum Council for Voluntary Service       | 30.4%                                     | 30.4%                 | 30.4%                 |
| 141                               | Hertford Museum Trust                       | 30.4%                                     | 30.4%                 | 30.4%                 |
| 145                               | Hertfordshire Care Trust                    | 30.4%                                     | 30.4%                 | 30.4%                 |
| 197                               | Carers in Hertfordshire                     | 30.4%                                     | 30.4%                 | 30.4%                 |
| 204                               | St Albans Citizens Advice Bureau            | 30.4%                                     | 30.4%                 | 30.4%                 |
| 212                               | Group for the Rootless of Watford           | 30.4%                                     | 30.4%                 | 30.4%                 |
| 213                               | Highfield Park Trust                        | 30.4%                                     | 30.4%                 | 30.4%                 |
| 222                               | Radlett Centre Trust                        | 30.4%                                     | 30.4%                 | 30.4%                 |
| 230                               | Citizens Advice Bureau in Hertsmeire        | 30.4%                                     | 30.4%                 | 30.4%                 |
| 266                               | Art Café                                    | 30.4%                                     | 30.4%                 | 30.4%                 |
| 270                               | Citizens Advice Service in Three Rivers     | 30.4%                                     | 30.4%                 | 30.4%                 |
| <b>Individual Employers</b>       |   |   |                       |                       |
| 3                                 | Hertfordshire Police Authority              | 14.8% plus £604,000                       | 14.8% plus £998,000   | 14.8% plus £1,392,000 |
| 4                                 | Hertfordshire Career Services Ltd           | 21.6% plus £973,000                       | 21.6% plus £1,025,000 | 21.6% plus £1,079,000 |
| 57                                | Hertfordshire Probation Board               | 15.5% plus £533,000                       | 15.5% plus £561,000   | 15.5% plus £591,000   |
| 60                                | Hertfordshire Valuation Tribunal            | 21.3% plus £25,000                        | 21.3% plus £26,000    | 21.3% plus £28,000    |
| 79                                | Letchworth Garden City Heritage Foundation  | 17.3% plus £398,000                       | 17.3% plus £419,000   | 17.3% plus £442,000   |
| 88                                | Welwyn Hatfield Sports Centre Trust         | 23.1% plus £42,000                        | 23.1% plus £44,000    | 23.1% plus £46,000    |
| 116                               | West Herts Crematorium                      | 18.5% plus £53,000                        | 18.5% plus £55,000    | 18.5% plus £58,000    |
| 143                               | University Of Hertfordshire                 | 20.7%                                     | 22.2%                 | 23.7%                 |
| 158                               | Quantum Care Ltd                            | 22.9% plus £781,000                       | 22.9% plus £822,000   | 22.9% plus £866,000   |
| 166                               | Hertford Regional College                   | 19.5%                                     | 21.0%                 | 22.6%                 |
| 167                               | North Hertfordshire College                 | 18.0%                                     | 19.3%                 | 20.5%                 |
| 168                               | Oaklands College                            | 22.2%                                     | 23.5%                 | 24.7%                 |
| 169                               | West Hertfordshire College                  | 23.6%                                     | 25.2%                 | 26.9%                 |
| 189                               | Affinity Sutton                             | 24.0% plus £834,000                       | 24.0% plus £878,000   | 24.0% plus £925,000   |
| 196                               | Riversmead Housing Association              | 17.8% plus £401,000                       | 17.8% plus £422,000   | 17.8% plus £444,000   |
| 198                               | Exemplas                                    | 21.8% plus £55,000                        | 21.8% plus £58,000    | 21.8% plus £61,000    |
| 214                               | Stevenage Leisure Ltd                       | 27.6%                                     | 27.6%                 | 27.6%                 |
| 221                               | University Bus                              | 21.6% plus £23,000                        | 21.6% plus £25,000    | 21.6% plus £26,000    |
| 236                               | Hertsmeire Leisure Trust                    | 19.6%                                     | 19.6%                 | 19.6%                 |
| 238                               | Veolia Environmental Services (UK) Plc      | 14.2%                                     | 14.2%                 | 14.2%                 |
| 240                               | MACE Ltd                                    | 23.4% plus £167,000                       | 23.4%                 | 23.4%                 |
| 241                               | North Hertfordshire Homes                   | 20.9% plus £53,000                        | 20.9% plus £55,000    | 20.9% plus £58,000    |
| 247                               | Turners Industrial Cleaning (Stevenage) Ltd | 19.0% plus £7,000                         | 19.0%                 | 19.0%                 |
| 248                               | John O'Conner (Grounds Maintenance)         | 23.2% plus £51,000                        | 23.2% plus £43,000    | 23.2%                 |
| 249                               | Welwyn Hatfield Leisure Limited             | 16.1% plus £38,000                        | 16.1% plus £40,000    | 16.1% plus £42,000    |
| 251                               | Dacorum Sports Trust                        | 16.1% plus £38,000                        | 16.1% plus £40,000    | 16.1% plus £42,000    |
| 252                               | The Fairway Public House Limited            | 16.7%                                     | 16.7%                 | 16.7%                 |
| 256                               | Hertfordshire NHS Partnership Trust         | 18.1%                                     | 18.1%                 | 18.1%                 |
| 261                               | National Car Parks                          | 23.8% plus £11,000                        | 23.8% plus £12,000    | 23.8% plus £13,000    |
| 264                               | Broxbourne Housing Association              | 18.4% plus £170,000                       | 18.4% plus £179,000   | 18.4% plus £188,000   |
| 265                               | TSG Mechanical Services Ltd                 | 24.5%                                     | 24.5%                 | 24.5%                 |
| 267                               | Serco (Welwyn Hatfield BC)                  | 21.5% plus £40,000                        | 21.5% plus £42,000    | 21.5% plus £44,000    |
| 271                               | Stevenage Homes                             | 17.4% plus £210,000                       | 17.4% plus £221,000   | 17.4% plus £233,000   |
| 272                               | E2BN  | 18.9%                                     | 18.9%                 | 18.9%                 |
| 274                               | DC Leisure Management Ltd                   | 17.7%                                     | 17.7%                 | 17.7%                 |
| 276                               | Goldsborough Home Care                      | 23.1% plus £276,000                       | 23.1% plus £291,000   | 23.1% plus £306,000   |



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| Employer code                             | Employer name                                      | Minimum Contributions for the Year Ending |                    |                    |
|---|--|---|--------------------|--------------------|
|   |  | 31 March 2012                             | 31 March 2013      | 31 March 2014      |
| <b>Individual Employers (continued)</b>   |  |   |                    |                    |
| 277                                       | Hertfordshire Community Meals                      | 28.3%                                     | 28.3%              | 28.3%              |
| 278                                       | Watford Community Housing Trust                    | 20.9% plus £67,000                        | 20.9% plus £70,000 | 20.9% plus £74,000 |
| 279                                       | Serco (HCC)  | 23.7% plus £3,000                         | 23.7% plus £3,000  | 23.7% plus £3,000  |
| 280                                       | Serco (Pensions)                                   | 23.5%                                     | 23.5%              | 23.5%              |
| 282                                       | Elstree Film Studios                               | 19.0%                                     | 19.0%              | 19.0%              |
| 283                                       | Mears (WH)   | 19.4% plus £38,000                        | 19.4% plus £40,000 | 19.4% plus £42,000 |
| 284                                       | Mitie Property Services                            | 18.6%                                     | 18.6%              | 18.6%              |
| 285                                       | Central Parking Systems                            | 20.0% plus £1,000                         | 20.0% plus £1,000  | 20.0% plus £1,000  |
| 286                                       | Thrive Homes                                       | 16.9%                                     | 16.9%              | 16.9%              |
| 287                                       | Northgate Information Solutions UK                 | 15.0%                                     | 15.0%              | 15.0%              |
| 288                                       | Hitchin Markets Ltd                                | 15.0%                                     | 15.0%              | 15.0%              |
| 289                                       | SLM (Watford)                                      | 17.9%                                     | 17.9%              | 17.9%              |
| 293                                       | ARP Trading Ltd                                    | 18.4%                                     | 18.4%              | 18.4%              |
| 294                                       | Steria Services Ltd                                | 18.4%                                     | 18.4%              | 18.4%              |
| 296                                       | Community Building Services                        | 24.0%                                     | 24.0%              | 24.0%              |
| 297                                       | Principle Cleaning                                 | 25.6%                                     | 25.6%              | 25.6%              |
| 298                                       | SLM (East Herts)                                   | 17.9%                                     | 17.9%              | 17.9%              |
| 300                                       | Office & General Environmental Services            | 25.7%                                     | 25.7%              | 25.7%              |
| 301                                       | Hertsme Leisure                                    | 19.6%                                     | 19.6%              | 19.6%              |
| 302                                       | Hertfordshire Community Meals (SACDC)              | 15.0%                                     | 15.0%              | 15.0%              |
| 304                                       | Serco  | 19.2%                                     | 19.2%              | 19.2%              |
| 306                                       | Francis Coombe Academy                             | 14.6%                                     | 14.6%              | 14.6%              |
| 307                                       | Bushey Academy                                     | 15.7%                                     | 15.7%              | 15.7%              |
| 308                                       | Herts Community Meals (Dacorum)                    | 19.0%                                     | 19.0%              | 19.0%              |
| 309                                       | Edwards and Blake Limited                          | 16.1%                                     | 16.1%              | 16.1%              |
| <b>Employers paying lump sum payments</b> |  |   |                    |                    |
| 263                                       | East Herts Citizens Advice Service                 | £2,500                                    | £2,500             | £2,500             |
| <b>Non-Contributing Employers</b>         |  |   |                    |                    |
| 2   | Magistrates Courts Committee                       | -   | -                  | -                  |
| 55  | Commission for New Towns - Stevenage               | -   | -                  | -                  |
| 56  | Commission for New Towns - Welwyn Garden City      | -   | -                  | -                  |
| 69  | St Albans Diocesan Board for Social Responsibility | -   | -                  | -                  |
| 71  | Lee Valley Water                                   | -   | -                  | -                  |
| 77  | Colne Valley Water Company                         | -   | -                  | -                  |
| 80  | Rhodes Museum Foundation                           | -   | -                  | -                  |
| 83  | Watford Sheltered Workshop                         | -   | -                  | -                  |
| 87  | Hertfordshire Housing Consortium                   | -   | -                  | -                  |
| 111                                       | Commission for New Towns - Hemel Hempstead         | -   | -                  | -                  |
| 112                                       | Rickmansworth & Uxbridge Valley Water Co.          | -   | -                  | -                  |
| 114                                       | West Hertfordshire Computer Consortium             | -   | -                  | -                  |
| 115                                       | Thames Water Authority                             | -   | -                  | -                  |
| 127                                       | Age Concern Hertfordshire                          | -   | -                  | -                  |
| 128                                       | Chauncy Housing Association                        | -   | -                  | -                  |
| 129                                       | Alban Deaf Association                             | -   | -                  | -                  |
| 135                                       | Hemel Hempstead Day Centre Ltd                     | -   | -                  | -                  |
| 144                                       | Society of Education Officers                      | -   | -                  | -                  |
| 153                                       | Hertfordshire Training & Enterprise Council        | -   | -                  | -                  |
| 155                                       | Shenley Park Trust                                 | -   | -                  | -                  |

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| Employer code                                 | Employer name                                | Minimum Contributions for the Year Ending |               |               |
|---|--|---|---------------|---------------|
|   |  | 31 March 2012                             | 31 March 2013 | 31 March 2014 |
| <b>Non-Contributing Employers (continued)</b> |  |   |               |               |
| 199   | Rickmansworth Citizens Advice Bureau         | -   | -             | -             |
| 203   | Hertford Citizens Advice Bureau              | -   | -             | -             |
| 206   | Oxhey & District Citizens Advice Bureau      | -   | -             | -             |
| 208   | Herts Family Mediation Service               | -   | -             | -             |
| 209   | Ware & District Citizens Advice Bureau       | -   | -             | -             |
| 210   | Abbots Langley Citizens Advice Bureau        | -   | -             | -             |
| 215   | Association of Charity Officers              | -   | -             | -             |
| 218   | Weston Voluntary Nursery                     | -   | -             | -             |
| 219   | Wellfield Trust                              | -   | -             | -             |
| 220   | Shenley Parish Council                       | -   | -             | -             |
| 223   | Leonard Cheshire                             | -   | -             | -             |
| 225   | Buntingford Citizens Advice Bureau           | -   | -             | -             |
| 227   | Elstree Film and Television Studios Ltd      | -   | -             | -             |
| 228   | Pirton Parish Council                        | -   | -             | -             |
| 234   | Watford Town Centre Partnership Limited      | -   | -             | -             |
| 235   | Digica FMS                                   | -   | -             | -             |
| 239   | Womans Royal Voluntary Society               | -   | -             | -             |
| 242   | Churchill Contract Services Limited          | -   | -             | -             |
| 244   | Hertfordshire E-Learning Partnership         | -   | -             | -             |
| 246   | Offley Place Ltd                             | -   | -             | -             |
| 253   | North Hertfordshire Hospice Care Association | -   | -             | -             |
| 257   | Hayward Services Ltd                         | -   | -             | -             |
| 259   | Superclean Services Wolthorpe Ltd            | -   | -             | -             |
| 260   | South West Herts Business Partnership        | -   | -             | -             |
| 262   | Kameleon 4                                   | -   | -             | -             |
| 273   | Letchworth Garden City Council               | -   | -             | -             |
| 292   | Pro-Action Herts                             | -   | -             | -             |
| 295   | EEIDB (employees' contributions to be paid)  | -   | -             | -             |

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**Appendices to the Annual Report and Statement of Accounts 2012/13**  
**Appendix 2: Funding Strategy Statement 2011**

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**Annex B: Funding Strategy Statement 2011**  
**Responsibilities of Key Parties**

**The Administering Authority should:**

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Pension Fund Actuary;
- prepare and maintain a Funding Strategy Statement and a Statement of Investment Principles, both after proper consultation with interested parties;
- monitor all aspects of the Pension Fund's performance and funding and review the Funding Strategy Statement and Statement of Investment Principles; and
- advise the Pension Fund Actuary of any new or ceasing employers.

**The Individual Employer should:**

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the Pension Fund Actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Scheme benefits, early retirement strain; excess ill health early retirements if appropriate;
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding; and
- adhere to Employer obligations set out in the Administration Strategy.

**The Pension Fund Actuary should:**

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and
- advise on the Funding Strategy Statement and comment on the Statement of Investment Principles.

## Glossary

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| Actuary                                    | An independent qualified consultant who advises on the financial position of the Pension Fund. Every three years the Actuary reviews the assets and liabilities of the Pension Fund and produces the actuarial valuation which recommends the employer contribution rates.   |
| Administering Authority                    | A local authority required to maintain a pension fund under the Local Government Pension Scheme regulations. Within the geographical boundary of Hertfordshire, the Administering Authority is Hertfordshire County Council.   |
| Admission agreement                        | A contract between an administering authority, admitted body and if applicable, the outsourcing Scheme employer.   |
| Augmentation                               | Additional membership awarded to a member by their employer, to a maximum of ten years.  |
| Benchmark                                  | A notional fund which is developed to provide a standard against which an Investment Manager's performance is measured.  |
| Bonds                                      | A certificate of debt issued by a company, government or other institution. A bondholder is a creditor of the issuer and usually receives interest at a fixed rate. Also referred to as fixed interest securities.   |
| Chief Finance Officer                      | An officer of that has delegated responsibility to manage the financial arrangements for an organisation. Hertfordshire County Council delegates these responsibilities to the post of Deputy Chief Executive.   |
| Communication Policy Statement             | A statement of policy on communications with members and employers including the provision of information about the Scheme, the format, frequency and method of distributing such information and the promotion of the Scheme to prospective members.  |
| Custody/Custodian                          | The safe-keeping of securities by a financial institution. The Custodian is responsible for maintaining investment records, the settlement of transactions, income collection, tax reclamation and other administrative actions in relation to the Pension Fund's investments.   |
| Deferred members                           | Members who leave their employment or opt out of the Scheme and have their benefits deferred until retirement or until they request a transfer to another pension scheme.  |
| Defined benefit final salary scheme        | A scheme where the scheme rules define the benefits independently of the contributions paid by the members and employer. Members' benefits are a specified fraction of a scheme member's final pay.  |
| Equities                                   | Shares in UK and overseas companies.   |
| Ex-officio                                 | A member of a body (a board, committee, council, etc.) who is part of it by virtue of holding another office.  |
| Final pensionable pay                      | The figure used to calculate a member's pension benefits and is normally a members pay in the last year before they retire. A member's benefits could also be calculated on one of the previous two years pay if that amount is higher, or the average of any three consecutive years in the last ten years if the member has had a downgrade in the last ten years or pay has been restricted in that period. |
| Fixed interest securities                  | Investments which guarantee a fixed rate of interest.<br>The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange until this time. Also known as bonds.  |
| Forward foreign exchange contract          | An agreement between two parties to exchange one currency for another at a forward or future date.   |
| Funded scheme                              | A pension scheme that has available assets to cover all liabilities, including the obligation of future payments to retirees.  |
| Funding Strategy Statement                 | A statement of the Pension Fund's strategy for meeting employers' pension liabilities.   |
| Futures                                    | Contracts to buy or sell specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future.  |
| Governance Policy and Compliance Statement | A statement of the governance arrangements of the Pension Fund including the delegation of responsibility, terms of reference, representation and compliance with statutory guidelines.  |
| Hertfordshire Local Government Association | A voluntary organisation, acting on behalf of the local government sector in Hertfordshire.  |
| Index linked                               | Bonds on which the interest and ultimate capital repayment are recalculated on the basis of changes in inflation.  |

## Glossary

|                                    |  |
|------------------------------------|--|
| Investment Consultant              | A professionally qualified individual or company who provides objective, impartial investment advice to the Pension Fund.  |
| Investment Manager                 | An organisation that specialises in the investment of a portfolio of securities on behalf of an organisation subject to the guidelines and directions of the investor.   |
| Lien                               | A form of security interest granted over an asset to secure the payment of a debt or performance of some other obligation.   |
| Mandate                            | A set of instructions given to an investment manager as to how a fund is to be managed. Targets for performance against a benchmark or limits on investing in certain stocks or sectors may be set. This is formalised within an investment manager agreement between a pension fund and investment manager. |
| Pooled investment vehicles         | An investment which allows investors' money to be pooled and used by investment managers to buy a variety of securities, thereby giving investors a stake in a diversified portfolio of securities.  |
| Private equity                     | An asset class consisting of equity securities in operating companies that are not publicly traded on a stock exchange.  |
| Quoted securities                  | Shares with prices quoted on a recognised stock exchange.  |
| Rates and Adjustments Certificate  | A certificate issued by the Pension Fund Actuary setting out the contribution rates payable by participating employers   |
| Scheme Administrator               | An organisation responsible for the administration of the benefits of the Pension Fund, including the payment of benefits and maintenance of membership records. This is contracted out to Serco Solutions in Hertfordshire.   |
| Statement of Investment Principles | A formal policy on how a pension fund will invest its assets including the types in investments to be held, the balance between different types of investments and risk.   |
| Transfer values                    | A capital value transferred to or from a pension scheme in respect of a contributor's previous periods of pensionable employment.  |
| Transferee admission bodies        | An external body contracted to provide services or assets in connection with the exercise of a function of the local authority.  |
| Unit Trust                         | A pooled fund in which investors can buy or sell units on an ongoing basis.  |
| Unquoted securities                | Shares which are dealt in the investment market but which are not listed on a recognised stock exchange.   |
| Whole time equivalent salary       | The pay a part-time member would receive if they worked full time.   |