Leicestershire County Council Pension Fund
(reference number 00328856RQ)

contents

management structure

Pension Fund Management Board

County Council Representatives
Mr G A Hart (Chairman)
Mr J B Rhodes (Vice Chairman)
Mrs J Fox (to September 2014)
Mr S Hampson (from September 2014)
Mr M Hunt (from September 2014)
Mr W Liquorish (to September 2014)
Mr K W P Lynch

Representatives of Other Bodies
Mr A Stephens
Cllr P Kitterick
Cllr D Bajaj
Cllr P Osborne
Cllr M Graham

Staff Representatives
Miss L Bateman (to November 2014)
Mr R Bone
Mr N Booth

Officers Responsible for the Fund:
Head of Finance
Chris Tambini, - Assistant Director (Strategic Finance and Property), Leicestershire County Council
Investments
Colin Pratt, Investments Manager, Leicestershire County Council
Pensions Administration
Ian Howe, Pensions Manager, Leicestershire County Council

Investment Managers
Adams Street Partners, Chicago
Ashmore, London
Aspect Capital, London
Aviva Investors, London
Capital International, London (to February 2015)
Catapult Venture Managers, Leicestershire
Colliers Capital, London
Delaware Investments, Philadelphia
IFM, London
Investec Asset Management, London
JPMorgan Asset Management, London
Kames Capital, Edinburgh
Kempen Capital, Amsterdam
Kleinwort Benson Investors, Dublin
Kohlberg Kravis Roberts, London
Legal & General Investment Management, London
M & G Investment Management, London
Millennium Global Investments, London
Partners Group, London
Permal Investment Management, London
Pictet Asset Management, London
Ruffer LLP, London
Stafford Timberland, London
Internally Managed (Farm and Cash)

Fund Custodian
JPMorgan, Bournemouth

Legal Adviser
Mr D Morgan, BA, LL.M - County Solicitor, Leicestershire County Council

Actuary and Investment Consultant
Hymans Robertson LLP, Glasgow

Independent Investment Advisor
Scott Jamieson, Kames Capital

Auditor
PricewaterhouseCoopers LLP, Birmingham

AVC Provider
Prudential, London

Bankers
National Westminster Bank, Leicester

Scheme Administrator
Pensions Section, Leicestershire County Council

summary

This report provides information on the major events which had an impact on the Leicestershire County Council Pension Fund during the Financial Year 2014/2015. Most of these events are covered in more detail in the main body of the report, but can be summarised as follows:-

- A new Local Government Pension Scheme became effective on 1st April 2014. For many employees, particularly part time workers and those who are unlikely to enjoy much career progression, the new scheme will give a much better pension outcome in terms of the level of the pension payable. Normal Retirement Age has, however, changed from 65 to State Pension Age.

- The new LGPS is a Career Average Revalued Earnings (CARE) scheme for service after 31st March 2014, but the final salary link still exists for all service up to this date. This requires significantly more data to be held than under the old scheme, and many employees' benefit calculations will be much more complex. The very late issuing of the Regulations placed significant pressure onto the Pensions Section.

- Equity markets produced strong returns during the year, with exchange rates having a meaningful impact onto the returns achieved by UK investors. The significant strengthening of the US Dollar against sterling boosted returns on US assets to UK investors, whilst the weakening of the Euro had the opposite effect. Japanese equities produced strong returns and were helped by a number of policy actions taken by the Japanese Government and the Bank of Japan.

- The UK equity market produced a return (6.6%) that was lower than most other global regions, and part of the reason for this was the very concentrated nature of the UK market by sector – the heavy weighting of the oil sector, for example, was very detrimental to performance as a result of the large fall in the oil price. Relative to most other Local Government Funds, the Leicestershire Fund has a low weighting to UK equities (<12% of total assets, about half the average) and this low weighting is primarily based on concerns over the lack of diversity within the market.

- The UK commercial property market produced returns of close to 20%, and rising capital values have begun to spread into the Regions. In recent years London and the South East have performed much better than the rest of the UK, partly as a result of the preference of large overseas investors to buy assets in and around the capital.

- Bond yields continued their decline, and as a result capital values increased significantly. At the year end yields were at multi-generational lows and there is a guarantee of future returns being low, and these low returns may also come with a substantial amount of volatility. In recent years bonds have been far from the boring investments that they are perceived to be, and there may well be some interesting times ahead for them.

- The Fund's investments produced a return of 15.6% for the year, which was 4.2% above its benchmark, and performance over the medium term is now above benchmark by about 0.5% p.a. The major contributors to this performance were the Fund's currency manager (responsible for c. 0.8% of the outperformance) and a momentum-based manager that was responsible for c. 1.8% of the outperformance, despite only managing 4% of the Fund's assets. As will always be the case for a Fund with lots of managers, some of the other managers did well relative to their benchmark whilst others were disappointing.

- There was a national reorganisation of the Probation Service during the year and all Probation Staff within the Leicestershire Fund (both active and non-active) were transferred to the Greater Manchester Pension Fund. This included a cash transfer of just over £52m, which is the reason that (for the first time ever) non-investment related cash flows for the year were negative. Despite this restructuring leading to the loss of over 420 active members from the Fund, net active membership still increased during the year by over 200. The difficult financial pressure under which most of the Fund’s employers have been operating for a number of years does not appear to have had the impact onto jobs, and hence active membership, that was previously anticipated.

- The Government eventually passed legislation to confirm the requirement for all LGPS Funds to have a Local Pension Board from 1st April 2015. Despite the lengthy period of consultation that had taken place on this matter, the Regulations were not actually laid before Parliament until the end of January 2015. The overall remit of the Local Pension Board is to assist the Administering Authority in ensuring compliance with Legislation and the requirements of the Pensions Regulator, and ensuring efficient and effective governance and administration of the scheme. The Leicestershire Local Pension Board will consist of three member (i.e. employee) representatives and three employer representatives (two elected members from the County Council and one from the City Council).

- In May 2014 the Department for Communities and Local Government (DCLG) commenced a consultation exercise into how increasing levels of collaboration could make the LGPS become more efficient and cost-effective. This consultation removed the immediate threat of forced mergers of Funds - a matter that had been ‘floated’ in a previous ‘Call for Evidence’ - but made it clear that this possibility had not been completely dismissed. Responses to the consultation were required by July 2014 and at the year end nothing further had been released on the matter by the DCLG.

- During the year the Fund appointed a credit manager (Partners Group) who will manage a pooled fund of private debt transactions – in effect Partners will be taking the role that historically been taken by banks by lending directly to companies. The Fund also appointed an Emerging Market Debt Manager (Ashmore). Both of these appointments came as a result of strategic decisions taken at the Pension Fund Management Board Annual Strategy Meeting of January 2014.

- At the January 2015 Annual Strategy Meeting of the Pension Fund Management Board it was agreed to terminate the emerging market equity mandate of Capital International and to split the assets between the Fund’s two other managers that held emerging market equities.

- Assets of the Fund increased by almost £400m during the year, despite the payment of over £50m in respect of the transfer of the Probation Service. Unfortunately the value of liabilities increased by a larger amount, primarily as a result of a reduction in bond yields that has the impact of reducing expected future investment returns (and, in turn, the present value of liabilities). As a result the Fund’s deficit actually increased during the year, and the deficit is estimated to have been higher at the end of the 2014/15 financial year than it was at the date of the 2013 actuarial valuation.

Scheme Arrangements

Leicestershire County Council has a statutory obligation to administer a Pension Fund for eligible employees of all Local Authorities within the County boundary and also the employees of certain other scheduled and admitted bodies. The Fund does not cover teachers, police or fire-fighters who have their own schemes.

Both employees and employers make contributions to the Scheme. From 1st April 2014 new employee contribution rates of between 5.5% and 12.5% became effective, with the rate payable by individuals being based on their actual earnings.

Prior to 1st April 2014 benefits were based on the final salary of a member, and the final salary link will be maintained for all service before this date. For all service after this date the LGPS became a Career Average Revalued Earning (CARE) scheme, whereby a benefit (based on pay) is earned for every year of service and then revalued annually in line with the change in the Consumer Price Index. The accrual rate within the 2014 scheme was improved to 1/49th for every year of service (in comparison to the 1/60th that was in place before) and many members will be better off under the new scheme than the old, in particular those with limited prospects of career progression. Normal Retirement Age has, however, changed from 65 to State Pension Age so the vast majority of members will have to retire later if they wish to receive a pension without an actuarial reduction.

Employers' contribution rates are assessed every three years as part of the actuarial valuation process. The actuarial valuation carried out at 31st March 2013 showed that the Fund had enough assets to cover 72% of its accrued liabilities at that date, which was a decrease from the 80% funding position of the 2010 valuation. Many employing bodies faced meaningful upward pressure onto their contribution rates and will face phased annual increases that commenced on 1st April 2014. The major reason for the fall in the funding level was the fall in Government Bond Yields which has decreased the long-term expectation of future investment returns; if less of the benefits are going to be paid for by the returns achieved on assets held by the Fund, employing bodies have to pay more to meet the cost.

The 'vesting period' for members – the period that they have to be in the LGPS before they have an entitlement to benefit – has varied over the years, but from 1st April 2014 it was changed to two years from three months. Members that do not meet the relevant vesting period have the option of a transfer value or a refund of contributions.

The level of benefits due is directly linked to the service and pensionable pay of an individual member. All members who have contributed to the Scheme for at least the minimum relevant vesting period are entitled to an immediate pension benefit, a preserved benefit or a transfer value payment to an occupational pension scheme or personal pension when they leave the Scheme.

Pensions in payment are increased annually in April, as are the value of benefits payable in the future to members with preserved benefits. The increases awarded over the last 5 years are:-

April 2015	1.2%
April 2014	2.7%
April 2013	2.2%
April 2012	5.2%
April 2011	3.1%

Pension increases are set annually and put into force via an annual Pensions Review Order, which is agreed by Parliament. In June 2010 the Chancellor of the Exchequer's budget announced that future pension increases for Public Sector Pension Schemes would be linked to the Consumer Price Index which, due to a different calculation methodology to the Retail Price Index, is expected to generally be a lower figure. The April 2011 increase was the first one that was linked to the Consumer Price Index.

Scheme Membership

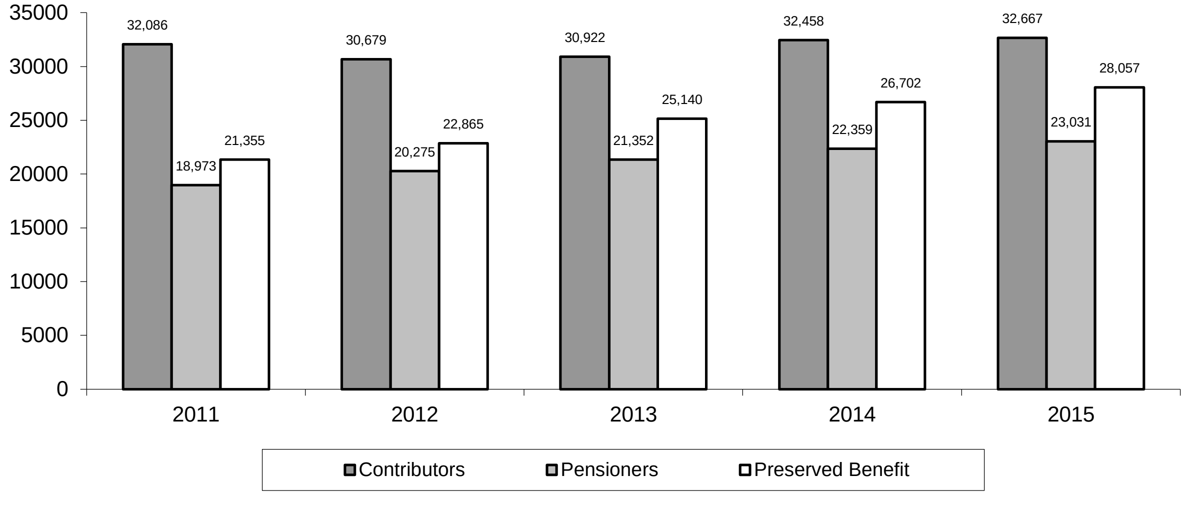
The number of scheme members who are either receiving a benefit or who have a future entitlement to one increased by over 2,200 (2.7%) over the course of the year, to 83,755. This figure excludes the 3,300 members who have no entitlement to a benefit from the fund but do retain the right to either a refund of contributions or a transfer to an alternative pension arrangement. The increase came despite the national reorganisation of the Probation Service which saw over 900 members (c. 420 active, c. 260 pensioners and c. 220 deferreds) transferred to the Greater Manchester Pension Fund.

Active membership increased from 32,458 to 32,667, despite the loss of the active members formerly employed by Leicestershire Probation Service. There is no doubt that auto-enrolment (which forces employing bodies to bring almost all employees who are not currently scheme members into the LGPS) has had a positive impact onto scheme membership, as it brings people that have previously opted out of the scheme back in. It does appear that a reasonable proportion of those that are auto-enrolled do not then opt out again. The two largest employers – the City and County Councils – delayed the implementation of auto enrolment until April 2017.

The net increase (i.e. new pensions commenced less those ceasing) in pensioner members was 672, or 3.0%, which is the lowest increase for a number of years. This smaller increase was due to the fact that there were more pensions ceased due to death (over 1,000, of which about 250 were replaced with dependants' pensions), which is reflective of the larger numbers of older pensioners that the Fund has. Almost 1,500 new pensions commenced following retirement.

The number of members with deferred benefits (an entitlement to a benefit from the scheme at some later date, but not an active member at the yearend) continued to show a significant increase. Deferred membership increased by over 5% over the year and it is likely to continue to grow, although the pace may slow as a result of the increased vesting period effective from 1st April 2014. Many deferred members will receive very low levels of future benefits.

Membership numbers over the last 5 years are shown in the graph below:-



Membership Statistics

Employing body	*Contributors 31 March '15*	*Contributors 31 March '14*	*Employers' Contribution Paid 2014/15 (% of pensionable pay plus cash)*	*Full Rate set in 2013 Actuarial Valuation* (% of pensionable pay plus cash)*
Leicester City Council	*9,335*	*9,463*	19.7	21.7
Leicestershire County Council	*7,966*	*8,204*	20.3	22.3
Office of the Police and Crime Commissioner/Chief Constable	*1,420*	*1,415*	16.7	18.7
De Montfort University	*1,285*	*1,234*	16.5 + £156k	16.5 + £735k
Loughborough University	*1,230*	*1,120*	18.9	18.9 + £408k
North West Leicestershire DC	*512*	*471*	18.0 + £240k	18.0 + £479k
Rutland County Council	*486*	*494*	18.7	20.7
Charnwood Borough Council	*465*	*472*	18.4 + £671k	18.4 + £1,046k
Hinckley & Bosworth BC	*339*	*314*	17.3 + £282k	17.3 + £468k
Blaby District Council	*271*	*257*	18.0 + £144k	18.0 + £300k
Melton Borough Council	*183*	*176*	17.2 + £161k	17.2 + £256k
Harborough District Council	*179*	*186*	16.4 + £256k	16.4 + £472k
Leics Combined Fire Authority	*158*	*168*	16.9 + £43k	16.9 + £141k
Oadby & Wigston BC	*131*	*144*	18.7 + £188k	18.7 + £345k
Leics & Rutland Probation Board	*0*	*428*	17.8	19.8
Academies, Free and Studio Schools (a)	*6,149*	*5,352*	14.2 - 21.2	17.0 – 22.3
FE and Sixth Form Colleges (b)	*1,777*	*1,773*	15.9 -17.4	17.9 -19.9
Other Employers (c)	*695*	*706*	14.6 – 28.8	15.0 – 29.7
Parish and Town Councils (d)	*86*	*81*	15.0 – 23.8	15.0 – 27.5
Total	***32,667***	***32,458***		

(a) Consisting of: Abington, Asfordby Hill, Ashby Hill Top, Ashby School, Ash Field, Barwell C of E, Battling Brook, Beacon Academy, Belvoir & Melton Academy, Birkett House, Blessed Cyprian Tansi MAT, Bosworth Academy, Bottesford, Bringhurst, Brockington, Brocks Hill, Brooke Hill, Brookvale High, Broomfield, Broom Leys, Bushloe, Captain's Close, Casterton Business and Enterprise College, Castle Donington College, Castle Rock, Catmose Federation, Church Hill Infant, Church Hill Junior, Cobden, Corpus Christi MAT, Cosby, Countesthorpe Community College, Discovery Schools, Dorothy Goodman, Eastfield, Fairfield, Falcons Free School, Farndon Fields, Forest Way, Frisby, Gaddesby, Gartree, Gilmorton Chandler, Glen Hills, Glenmere Langmoor, Great Bowden, Great Dalby, Groby Community College, Guthlaxton, Hall Orchard, Hastings High, Heathfield, Hinckley Academy, Holywell, Humberstone Junior, Humphrey Perkins, Huncote, Ibstock Community College, Ivanhoe College, Ivanhoe under 5s, Kibworth High, King Edward VII, Kirby Muxloe, Krishna Avanti Free School, Lady Jane Grey, Langham, Launde, Leicester Academies Charitable Trust, Leighfield, Leysland High, Limehurst, Lionheart Academies Trust, Long Field, Loughborough C of E Primary, Lubenham All Saints, Lutterworth College, Lutterworth High, Manor High, Market Bosworth High, Market Harborough CE, Martin High, The Meadow, Meadowdale, Measham, Mercenfeld, Merton, Millfield LEAD, Mountfields Lodge, Mowbray Education Trust, Newbridge, Old Dalby, Outwoods Edge, The Pastures, Pochin School, Queensmead, Queniborough, Ratby, Rawlins, Red Hill Field, Redmoor High, Rendell, Ridgeway, Robert Bakewell, Robert Smyth, Rothley, Roundhill, rutland Learning Trust, Ryhall, St Dominics Catholic MAT, St. Gilbert of Sempringham, St. Michael & All Angels, St Peters C of E, Samworth Enterprise Academy, South Charnwood, South Wigston High, Stafford Leys, Stanton under Bardon, Stephenson Studio School, Stonebow, Swallowdale, Thomas Estley, Thornton, Thringstone, Thrussington, Townlands, Uppingham Community College, Welland Park, William Bradford, Winstanley, Woodbrook Vale, Wreake Valley.

(b) Consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College of FE, Regent College, South Leicestershire College, Stephenson College, Wyggeston QEI College.

(c) Consisting of: ABM Catering, Age Concern, Aspens Services, Bradgate Park Trust, Capita Business Services, Capita Managed IT Solutions, Children's Links, East Midlands Shared Services, East West Community Project, Eastern Shires Purchasing Organisation, EMH Homes, Family Action, Fusion Lifestyle, G4S, G Purchase, ICare, Lifeline Project, Melton Learning Hub, National Youth Agency, Quadron Services, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, VISTA, Voluntary Action Leicester.

(d) Consisting of: Anstey PC, Ashby TC, Ashby Woulds TC, Barrow Upon Soar PC, Barwell PC, Blaby PC, Braunstone TC, Broughton Astley PC, Countesthorpe PC, Glen Parva PC, Kirby Muxloe PC, Leicester Forest East PC, Lutterworth TC, Market Bosworth PC, Mountsorrel PC, Shepshed TC, Sileby PC, Syston TC, Thurmaston PC, Whetstone PC.

- Within Other Employers and Parish & Town Councils Bradgate Park Trust, Leicester and County Mission for the Deaf, SLM Community Leisure, Spire Homes, VISTA, Ashby Town Council, National Youth Agency and Seven Locks Housing made an actuarially certified cash payment in 2014/15.

*Full rate refers to the amount that will be paid in the 2016/17 financial year.

Management of the Fund

The Pension Fund Management Board is responsible for governance of the Fund and consists of five County Council members, two from Leicester City Council, two members representing the District Councils, one representative of De Montfort/Loughborough Universities and three non-voting staff representatives. In order to ensure continuity staff representatives, who are chosen at the Fund's Annual General Meeting, are appointed to the Board for a three year tenure but arrangements have been made to ensure that at least one staff representative place becomes available each year. The Pension Fund Management Board sets the overall investment strategy for the Fund and will deal with all investment governance issues but will generally not be involved in the more 'tactical' issues associated with implementing the strategy, such as investment manager appointments and the timing of asset allocation changes. The Board meets quarterly and also has a separate annual meeting to consider strategic issues relevant to the Fund.

The Investment Subcommittee consists of six voting members (the Chair, Vice Chair, one other elected member of the County Council, the Universities representative and one member representing each of the City and District Councils, all of whom are members of the Pension Fund Management Board) and one non-voting staff representative. The Investment Subcommittee meets in the months in which there is no Pension Fund Management Board meeting, but may meet more or less often if required. Its role is to consider action that is in-line with the strategic benchmark agreed by the Board and to take a pro-active approach to the Fund's investments, and also to deal with investment manager issues including appointments.

The Board and the Investment Subcommittee receive investment advice from Hymans Robertson. Other consultants will also be utilised if there is felt to be an advantage to this.

Activity in respect of individual investment portfolios generally related to actions agreed as part of the January 2014 Annual Strategy Meeting. The Pictet portfolio was reduced substantially in order to fund the requirement to transfer over £50m of cash to the Greater Manchester Pension Fund in respect of the reorganisation of the Probation Service and also to fund a new investment in emerging market debt, for which Ashmore were appointed. A new private debt portfolio managed by Partners Group commenced, and this was funded by reducing the size of the JPMorgan global credit investment. The other meaningful events related to a £25m in a pooled property fund managed by Kames Capital and the termination of Capital International's emerging market equity portfolio. The money released by the termination of this portfolio remained invested in emerging markets, via the existing arrangements with Delaware and Legal & General.

Other activity can be categorised as 'care and maintenance', including filtering cash flows into the portfolios of managers who were below their target weighting and managing the drawdowns of capital to fund new investment in areas such as private equity, infrastructure and timberland.

At the January 2015 Annual Strategy meeting there were a number of 'tweaks' agreed to the investment strategy (including the termination of the Capital International portfolio referred to above), and an agreement in principle to remove commodities (and hence the Investec portfolio) when market levels were more appropriate. It is generally expected that investment strategy will evolve gradually rather than be the subject of large changes.

Investment Management Arrangements

At the January 2015 Annual Strategy meeting of the Pension Fund Management Board there were a number of relatively minor changes made to the Fund's strategic asset allocation benchmark. At the year end the benchmark in place was:

Equities	50.5% - 52.5%
Alternative Assets:	22.5% - 24.5%
Targeted Return	*11%*
Credit	*5%*
Emerging Market Debt	*2.5%*
Other	*4% - 6%*
Property	10%
Commodities	2.5%
Inflation-Linked	12.5%

As well as small changes in the benchmark exposure to commodities (down by 0.5%) and equities (up by 0.5%), there was also a moderate reweighting of the geographical weighting within equities. A decision was also taken to remove the commodities exposure once there had been a recovery from prices that were felt to have fallen too far. Where this divestment from commodities will be invested is dependent on market conditions at the time.

The setting of the strategic benchmark is the most important decision that the Board makes. It is this decision that will have by far the most significant impact onto the investment return achieved and approximately 90% of the Fund's overall risk is encompassed within the choice of benchmark. Individual investment manager choices are important as they can produce added value by outperforming their benchmarks, but their influence is small in comparison to the choice of benchmark.

The management of the individual asset classes is carried out as follows:

Equities

The Fund has a global passive equity manager (Legal & General) that manages against both market capitalisation benchmarks and also against alternative benchmarks. There are also two global dividend-focused equity managers (Kleinwort Benson and Kempen) and a specialist emerging market equity managers (Delaware).

Within equities the Fund also has private equity investments (i.e. investment in unquoted companies), the vast majority of which is managed on a global basis by Adams Street Partners. There are also relatively small investments into two locally-based private equity funds managed by Catapult Partners.

Alternative Assets

The Fund's targeted return exposure can generally be categorised as investments that are seeking to make a return of 4% p.a. more than could be achieved by an investment in cash (i.e. only slightly below the expected long-term return from equities), and with the expectation that the return will be achieved with relatively low volatility. There are many different ways of achieving this goal and the Fund has three different managers in this area - namely Aspect Capital Partners, Ruffer and Pictet Asset Management. During the year the Pictet portfolio was reduced substantially to provide funding for the new emerging market debt portfolio, cash for a significant payment in respect of the transfer of Probation staff and a property investment that is classified within 'other' alternative assets.

Within 'Credit', JPMorgan manage a global credit portfolio which has freedom to invest in any attractive credit opportunities that are available. This portfolio was reduced by the sale of £55m of assets during the year, which was used as part-payment for an investment in a private debt fund managed by Partners Group. This was new holding and at the year end £75m of the agreed £100m investment had been 'drawn down'. At the year end the Fund had an investment of £36m in the Prudential/M&G UK Companies Financing Fund, which lends directly to secure UK mid-sized companies at attractive rates of interest. This fund has been fully committed and repayments of capital have already commenced and will accelerate in the years ahead.

At the year end the Fund had two distinctly different investments in 'other' alternative assets – a pooled property fund (value £24m) that was focused on areas of the market that had become 'unloved' (and hence undervalued), and investment in M & G Debt Opportunities Funds. The M & G exposure is via two different funds with identical strategies, and had a combined valuation of £57m at the year end.

Property

Colliers Capital UK manage a directly owned property portfolio but have scope to invest in specialist pooled property funds which are in areas that they find attractive but would not be able to buy directly, usually due to the size of individual investments (for example leisure complexes based around multiplex cinemas or Central London offices).

Aviva Investors manage a portfolio of pooled property funds, which includes some covering a wide range of property types and some which are specialist in nature. Via their ability to research the underlying holdings and the skills of the property managers, it is expected that they will add value to the Fund.

Commodities

Investec Asset Management manages a specialist commodity portfolio. This portfolio includes investment in listed commodity companies, together with commodity futures which gain exposure to the price movement of certain commodities. At the January 2015 Annual Strategy Meeting it was agreed that this exposure would be phased out when commodity prices rose from levels that, at the time, were considered to have fallen too far. With the benefit of hindsight, the thesis on which a commodity exposure looked attractive (continuing demand from developing markets and an inability to increase production quickly) turned out to be incorrect, and the asset class is no longer attractive to the Fund.

Inflation-linked

UK inflation is one of the Fund's biggest risks, due to the direct link to benefits and also the less-direct link to salary growth of active members. Protecting against this risk is, therefore, sensible but it is also very expensive – it would involve taking money out of assets that are seeking investment growth (e.g. equities) and investing it in safer, and therefore lower-returning, index-linked bonds. This would push up employers' contribution rates to levels which are unaffordable, so cannot be implemented in a large scale manner.

The most natural asset for protecting the Fund against its inflation risk is UK Government index-linked bonds, but these are expensive as there are a number of price-insensitive buyers and a lack of supply. As a result the Investment Subcommittee has agreed to an initial three-prong investment strategy to obtain some protection against inflation – investment in infrastructure and timberland (both of which have a good historic link to inflation, and also good return prospects), and also a global government index-linked portfolio.

Kames Capital manages a portfolio of global index-linked stocks. The Fund has two global infrastructure managers (IFM and KKR) and a timberland manager (Stafford).

Emerging Market Debt
Ashmore were appointed during the year to manage a new emerging market debt portfolio, and the first investment was made at the end of October 2014. By the end of March 2015, the portfolio was up to its intended size of 2.5% of total assets.

Other portfolios
The Fund also has a currency portfolio that looks to profit from relative movements in currency values, which is managed by Millennium. No 'cash backing' is required, and this portfolio is not included within the strategic asset allocation benchmark.

Risk Management
There are many risks associated with the Local Government Pension Scheme, covering both the investment of the assets and the administration of the benefits payable. It is almost impossible to create a definitive list of these risks and many of the on-going risks are monitored by Officers and only brought to the attention of the Pension Fund Management Board as-and-when it is felt to be necessary and appropriate. When this is deemed necessary a report will be produced by Officers for consideration at a Pension Fund Management Board meeting.

The biggest risk for the Fund is that the value of assets held will ultimately be insufficient to pay for all the benefits due. This risk is managed by a triennial actuarial valuation, which compares the value of assets to the accrued liabilities and sets employer contribution rates that are considered appropriate to ensure that all benefits can be paid; the Fund is currently in deficit (i.e. the value of assets is less than the accrued liabilities) so the employer contribution rates, at a whole Fund level, include payment for not only future service as it accrues but also contributions towards the deficit. Given that many benefits will not become payable for a long time, and taking into account the financial strength of most employers, the actuary is able to take a long-term approach to recovery of the deficit.

The performance of the assets of the Fund is an important element in helping to maintain affordable employer contribution rates – the higher the long-term investment return achieved, the more of the benefits will be funded by investment returns rather than employer and employee contributions. A long-term approach is taken to agreeing an asset allocation benchmark, with both return and risk taken into account. Asset allocation policy is reviewed annually.

Individual investment manager performance is of lower importance than the asset allocation benchmark, but individual manager performance does have an impact and their performance is considered and reviewed regularly. When there are doubts about a manager's ability to generate future performance that is in line with the Fund's requirements/expectations appropriate action will be taken, and this may include the release of a manager. It is not generally optimal to change managers on a frequent basis due to the associated costs (which are mainly the impact of bid/offer spreads and charges within markets), and as a result changes are considered very carefully before they are agreed.

The Pension Fund Management Board receives advice from the investment practice of Hymans Robertson and an independent investment advisor, and this assists in making decisions in respect of both overall investment policy and manager selection/retention.

The Fund employs a large number of investment managers, and all of these invest in a specific asset class and can be termed 'specialist'. Many of these managers are required to have external assessments of their systems and operations and these management report

are reviewed in order to ensure that there are no issues which put the Fund's investments at risk.

Under the Pensions Act all employers must pay over contributions deducted from employees, plus the required employer contributions, to the administering authority within certain timescales. These payments are monitored closely and immediate action is taken in the event of a late payment. Late payment does not put the benefits of individuals at risk.

Many of the risks associated with providing efficient and cost-effective Pensions Administration are mitigated by ensuring that employees are knowledgeable and well-trained, and this is an on-going issue that is taken very seriously by the administering authority. Ensuring that employers understand their responsibilities to the Fund and fulfil them efficiently is also crucial, and an on-going programme of support and training for them is in place.

Financial Performance

Guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in August 2014 suggests that the Annual Report should be used for the administering authority to 'demonstrate to stakeholders the effectiveness of its stewardship' from a financial, rather than an investment performance perspective. This stewardship relates to the general management of pension fund income and expenditure.

It would be possible to produce performance indicators about many aspects of the Fund's financial performance to attempt to demonstrate effective financial stewardship, but ironically this will involve the need to employ greater resource and incur higher cost. As a result the preferred option is to comment in general terms about financial governance.

There were a small number of incidences of late payment of contributions by employers over the year, and these were exclusively as a result of administrative failings on their part. On each occasion the employer was reminded of their responsibilities, and it was not felt necessary to levy interest on overdue contributions.

Administrative costs, including staff-related costs for both internally employed Pensions and Investments staff, were either at or below the budget and these costs remain well below the average of other LGPS Funds. Investment management fees are not budgeted for - they will be variable as they are based on market values that are impossible to predict in advance. Action was taken during the year to reduce investment management costs where there was opportunity to do so.

The Fund does not budget for cash flows for investment income, contribution income or benefit expenditure. The reason for this is straightforward – it is impossible to predict with any accuracy how these will change as the reasons for change are outside the control of the Fund. A very simple example is that is futile to attempt to set a budget for lump sums paid on retirement as the variables include which individual members choose to retire (and, to a certain extent, who becomes pensioners due to redundancy) and how much pension they will commute into a lump sum.

The general trend of overall net cash flows *is* monitored, whether these are derived from investment or non-investment related sources. 2014/15 was highly unusual as it included a significant (c.£52m) cash outflow as a result of the restructuring of the Probation Service but, after excluding this, non-investment cash flows were positive by c.£18m. In addition the Fund received net income (investment income less investment management expenses) of over £20m.

There are some concerns that cash flows will start to reduce. Cuts to budgets within Local Authorities over the coming years may reduce membership (and hence employee/employer contributions) at the same time that benefits paid are increasing, but it is also known that the rate of employers' contribution will increase for a number of years to come. The Fund also has significant investments in pooled funds where the investment income is reinvested rather than distributed, and these can easily be changed to income producing with the generation of an extra £25m - £30m cash flow p.a.

The overall impact of all of these facts is that it is expected that the Fund will remain strongly cash flow positive for many years, and has no need to currently consider the impact that cash flows might have on the suitability of investments. Budgeting for factors that cannot be controlled is not considered necessary, but there are strong controls in place for ensuring that all income due is received and that benefits are not overpaid. A monthly automated check of pensioners is carried out through a reliable tracing agency in order to ensure that pensions cease upon death, and the Fund has a very low incidence of overpayments that occur either as a result of fraud, late notification or error.

Administrative Management Performance

The fund has a number of performance indicators in respect of administration performance, which are split between speed of processes and customer satisfaction. These are reported quarterly to the Pension Fund Management Board and, from 1st April 2015, will be reported instead to the Local Pension Board.

The introduction of the 2014 LGPS brought with it additional pressures to both the administering authority and to employers. This impacted on the timeliness of completion of some processes and the percentages of pensions paid within 5 working days of their due date slipped to below target, as did death benefit payments. Additional staff were appointed on a permanent basis during the year and this will, in the medium term, assist in ensuring that the high level of expected performance is reached again although it will take some time for these staff to become fully proficient. Staffing levels will be kept under review in order to ensure that they are adequate, but the extra complexity of the 2014 scheme and its impact should not be understated and many Funds suffered similar problems with administration.

Despite some of the process-related indicators being below target for part of the year, customer satisfaction remained high; on average about 95% of members considered their interaction to dealings with the Pensions Section to be acceptable or better.

Increases in staffing levels will decrease the ratio of staff to fund-members, but will also increase the ratio of costs to fund-members. Average cases per member of staff are expected to decrease, but many of these cases will involve more complexity. In comparison to the average Local Authority Pension Fund, average cost per member is low.

There is a statutory requirement for the Fund to maintain a Governance Compliance Statement, and this is replicated in full below.

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

1.0 INTRODUCTION

1.1 This is the governance compliance statement of the Leicestershire Pension Fund. The Fund is a statutory one that is set up under an Act of Parliament and the administering authority is Leicestershire County Council (the Council). This statement has been prepared as required by the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007.

2.0 FUNCTIONS AND RESPONSIBILITIES

2.1 Leicestershire County Council has delegated the responsibility for decisions relating to the investment of the Fund’s assets to the Pension Fund Management Board (the Board). This delegation to a specialist committee is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

2.2 The Pension Fund Management Board meets five times a year and its members act in a quasi-trustee capacity. One of these meetings is specifically used to focus entirely on investment strategy. No substantive issues of investment policy will be carried out without the prior agreement of the Board or, in extreme circumstances and where it is impractical to bring a matter to the Board, the agreement of the Chair and Vice-Chair.

2.3 The Board may delegate certain actions to the Director of Corporate Resources. It is the expectation of the Board that some of the more administrative matters relating to investment management, such as the appointment of a custodian, are carried out by the Director of Corporate Resources.

2.4 An Investment Subcommittee, with its members drawn from the Board, meets in the months that there is no Board meeting. It is a decision-making Committee and will generally deal with more technical aspects of investment (such as looking at potential new investment opportunities or dealing with the appointment of new investment managers).

2.5 Pensions Administration issues are the responsibility of the Director of Corporate Resources. The nature of pensions administration is such that it is not currently deemed necessary to have a committee or sub-committee to oversee this function, although setting up such a body will be considered in the event that it is felt that it will be beneficial.

3.0 REPRESENTATION

3.1 The Board is made up of 13 members – 5 members representing Leicestershire County Council, 2 representing Leicester City Council, 2 jointly representing the District Councils, 1 jointly representing De Montfort/Loughborough Universities and 3 non-voting staff representatives. The 10 voting members are appointed using the due political process or, in the case of the two universities, by joint arrangement. There will be at least one staff representative position available annually and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

4.0 STAKEHOLDER ENGAGEMENT

4.1 An Annual Meeting of the Pension Fund is held annually, usually in January, to which all employee members and other interested parties are welcome. The purpose of the meeting is to present the Annual Report of the Fund and to report on current issues, as well as to elect staff representatives for any vacant position on the Board.

4.2 A number of other initiatives to involve stakeholders also take place, including:

- Presentations by the Fund/Actuary to employing bodies;
- Pensions roadshows at various venues;
- The Annual Report and Account of the Pension Fund;
- Other communications to members.

5.0 REVIEW AND COMPLIANCE WITH BEST PRACTICE

5.1 This statement will be kept under review and will be revised and published following any material change in the governance arrangements of the Pension Fund.

5.2 The regulations require a statement as to the extent to which the governance arrangements comply with guidance issued by the Secretary of State. This guidance contains a number of best practice principles and these are shown below with the assessment of compliance.

Ref	Principle	Compliance/Comments
A	Structure	
a	The strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Fully compliant**
b	That representatives of participating LGPS employers, admitted bodies and scheme members are members of the committee.	**Fully compliant**
c	That where a secondary committee has been established, the structure ensures effective communication across both levels.	**Fully Compliant**
d	That where a secondary committee has been established, at least one seat on the main committee is allocated for a member of the secondary committee	All Investment Subcommittee will be full Board members, so **Fully Compliant**
B	Representation	
a	That all key stakeholders are afforded the opportunity to be represented within the main committee structure (including employing authorities, scheme members, independent professional observers and expert advisors)	**Fully Compliant**
b	That where lay members sit on a main committee, they are treated equally and are given full opportunity to contribute to decision making, with or without voting rights	**Fully Compliant**
C	Selection and Role of Lay Members	
a	That committee members are fully aware of their status, role and function they are required to perform.	**Fully Compliant**
D	Voting	
a	The policy of the administering authority on voting rights is clear and transparent, including the justification for not extended voting rights to certain groups	**Fully Compliant**

E	Training/Facility Time/Expenses	
a	That there is a policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	**Fully Compliant** Members are encouraged to undergo suitable training, and all expenses are reimbursed.
b	That the policy applies equally to all members of committees	**Fully Compliant**
F	Meetings (frequency/quorum)	
a	That the main committee meet at least quarterly	**Fully Compliant**
b	That secondary committees meet at least twice a year and the meetings are synchronised with the main committee	The Investment Subcommittee meets regularly, so **Fully Compliant**
c	If lay members are not included in formal governance arrangements, a forum is available outside of these arrangements by which their interests can be represented	Lay members are included on main committee, so **Not Relevant**
G	Access	
a	That, subject to any rules in the Council's constitution, all members have equal access to committee papers, documents and advice that falls to be considered by the main committee	**Fully Compliant**
H	Scope	
a	That administering authorities have taken steps to bring wider scheme issues within the scope of the governance arrangements	**Fully Compliant**
I	Publicity	
a	That the administering authority 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	**Fully Compliant**. A copy of this statement has been sent to all employing authorities.

Investment Markets 2014/2015

- Despite global economic growth that was lacklustre, equity markets produced attractive returns over the course of the year. Company profits were more-or-less in line with expectations and future profit growth was generally revised downwards, but the prospect of interest rates remaining exceptionally low for a very long period encouraged investors to continue to favour equities over other assets.

- Currency movements had a significant impact onto the returns achieved by UK investors, notably the appreciation of the US Dollar and the depreciation of the Euro against sterling. US equities produced perfectly acceptable returns in their local currency, but a 12% appreciation of the Dollar almost doubled the return to UK investors (to 26.6%). A similarly-sized depreciation of the Euro against sterling saw returns from this region dip into single figures.

- The Authorities in Japan continued to take significant policy actions that impacted onto the performance of their stock market. Not only did they manage to maintain the depreciation of the Yen – albeit at a much slower rate than in recent years – that is extremely beneficial to the significant exporting element of Japanese business, but they also took steps that strongly encouraged Japanese companies to become more investor friendly. These steps included an improvement in governance standards, a focus on improved profitability and the encouragement of better utilisation of capital. By promising significant public sector pension fund investment into the shares of companies that embraced shareholder-friendly changes, it does appear that the malaise that has been apparent within most of Japan for many years may at last begin to lift.

- The European Central Bank was eventually forced to undertake quantitative easing to try to revive the European economy. The sums involved are substantial and investors clearly believe that the outcome will be beneficial, given the bounce-back in markets that accompanied the long-awaited (and fully expected) announcement.

- Following the ‘taper tantrum’ of mid-2013 which saw bond yields rise sharply, bond yields have subsequently continued their downward trend. As a result bonds produced very good performance during 2014/15 but stood at very low yields at the year end. Perceived wisdom is that bond yields have to rise from their multi-generational lows, and that future returns from them will be disappointing, but this has been the perception for some time and it had not happened by the year end.

- Commercial property returns in the UK continued their strong recent run, assisted by increasing occupier demand and a significant amount of money finding its way into the market. While much of the investor appetite – particularly that of overseas investors – is in London and the South East, there were clear signs that the Regions were beginning to join in with the recovery.

- Cash continued to be an unattractive asset class for investors, given the low interest rates available and the fact that these interest rates are expected to stay low for some time to come. Cash holdings by institutional investors are very low, which means that market setbacks will not be protected by cash holdings. The opportunity cost for holding cash is, however, more than most investors are willing to risk.

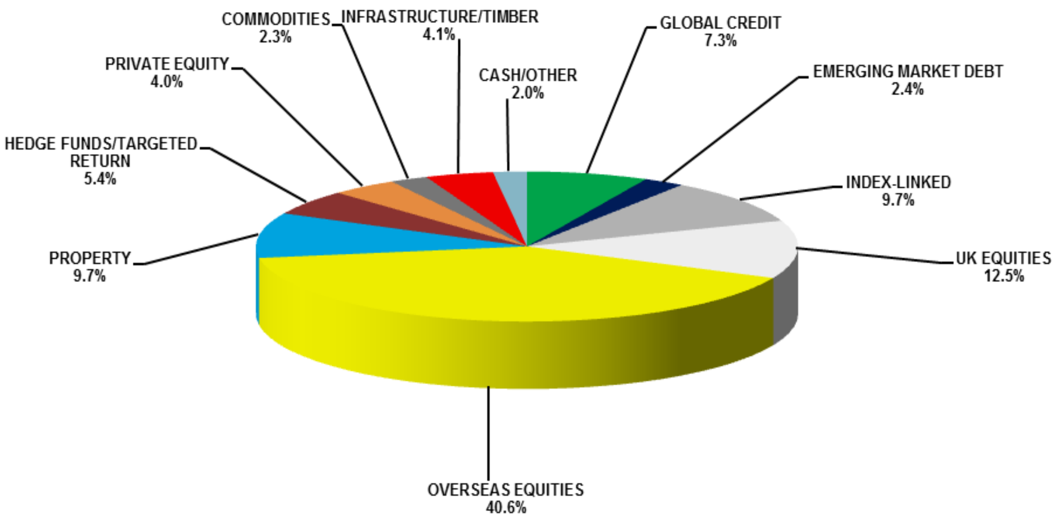
Investment Returns

The table below shows the investment returns achieved (in sterling terms) by different markets in the last two financial years:-

	Year to 31 March 2015 %	Year to 31 March 2014 %
UK Government Bonds	+13.9	-2.6
UK Index-Linked	+18.5	-3.8
Overseas Bonds	+7.6	+1.5
UK Equities	+6.6	+8.8
North America Equities	+25.1	+10.3
European (Ex UK) Equities	+7.5	+18.3
Japanese Equities	+27.1	-1.6
Pacific (Ex Japan) Equities	+12.7	-6.6
UK Property	+18.3	+14.0
Cash	+0.5	+0.4

Value of Investments

The value of the Fund at 31st March 2015 was £3,128.2m, which was £388.3m more than the value a year earlier. The analysis of investments, in summary form, is shown below:-



Investment Performance

Investment returns is 2014/15 were very strong and equities, bonds and property all produced double-digit performance. Returns within different equity markets were varied in 2014/15 and currencies were a significant factor in the level of the return, but even the worst performing regions produced returns that were as high as could reasonably be expected in the long-term. To a sterling investor North America and Japan were the best performing regions (at above 25% each), while emerging markets and Pacific (ex Japan) were in the 12% - 13% range. At between 6% - 8% Europe (ex UK) and the UK were the laggards.

UK Government bonds (gilts) saw significant rises in value, particularly those with longer maturity dates. Quantitative easing appears to have ended in the UK, given that the last purchases by the Bank of England were in July 2012. Despite the absence of a price-insensitive purchaser, other market participants have been willing to pay increasingly high prices for the certainty of long-term returns and many commentators are convinced that a ‘bond bubble’ exists that must ultimately pop. Despite a fall in actual inflation, index-linked bonds (which guarantee pay outs that increase in line with inflation) produced very strong performance.

Most commodity prices, especially oil, fell during the year and this was one of the main reasons behind the fall in inflation. The Fund has a modest exposure to commodities but this exposure had a negative impact onto performance, despite the fact that the manager actually produced very good performance relative to the index.

Towards the end of the year the Fund removed Capital International as a manager of emerging market equities. Throughout the year the mandate sizes of Pictet and JPMorgan were reduced gradually, but significantly, to respectively fund new investments in private debt (via Partners Group) and emerging market debt (with Ashmore). These new investments and the reductions that funded them came as a result of the strategic asset allocation changes that were agreed by the Pension Fund Management Board in January 2014.

Over the year the Fund’s investment performance was +15.6%, which was 4.2% better than the benchmark against which the performance is measured. Individual investment managers produced variable performance relative to the benchmarks, with the exceptional performance of Aspect Capital and Millennium being the two key factors in the outperformance.

The Pension Fund Management Board and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate. The Fund is, however, a long-term investor and recognises that individual managers have certain style tilts that will not always be rewarded in the short or medium term, but are expected to be rewarded in the long-term. Decisions are, therefore, not generally based on short-term investment performance and if a manager is still considered to be fundamentally sound they have a high chance of being retained. Structural changes to markets or personnel changes within managers are part-and-parcel of a decision on whether to retain a manager.

Since 1st April 2014 all investment performance has been measured net of investment management fees and the figures quoted above are, therefore, after taking these into account.

Brief comments on the performance of the individual managers who were employed for the whole of the year are given below:

- ***Colliers Capital UK***
  Colliers’ portfolio, which comprises both direct and pooled property holdings but is weighted 75:25 in favour of direct holdings, once again outperformed its

benchmark over the year (20.1% vs. 18.3%). The direct portfolio benefited from a number of good rent review outcomes and new lettings, whilst exposure to Central London offices in both the direct and indirect portfolio was helpful. Colliers' performance over the medium and long-term is impressive.

- ***Aviva Investors***

  Aviva manage a portfolio of pooled property funds and produced a return of 19.5% over the year, which was 1.8% above their benchmark. The performance of a number of recovery funds that bought properties in the depths of the Global Financial Crisis and sold into the strong recent markets were important in the outperformance, but some of the specialist funds also produced exceptionally good returns. Aviva's performance since their appointment to this mandate is highly creditable.

- ***Millennium Asset Management***

  The active currency managed by Millennium is based on a notional £340m and over the course of the year they produced added value of nearly £23.5m. At a total Pension Fund level, this added approximately 0.8% of performance and was a spectacular outcome. Central to the value creation were large overweight positions in the US Dollar, against underweight positions in the Japanese Yen and the Euro. Millennium did profit from other currencies, but it was the positioning in these three currencies that was key.

  It seems improbable that this level of performance will be repeated, but this should not detract from the achievement of 2014/15.

- ***JP Morgan Asset Management***

  The investment in the JPMorgan Strategic Bond Fund, which seeks to find the most attractive opportunities within the global bond/credit markets and to take advantage of them, was reduced substantially during 2014/15 to fund the investment in a private debt fund managed by Partners Group.

  Performance during the year was creditable, although its impact onto the Total Fund was small due to the size of the investment.

- ***Kohlberg Kravis Roberts (KKR)***

  The Fund originally committed to invest $56m in the KKR Global Infrastructure Fund and by the year end 90% of this commitment had been 'drawn down'. During the year a $30m commitment to a second KKR infrastructure fund was agreed, in order that the Fund can maintain its strategic weighting to the asset class.

  Infrastructure is an illiquid asset class and performance can only really be judged over the medium-to-long-term, but the increases in capital value and dividend distributions that have been paid so far are encouraging.

- ***Legal & General***

  Legal & General manage over one-third of the Fund's assets (and 2/3rds of the equity weighting) in pooled passive funds, which are designed to closely match the returns of certain pre-defined indices.

  The Fund has half of its North American and Continental European passive exposure within market-capitalisation weighted indices (where the value of a company dictates its weighting within the index), with the other half in 'fundamental indices' (which take account of matters such as dividends, sales and free cash flow in the calculation of the benchmark weighting of each company).

  In the long term it is expected that the fundamental index will add a modest amount of additional return, although the split is mainly a diversification tool. Since inception in November 2012 the fundamental indices have produced meaningful outperformance of market capitalisation indices, but they underperformed in 2014/15.

Legal & General continue to track the indices exceptionally accurately.

- ***Adams Street Partners***
  Adams Street Partners manage the Fund's global private equity (i.e. unquoted company) exposure, and over the course of the year significant cash sums (£27.6m) were received from successful realisations of investments. Over the long-term the portfolio has produced a meaningful level of outperformance relative to quoted markets.

  Much of the private equity portfolio is quite mature and further commitments have been made in recent years to ensure that the Fund's target weighting (4%) within the asset class is maintained as far as is possible. During the year drawdowns for new investment were £19.7m.

- ***Ruffer LLP***
  Ruffer manages a targeted return portfolio for the Fund and outperformed their benchmark for the year (+12.5% vs. +4.5%). Ruffer's whole investment philosophy is based on balancing investments in 'fear' (the risk of markets falling) with investments in 'greed' (generally equities) and arriving at a portfolio that is well protected from loss of capital, whilst still being capable of gaining when markets are buoyant.

  During 2014/15 most of their 'greed' investments – most notably Japanese and US equities – performed well, as did the index-linked bonds that they hold as 'fear' assets. Meaningful exposure to gold-related investments within the 'fear' portfolio held back performance, but the overall performance was impressive and their performance since the inception of the portfolio is 5% p.a. above their target.

- ***Pictet Asset Management***
  The Pictet portfolio was reduced significantly during the year, in order to provide funding for new investments in private debt and a property fund. Performance during the year (8.5%) was 4% above their benchmark, but their longer-term performance has been disappointing and their portfolio is likely to be removed completely during 2015/16

- ***Delaware Investments***
  Having produced significant outperformance of the emerging market equity index in the previous year, 2014/15 saw all of this outperformance (and more) given back. Underperformance of their benchmark by 10.6% was extremely disappointing, although over three years their performance is still marginally above the benchmark.

  Delaware run a focused portfolio with relatively few holdings, so volatility of relative performance is an expectation. They will, however, be kept under careful watch in the near term.

- ***Investec Asset Management***
  The Fund's investment with Investec is in a commodity fund. Commodity markets produced very poor returns (-18.1%) during the year, with oil seeing a particularly noteworthy decline in price. At only -5.5% Investec's performance was actually excellent in relative terms and they have outperformed their benchmark by almost 4% p.a. over the last three years. Overall, however, their performance since inception is disappointing as the portfolio is run to achieve absolute positive returns, and this has not happened.

- ***Kleinwort Benson***
  Kleinwort Benson manages a ‘dividend focused’ global equity portfolio, which underperformed its broad equity market benchmark by 4.2% in 2014/15, with almost all of the underperformance coming in the final quarter. The key factor in the underperformance was the very narrow group of large technology stocks from the US which saw their share prices increase substantially, none of which were held in the Kleinwort Benson portfolio. Since inception of the portfolio in November 2012, its performance is marginally lower than the broad equity market.

- ***Kempen***
  Kempen also manages a ‘dividend focused’ portfolio and their performance was once again disappointing, with a return that was 7.1% below global equity markets. Their distinct style meant that they held virtually no exposure in Japan and were significantly underweight in the US, which were the two best regional markets by some distance. Whilst it is possible to understand the reasons for their underperformance, it does not make it any more palatable.

- ***Aspect Capital***
  Aspect invest in liquid futures contracts within equities, bonds, commodities and currencies and can be broadly described as a ‘trend-following’ manager – their computer models identify trends (whether up or down) and take positions accordingly. When no trends exist or where trends emerge but then reverse quickly, this portfolio will not produce positive performance, and this is what happened in the 2013/14 financial year.

  2014/15 could not, however, have been any different from the previous year. Trends persisted in bonds (yields went down), equities (markets went up), currencies (e.g. US Dollar strengthening, Euro weakening) and commodities (e.g. weakening oil prices); it was pretty much a perfect year for trend-following managers. This was reflected in the performance of the Aspect portfolio, which produced a return of over 50% for the year. The performance of the Aspect portfolio was responsible for about 1.8% of the total Fund’s outperformance, despite it only being 4% of total assets.

- ***IFM***
  A $56m investment was made into the IFM Global Infrastructure Fund in February 2013. The portfolio initially consisted of 8 underlying assets but by 31st March 2015 this had increased to 11 assets, with another 2 being close to completion.

  Performance since purchase has been acceptable, despite problems in 2013/14 at one of the larger assets that led to a significant reduction in its valuation. These problems appear to have now been dealt with, but performance in areas such as infrastructure can only really be judged over the long-term.

- ***Kames Capital***
  Kames manage a global index-linked bond portfolio on behalf of the Fund, and during the year the performance of +26.7%. This was marginally below their benchmark, which is based on UK long-dated index-linked bonds, but well above the UK All-Stock index-linked bond index.

  Kames also manage a currency hedging programme, with a default position of hedging half of the Fund’s currency exposure that comes via the overseas equity benchmark. During the year they were generally well positioned and the hedging positions that they took added £8.8m relative to the benchmark position. At a total Fund level, this added about 0.3% to the excess performance.

Five Year Returns		
	Returns	
	LCC %	Benchmark %
2010/11	+8.5	+7.9
2011/12	+0.8	+0.9
2012/13	+12.4	+11.0
2013/14	+3.9	+7.3
2014/15	+15.6	+11.4
Average Annual Return Over 5 years	+8.1	+7.6
Annualised 5 year investment returns (for managers employed for more than 5 years)		
Colliers CRE	+11.6	+10.3
Millennium	+1.6	+1.5
Aviva Investors	+9.7	+8.4
Legal & General	+9.5	+9.4
Ruffer	+7.5	+4.4
Pictet	+4.1	+4.4

Major Shareholdings

Most of the investments are held within pooled investment vehicles and the Fund has very few individual shareholdings. All of these are within the targeted return portfolio managed by Ruffer. The largest of these shareholdings (the Japanese company Mitsubishi UFG Financial Group) is valued at £5.0m (0.16% of total fund assets), so this information has been omitted from the report.

Leicestershire County Council Pension Fund ("the Fund")
Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15 . It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulations.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated February 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 67% chance that the Fund will return to full funding over the deficit recovery period.

Funding Position as at the last 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 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,628 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £1,024 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2014.

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.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.80%	2.30%
Pay increases	4.30%	1.80%
Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.2 years	24.3 years
Future Pensioners*	24.2 years	26.6 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Leicestershire County Council, the Administering Authority to the Fund.

Experience over the period since April 2014

Real bond yields have fallen dramatically (leading to a higher liability) The effect of this has been only partially offset by strong asset returns. Overall funding levels are likely to have remained approximately the same but the monetary amount of deficits will have increased over this period as both asset and liability values have increased in size.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Barry McKay

Barry McKay
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
21 May 2015

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Fund Account

	Notes	2014-15 £000	2013-14 £000
Contributions and Benefits			
Contributions	3	150,848	139,320
Transfers in	4	3,745	4,308
		154,593	143,628
Benefits	5	126,010	121,029
Payments to and on account of leavers	6	61,326	6,115
Administrative expenses	7	1,365	1,487
		188,701	128,631
Net additions from dealings with members		(34,108)	14,997
Returns on investments			
Investment income	8	26,056	24,533
Change in market value of investments	9	402,070	80,168
Investment management expenses	11	(5,701)	(6,952)
Net returns on investments		422,425	97,749
Net increase in the fund during the year		388,317	112,746
Net assets of the Fund at 1st April		2,739,853	2,627,107
Net assets of the Fund at 31st March		**3,128,170**	**2,739,853**

Net Assets Statement

	Notes	31 March 2015 £000	31 March 2014 £000
Investment assets	9	3,128,239	2,736,440
Investment liabilities	9	(8,086)	(2,791)
		3,120,153	2,733,649
Current assets	13	10,063	9,944
Current liabilities	13	(2,046)	(3,740)
Net assets of the Fund at 31st March		**3,128,170**	**2,739,853**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report on pages 19 and 20 of these accounts and should be read in conjunction with them.

The notes on pages 28 – 44 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The statement of Accounts summarises the Fund's transaction for the 2014/15 financial year and its position at year-end as at 31st March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Accounting policies

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

Investments

Equities traded through the Stock Exchange Electronic Trading Service (SETS) are valued at bid price. Other quoted securities and financial futures are valued at the last traded price. Private equity investments and unquoted securities are valued by the fund managers at the year end bid price, or if unavailable in accordance with generally accepted guidelines. Accrued interest is excluded from the market value of fixed interest securities and index-linked securities but is included in investment income receivable.

Pooled Investment Vehicle units are valued at either the closing bid prices or the closing single price reported by the relevant investment managers, which reflect the accepted market value of the underlying assets.

Private equity, global infrastructure and hedge fund valuations are based on valuations provided by the managers at the year end date. If valuations at the year end are not produced by the manager, the latest available valuation is adjusted for cash flows in the intervening period.

Property investments are stated at open market value based on an expert valuation provided by a RICS registered valuer and in accordance with RICS guidelines.

Options are valued at their mark to market value. Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. The investment reconciliation table in note 9 discloses the forward foreign exchange settled trades as net receipts and payments.

Investment income
Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments (including investment properties) during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value but excluding translation gains and losses arising from assets denominated in foreign currency.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated at a rate that is relevant at the time of the receipt of the income or the exchange rate at the year end, whichever comes first.

Surpluses and deficits arising on conversion or translation are dealt with as part of the change in market value of investments.

Contributions

Normal contributions, both from the members and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate issued by the Fund's actuary. Additional contributions from the employer are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

Additional payments for early retirements relate to the actuarially assessed extra cost to the Fund of employing bodies allowing their members to retire in advance of normal retirement age. These costs are reimbursed to the Fund by employing bodies and are accounted for on a cash basis.

Benefits payable

Where members can choose to take their benefits as a full pension or a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on the date the member leaves the scheme or on death.

Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year end, and where the amount of the transfer can be determined with reasonable certainty.

Other expenses

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged on an accruals basis.

3. Contributions

	2014-15 £000	2013-14 £000
Employers		
Normal	110,365	101,276
Termination Valuation Payments	6	
Additional payments for early retirements	2,492	1,796
Additional payments for ill-health retirements	1,620	1,089
Members		
Normal	35,889	34,690
Purchase of additional benefits	476	469
	150,848	**139,320**

Additional payments for early retirements are paid by employers, once calculated and requested by the Fund, to reimburse the Pension Fund for the cost to the Fund of employees who are allowed to retire before their normal retirement age. Additional payments for ill-health retirements are paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. Purchase of additional benefits by members allows extra service to be credited on top of any service earned via employment. Termination valuation payments relate to the actuarially assessed deficit within an employer's sub-fund when their last active employee leaves.

The contributions can be analysed by type of Member Body as follows:-

	2014-15 £000	2013-14 £000
Leicestershire County Council	38,464	36,571
Scheduled bodies	105,364	96,829
Admitted bodies	7,020	5,920
	150,848	**139,320**

4. Transfers In

	2014-15 £000	2013-14 £000
Individual transfers in from other schemes	3,745	4,308
	3,745	**4,308**

5. Benefits

	2014-15 £000	2013-14 £000
Pensions	98,351	93,479
Lump sum retirement benefits	23,911	24,705
Lump sum death benefits	3,748	2,845
	126,010	**121,029**

The benefits paid can be analysed by type of Member Body as follows:-

	2014-15 £000	2013-14 £000
Leicestershire County Council	46,001	45,651
Scheduled bodies	71,035	66,309
Admitted bodies	8,974	9,069
	126,010	**121,029**

6. Payments to and on account of leavers

	2014-15 £000	2013-14 £000
Refunds to members leaving scheme	344	15
Payments for members joining state scheme	218	(2)
Individual transfers to other schemes	6,860	6,102
Bulk transfers to other schemes	53,904	0
	61,326	**6,115**

7. Administration expenses

	2014-15 £000	2013-14 £000
Administration and Processing	1,075	1,030
Actuarial fees	79	201
Legal and other professional fees	25	25
Computer system costs	186	231
	1,365	**1,487**

8. Investment income

	2014-15 £000	2013-14 £000
Dividends from equities	2,435	2,444
Income from index-linked securities	3,294	3,631
Income from pooled investment vehicles	14,221	13,324
Net rents from properties	5,541	4,977
Interest on cash or cash equivalents	245	201
Net currency profit/(loss)	263	(83)
Securities lending commission	18	7
Insurance commission	39	32
	26,056	**24,533**

9. Investments

	Value at 31.3.14 £000	Purchases at Cost and Derivatives Payments £000	Sale Proceeds and Derivative Receipts £000	Change in Market Value £000	Value at 31.3.15 £000
Equities	87,415	41,976	(54,287)	11,960	87,064
Index-linked securities	239,178	142,650	(136,362)	59,472	304,938
Pooled investment vehicles	2,256,548	408,617	(377,269)	294,848	2,582,744
Properties	78,940	2,755	(282)	9,068	90,481
Cash and currency	69,968	0	(17,545)	0	52,423
Derivatives contracts	1,895	25,324	(53,638)	26,722	303
Other investment balances	(295)	2,495	0	0	2,200
	2,733,649	**623,817**	**(639,383)**	**402,070**	**3,120,153**

The change in the value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

9. Investments (continued)

The Fund has investments of £187.542m in the Legal & General UK equity index fund (31/3/14, £180.680m), £160.464m in the Legal & General UK Core equity index fund (31/3/14, £153.869m), £207.503m in the Legal & General North America index fund (31/3/14, £183.138m) and £209.887m in the Legal & General FTSE RAFI North America fund (31/3/14, £185.011m) that exceed 5% of the total value of net assets. At 31/3/14 the Fund had an investment of £139.887m in the Pictet Absolute Return Global Diversified Fund that exceeded 5% of the total value of net assets, but the investment was not above this threshold on 31/3/15.

The Fund had no investments which exceed 5% of any class or type of security.

	31st March 2015 £000	31st March 2014 £000
Equities		
UK quoted	13,225	24,409
Overseas quoted	73,839	63,006
	87,064	**87,415**
Index-linked securities		
UK Government quoted	176,147	43,097
Overseas government quoted	128,791	196,081
	304,938	**239,178**
Pooled investment vehicles		
Property funds	214,149	176,382
Private equity	124,432	111,307
Bond and debt funds	302,801	178,748
Hedge funds	2,901	4,368
Equity-based funds	1,574,157	1,381,412
Commodity-based funds	71,005	75,320
Timberland fund	52,107	38,175
Managed futures fund	134,701	87,838
Targeted return fund	31,524	139,887
Infrastructure funds	74,967	63,111
	2,582,744	**2,256,548**
Properties		
UK (note 12)	**90,481**	**78,940**
Cash and currency	**52,423**	**69,968**
Derivatives contracts		
Forward foreign exchange assets	1,622	1,603
Currency option assets	3,283	978
Other option assets	3,484	2,105
Forward foreign exchange liabilities	(6,872)	(2,716)
Currency option liabilities	(1,214)	(75)
	303	**1,895**
Other investment balances	**2,200**	**(295)**
Total Investments	**3,120,153**	**2,733,649**

At 31/3/15 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £122.000m in private equity, £18.496m in illiquid corporate bonds and £52.107m in timberland.

10. Derivatives

The Fund holds derivatives for a number of different reasons. Forward foreign exchange contracts are held to benefit from expected changes in the value of currencies relative to each other. Futures can be held to gain full economic exposure to markets without the requirement to make a full cash investment, and can be held to ensure that the Fund's exposures are run efficiently. Options are generally used to express an investment view but can give a much higher economic exposure than is required to be paid for the options – they also ensure that the potential loss is limited to the amount paid for the option.

10. Derivatives (continued)

Forward Foreign Exchange Contracts
All forward foreign exchange contracts are classed as 'Over the Counter' and at the year end the net exposure to forward foreign exchange contracts can be summarised as follows:

	2014-15 £000	**2013-14 £000**
Active currency positions (those whose purpose is solely to seek economic gain)	(1,660)	243
Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	(3,590)	(1,356)
	(5,250)	**(1,113)**

Open forward currency contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Asset Liability £000
Up to one month	AUD	8,100	USD	6,249		(47)
Up to one month	USD	6,365	AUD	8,100	125	
Up to one month	EUR	52,360	CHF	54,927		(215)
Up to one month	GBP	107	CHF	154		(0)
Up to one month	CHF	55,081	EUR	52,360	322	
Up to one month	EUR	5,960	GBP	4,290	24	
Up to one month	GBP	4,402	EUR	6,075	5	
Up to one month	USD	60,716	EUR	56,750		(170)
Up to one month	USD	98,900	EUR	91,080	713	
Up to one month	EUR	59,510	USD	64,614		(465)
Up to one month	USD	146	GBP	98		(0)
Up to one month	INR	409,519	USD	6,490	29	
Up to one month	USD	6,490	INR	405,027	19	
Up to one month	USD	39,470	JPY	4,756,530		(139)
Up to one month	JPY	5,473,605	USD	45,860		(136)
Up to one month	USD	12,770	JPY	1,517,523	75	
Up to one month	USD	6,530	MYR	23,834	66	
Up to one month	MYR	24,063	USD	6,530		(25)
Up to one month	EUR	115	GBP	0	83	
Up to one month	GBP	0	USD	146		(97)
Up to one month	GBP	6,292	JPY	1,185,791		(373)
Up to three months	GBP	8,527	EUR	11,850		(70)
Up to three months	GBP	50,957	USD	77,580		(1,385)
Up to one month	GBP	23,479	CNY	221,010		(735)
Up to one month	GBP	47,700	CHF	70,389		(1,145)
Up to one month	GBP	66,300	JPY	12,132,668		(1,870)
Up to one month	GBP	77,200	EUR	106,457	161	
					1,622	**(6,872)**
Net forward currency contracts at 31 March 2015						**(5,250)**
Prior year comparative						
Open forward currency contracts at 31 March 2014					1,603	(2,716)
Net forward currency contracts at 31 March 2014						**(1,113)**

Options
All options held by the Fund were exchange traded. The value of these options and the assets to which they were exposed can be summarised as follows:

	2014-15 £000	2013-14 £000
Currency-based	2,069	903
Equity market-based	3,484	2,105
	5,553	**3,008**

Purchased/written options

Investment underlying option contract	Expires	Notional Holding £000	Market Value 31st March 2015 £000
Assets			
AUD put/USD call	<1 month	316	272
EUR call/USD put	<1 month	581	410
EUR put/USD call	<1 month	85	50
GBP put/USD call	<1 month	455	286
USD call/CHF put	3 to 6 months	517	1,724
USD call/KRW put	<1 month	153	172
USD Call/JPY put	<1 month	150	184
USD call/KRW put	1 to 3 months	192	185
Equity protection option	Over 1 year	9,531	3,484
			6,767
Liabilities			
AUD put/USD call	<1 month	(104)	(78)
EUR put/USD call	<1 month	(53)	(77)
EUR call/USD put	<1 month	(99)	(82)
GBP put/USD call	<1 month	(170)	(62)
USD Call/CHF put	3 to 6 months	(203)	(733)
USD Call/JPY put	<1 month	(63)	(25)
USD call/KRW put	<1 month	(63)	(66)
USD call/KRW put	1 to 3 months	(94)	(91)
			(1,214)

11. Investment management expenses

	2014-15 £000	2013-14 £000
Administration, management and custody	5,564	6,874
Performance measurement services	30	16
Other advisory fees	107	62
	5,701	**6,952**

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12. Property investments

The Fund's investment in property comprises investments in pooled property funds and a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

Year ending 31st March 2014		Year ending 31st March 2015
£000		£000
66,505	Opening balance	78,940
	Additions:	
8,832	Purchases	2,755
-	Construction	-
-	Subsequent expenditure	-
(75)	Disposals	(282)
3,678	Net increase in market value	9,068
78,940	**Closing balance**	**90,481**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the fund is not under any contractual obligations to purchase, construct or develop any of these properties. Nor does it have any responsibility for any repairs, maintenance or enhancements.

The split of the directly owned properties by tenure is as follows.

	31st March 2015 £000	**31st March 2014 £000**
Freehold	63,631	58,505
Long leasehold (over 50 years unexpired)	13,100	9,985
Medium/Short leasehold (under 50 years unexpired)	13,750	10,450
	90,481	**78,940**

All properties, except the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31st March 2015. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Members of the Royal Institute of Chartered Surveyors.

13. Current assets and liabilities

	31 March 2015 £000	**31 March 2014 £000**
Contributions due from employers	6,956	7,393
Cash balances	100	87
Other receivables	817	274
Due from Ministry of Justice	2,190	2,190
Current assets	***10,063***	***9,944***
Due to Leicestershire County Council	(316)	(2,034)
Fund management fees outstanding	(1,169)	(1,355)
Other payables	(561)	(351)
Current liabilities	***(2,046)***	***(3,740)***
Net current assets and liabilities	**8,017**	**6,204**

Contributions due at the year end were received by the due date.

The amount due from the Ministry of Justice relates to the actuarially assessed deficit in respect of Magistrates' Court staff that were formerly in the LGPS. The amount is payable over 10 years at £365,000 per annum.

Analysis of investments by manager

The Fund employs external investment managers to manage all of its investments apart from an amount of cash and a farm property, which are managed by Leicestershire County Council. This structure ensures that the total Fund performance is not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:-

Investment Manager	At 31st March 2015 £000	%	At 31st March 2014 £000	%
Legal & General	1,193,357	38.2	1,023,692	37.5
Kames Capital	260,593	8.4	184,189	6.7
Ruffer LLP	224,472	7.2	199,491	7.3
Aviva Investors	165,831	5.3	156,352	5.7
Kleinwort Benson Investors	139,121	4.5	121,799	4.5
Aspect Capital	134,701	4.3	87,838	3.2
Adams Street Partners	122,000	3.9	108,571	4.0
Colliers Capital UK	118,033	3.8	102,005	3.7
Kempen Capital	113,115	3.6	104,633	3.8
Delaware Investments	110,066	3.5	88,219	3.2
Prudential/M & G	93,028	3.0	77,548	2.8
Ashmore	76,047	2.4	0	0.0
Partners Group	75,667	2.4	0	0.0
Investec Asset Management	68,869	2.2	72,908	2.7
Stafford Timberland	52,107	1.7	38,176	1.4
JP Morgan Asset Management	39,564	1.3	92,952	3.4
IFM	38,474	1.2	36,115	1.3
Kravis Kohlberg Roberts	36,493	1.2	26,995	1.0
Pictet Asset Management	31,524	1.0	139,887	5.1
Catapult Venture Managers	2,432	0.1	2,736	0.1
Permal (formerly Fauchier Partners)	779	0.0	2,054	0.1
Capital International	0	0.0	32,797	1.2
Internally Managed and currency managers	23,880	0.8	34,692	1.3
	3,120,153		**2,733,649**	

15. Custody of assets

All the Fund's directly held assets are held by external custodians and are therefore not at risk from the financial failure of any of the Fund's investment managers. Most of the pooled investment funds are registered with administrators that are independent of the investment manager.

16. Operation and management of fund

Details of how the Fund is administered and managed are included in pages 6 to 14.

17. Employing bodies and fund members

A full list of all bodies that have active members within the Fund is included on page 8. Statistical information in respect of the number of members is included on page 7.

18. Actuarial valuation

At the date of the Fund's last actuarial valuation (31st March 2013), the Fund had assets of £2,628m. At that date the Fund's assets covered 72% of its accrued liabilities.

19. 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 the 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 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

Listed investments 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 instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Leicestershire County Council Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP.

The values of the investment in hedge funds and infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value.

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

	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
Values at 31st March 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,178,362	341,118	216,960	2,736,440
Financial liabilities at fair value	(2,791)			(2,791)
Net financial assets	**2,175,571**	**341,118**	**216,960**	**2,733,649**

	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
Values at 31st March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,305,965	567,867	254,407	3,128,239
Financial liabilities at fair value	(8,086)			(8,086)
Net financial assets	**2,297,879**	**567,867**	**254,407**	**3,120,153**

20. The Nature and Extent of Risks Arising from Financial Instruments

Risk and risk management
The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. the promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk)

and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the Fund's required cash flows. These investment risks are managed as part of the overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Management Board.

a) Market risk
Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, Leicestershire County Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks via an annual strategy review which ensures that market risk remains within acceptable levels. On occasion equity futures contracts and exchange traded option contracts on individual securities may be used to manage market risk on investments, and in exceptional circumstances over-the-counter derivative contracts may be used to manage specific aspects of market risk.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such investments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. For all investments held by the Fund, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored to ensure that it is within the limits specified in the Fund's investment strategy.

Other price risk – sensitivity analysis
Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2015/16 reporting period:

Asset type	Potential market movements (+/-)
Overseas government bonds	8%
Global credit	10%
Global government index-linked bonds	8%
UK equities	16%
Overseas equities	19%
UK property	15%
Private equity	28%
Infrastructure	14%
Commodities	14%
Hedge funds and targeted return funds	12%
Timberland	16%
Cash	1%

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of assets. The sensitivities are consistent with the assumptions contained in the annual strategy review and the analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

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

Asset type	**Value at 31st March 2014**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000	**%**	**£000**	**£000**
UK equities	24,409	16	28,314	20,504
Overseas equities	63,006	19	74,977	51,035
Global index-linked bonds	239,178	8	258,312	220,044
Pooled property funds	176,382	15	202,839	149,925
Pooled private equity funds	111,307	28	142,473	80,141
Pooled bond and debt funds	178,748	10	196,623	160,873
Pooled hedge funds	4,368	12	4,892	3,844
Pooled equity funds	1,381,412	19	1,643,880	1,118,944
Pooled commodity funds	75,320	14	85,865	64,775
Pooled targeted return funds	139,887	12	156,673	123,101
Pooled timberland fund	38,175	16	44,283	32,067
Pooled managed futures fund	87,838	12	98,379	77,297
Pooled infrastructure fund	63,111	14	71,947	54,275
UK property	78,940	15	90,781	67,099
Cash and currency	69,968	1	70,668	69,268
Options, futures, other investment balances, current assets and current liabilities	7,804	1	7,882	7,726
Total assets available to pay benefits	**2,739,853**		**3,178,788**	**2,300,918**

Asset type	**Value at 31st March 2015**	**Percentage change**	**Value on increase**	**Value on decrease**
	£000	**%**	**£000**	**£000**
UK equities	13,225	16	15,341	11,109
Overseas equities	73,839	19	87,868	59,810
Global index-linked bonds	304,938	8	329,333	280,543
Pooled property funds	214,149	15	246,271	182,027
Pooled private equity funds	124,432	28	159,273	89,591
Pooled bond and debt funds	302,801	10	333,081	272,521
Pooled hedge funds	2,901	12	3,249	2,553
Pooled equity funds	1,574,157	19	1,873,247	1,275,067
Pooled commodity funds	71,005	14	80,946	61,064
Pooled targeted return funds	31,524	12	35,307	27,741
Pooled timberland fund	52,107	16	60,444	43,770
Pooled managed futures fund	134,701	12	150,865	118,537
Pooled infrastructure fund	74,967	14	85,462	64,472
UK property	90,481	15	104,053	76,909
Cash and currency	52,423	1	52,947	51,899
Options, futures, other investment balances, current assets and current liabilities	10,520	1	10,625	10,415
Total assets available to pay benefits	**3,128,170**		**3,628,312**	**2,628,028**

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is not highly exposed to interest rate risk but monitoring is carried out to ensure that the exposure is close to the agreed asset allocation benchmark.

The Fund's direct exposure to interest rate movements as at 31st March 2015 and 31st March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	**As at 31st March 2015**	**As at 31st March 2014**
Cash and Currency	52,423	69,968
Fixed interest securities	302,801	178,748
Total	**355,224**	**248,716**

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits, A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. 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.

Asset type	**Carrying amount as at 31st March 2014**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	69,968	700	(700)
Fixed interest securities	178,748	1,787	(1,787)
Total	**248,716**	**2,487**	**(2,487)**

Asset type	**Carrying amount as at 31st March 2015**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	52,423	524	(524)
Fixed interest securities	302,801	3,028	(3,028)
Total	**355,224**	**3,552**	**(3,552)**

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 Fund is exposed to currency risk in financial instruments that are denominated in any other currency other than sterling. The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is actively managed and the neutral position is to hedge 50% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged at as 31st March 2015 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31st March 2015	Asset value as at 31st March 2014
	£000	**£000**
Overseas equities	73,839	63,006
Overseas government index-linked bonds	128,791	196,081
Private equity pooled funds	122,000	108,571
Pooled hedge Funds	2,901	4,368
Overseas and Global equity-based pooled funds	1,199,483	1,020,715
Commodity-based pooled funds	71,005	75,320
Infrastructure pooled funds	74,967	63,111
Timberland pooled fund	52,107	38,175
Emerging Market Debt pooled fund	76,047	0
Total overseas assets	**1,801,140**	**1,569,347**

Currency risk – sensitivity analysis
Following analysis of historical data in consultation with the Fund's investment advisors, it is considered that the likely volatility associated with foreign exchange rate movements is 13% (as measured by one standard deviation).

A 13% fluctuation in the currency is considered reasonable based on the Fund advisor's analysis of the long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Asset value as at 31st March 2014	Change to net assets available to pay benefits	
		+13%	**-13%**
	£000	**£000**	**£000**
Overseas equities	63,006	71,197	54,815
Overseas government index-linked bonds	196,081	221,572	170,590
Private equity pooled funds	108,571	122,685	94,457
Pooled hedge Funds	4,368	4,936	3,800
Overseas equity-based pooled funds	1,020,715	1,153,408	888,022
Commodity-based pooled funds	75,320	85,112	65,528
Infrastructure pooled funds	63,111	71,315	54,907
Timberland pooled fund	38,175	43,138	33,212
Total change in assets available	**1,569,347**	**1,773,363**	**1,365,331**

Currency exposure – asset type	Asset value as at 31st March 2015	Change to net assets available to pay benefits	
		+13%	**-13%**
	£000	**£000**	**£000**
Overseas equities	73,839	83,438	64,240
Overseas government index-linked bonds	128,791	145,534	112,048
Private equity pooled funds	122,000	137,860	106,140
Pooled hedge Funds	2,901	3,278	2,524
Overseas equity-based pooled funds	1,199,483	1,355,415	1,043,551
Commodity-based pooled funds	71,005	80,236	61,774
Infrastructure pooled funds	74,967	84,713	65,221
Timberland pooled fund	52,107	58,881	45,333
Emerging Market Debt pooled fund	76,047	85,933	66,161
Total change in assets available	**1,801,140**	**2,035,288**	**1,566,992**

At 31st March 2014 and 31st March 2015 the Fund has an active currency manager with a portfolio based on a notional value of £340m, and this is the maximum exposure that they are allowed to have. In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and, on occasions, currency options. The portfolios have an average target volatility of 2.5% and as a result the Fund is exposed to currency risk through these portfolios. The table below shows the likely impact onto the net assets available to pay benefits.

Currency exposure – asset type	Asset value as at 31st March 2014	Change to net assets available to pay benefits	
		+2.5%	-2.5%
	£000	£000	£000
Active currency portfolios	340,000	348,500	331,500
Total change in assets available	**340,000**	**348,500**	**331,500**
Currency exposure – asset type	**Asset value as at 31st March 2015**	**Change to net assets available to pay benefits**	
		+2.5%	-2.5%
	£000	£000	£000
Active currency portfolios	340,000	348,500	331,500
Total change in assets available	**340,000**	**348,500**	**331,500**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. 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 Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although one manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an instant access high interest account with National Westminster Bank or in a Money Market Fund.

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2015 was £52.423m (31st March 2014: £69.968m). This was held with the following institutions.

	Rating	Balances at 31/3/15	Balance at 31/3/14
		£000	£000
Money Market Funds			
Ignis	AAA	17,715	0
JPMorgan	AAA	25,529	30,446
Bank Deposit Accounts			
National Westminster Bank	A	17	30,694
Royal Bank of Canada	AA	27	57
Money Market Loans			
Standard Chartered	AA-	9,135	8,771
Total		**52,423**	**69,968**

c) Liquidity risk
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. All of the Fund’s cash holdings are available for immediate access, although on some occasions this will involve withdrawing cash balances from the portfolios of investment managers.

The Fund is allowed to borrow to meet short-term cash flow requirements, although this is an option that is only likely to be used in exceptional circumstances.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2015 the value of illiquid assets (considered to be the Fund’s investments in property, hedge funds, private equity, timberland and infrastructure) was £559.037m, which represented 17.9% of total Fund assets. (31st March 2014: £472.283m, which represented 17.2% of total Fund assets).

The Fund remains cash flow positive for non-investment related items so there is no requirement to produce detailed cash flow forecasts. All investment related cash flows are known about sufficiently far in advance that they can be covered by taking action in a manner that is both cost-effective and in line with the Fund’s investment strategy.

All financial liabilities at 31st March 2015 are due within one year.

Refinancing risk
The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund’s investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial interests of the Fund at that time. There are no financial instruments that have a refinancing risk as part of the Fund’s treasury management and investment strategies.

Securities Lending
As at 31 March 2015, £5.7m of stock was on loan to an agreed list of approved borrowers through the Fund’s Custodian in its capacity as agent lender. The loans were all in respect of equities and were covered by £6.1m of non-cash collateral.

Collateral is marked to market, adjusted daily and held by the custodian on behalf of the Fund. Income from stock lending amounted to £0.018m during the year and is detailed in note 8 to the accounts.

The Fund retains its economic interest in stocks on loan, and therefore the value is included in the Fund valuation. However there is an obligation to return collateral to the borrowers, therefore its value is excluded from the Fund valuation. The securities lending programme is indemnified, giving the Fund further protection against losses.

Reputational Risk
The Fund’s prudent approach to the collective risks listed above and through best practice in corporate governance ensures that reputational risk is kept to a minimum.

21. <u>Related party transactions</u>
From the information currently available there were no material transactions with related parties in 2014/2015 that require disclosure under FRS8.

22. <u>Contingent liabilities</u>
When a member has left the Pension Fund before accruing sufficient service to qualify for a benefit from the scheme, they may choose either a refund of contributions or a transfer value to another pension fund. There are a significant number of these leavers who have not taken either of these options and as their ultimate choice is unknown, it is not possible to reliably estimate a liability. The impact of these ‘frozen refunds’ has, however, been considered in the calculation of the actuarial liabilities of the fund.

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £927,000, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

23. Contractual Commitments

At 31st March 2015, the Fund had the following contractual commitments:-

(i) Undrawn commitments totalling $128,574,250 (£86,611,149) to twenty seven different pooled private equity funds managed by Adams Street Partners (31st March 2014 £71,483,310 to twenty four different funds).

(ii) An undrawn commitment of £655,601 to two private equity funds managed by Catapult Venture Managers (31st March 2014 £868,145 to two funds).

(iii) An undrawn commitment of $44,404,222 (£29,911,904) to two KKR Global Infrastructure funds (31st March 2014 £9,128,153 to one fund)

(iv) An undrawn commitment of €9,762,500 (£7,062,934) to the Stafford International Timberland VI Fund (31st March 2014 £11,594,608)

(v) An undrawn commitment of $23,250,000 (£15,661,839) to the Stafford International Timberland VII Fund.

(vi) An undrawn commitment of £19,400,000 to the M & G Debt Opportunities Fund II (31st March 2014 £28,332,000 to the M & G Debt Opportunities Fund, which became fully drawn during 2014/15)

(vii) An undrawn commitment of £25,000,000 to the Partners Group Private Markets Credit Strategy 2014

24. Additional voluntary contributions (AVCs)

The Fund has an arrangement with Prudential whereby additional contributions can be paid to them for investment, with the intention that the accumulated value will be used to purchase additional retirement benefits. AVCs are not included in the Pension Fund Accounts in accordance with Regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009.

During 2014/15 £1.961m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £14.214m.

25. Policy Statements

The Fund has a number of policy statements that are available on request from Colin Pratt, Investments Manager, Leicestershire County Council, County Hall, Glenfield, Leicester, LE3 8RB (telephone 0116 3057656, email colin.pratt@leics.gov.uk). They have not been reproduced within the Annual Report and Accounts as, in combination, they are sizeable and it is not considered that they would add any significant value to most users of the accounts. The statements are:-

Statement of Investment Principles (SIP)
Communications Policy Statement
Funding Strategy Statement (FSS)

Compliance statement

Income and other taxes

The Fund has been able to gain either total or partial relief from local taxation on the Fund's investment income from eligible countries. The Fund is exempt from UK Capital Gains and Corporation tax.

Self-investment

There has been no material employer related investment in 2014/2015 or 2013/2014. There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

Calculation of transfer values

There are no discretionary benefits included in the calculation of transfer values.

Pension Increase

All pension increases are made in accordance with the Pensions Increase (Review) Order 1997. Recent pension increases are listed on page 4 of this report.

Changes to LGPS

All changes to LGPS are made via the issue of Statutory Instruments by Central Government.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2014/15 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2014 £m	31 Mar 2013 £m
Present value of Promised Retirement Benefits	5,492	4,508

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £2,966m in respect of employee members, £960m in respect of deferred pensioners and £1,566m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £777m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015 % p.a.	31 Mar 2014 % p.a.
Inflation/Pensions Increase Rate	2.4%	2.8%
Salary Increase Rate	4.3%	4.6%
Discount Rate	3.2%	4.3%

Longevity assumption

The life expectancy assumption is based on the Fund's Vitacurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.3 years
Future Pensioners*	24.2 years	26.6 years

*Figures assume members aged 45 as at the last formal valuation date

Please note that the assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 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.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2015 for IAS19 purposes’ dated 23 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Anne Cranston

Anne Cranston

For and on behalf of Hymans Robertson LLP

21 May 2015

Independent auditors' statement to the Members of the Leicestershire County Council Pension Fund (the "Authority") on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of Leicestershire County Council for the year ended 31 March 2015; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by Leicestershire County Council Pension Fund, comprise:

- the Net Assets Statement as at 31 March 2015;
- the Fund Account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the Responsible Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 49 of the audited Statement of Accounts the Responsible Financial Officer is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of Leicestershire County Council. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consists of: the Management Structure, the Summary, the Management Report, the Governance Compliance Statement, the Investment Report, the Actuary's Statement and the Analysis of Investments.

This report, including the opinions, has been prepared for and only for the Authority's members as a body 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 of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, 29 September 2015, and the date of this statement.

Richard Bacon

Richard F Bacon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
22 October 2015

(a) The maintenance and integrity of the Leicestershire County Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

Statement of Responsibilities for Leicestershire County Council Pension Fund Accounts

Leicestershire County Council's responsibilities

The Council is required to:

i) Make arrangements for the proper administration of the financial affairs of Leicestershire County Council Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director of Corporate Resources;

ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

iii) Approve the Statement of Accounts for the year.

The Director of Corporate Resources is responsible for the preparation of the Leicestershire County Council Pension Fund’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Corporate Resources has:

i) Selected suitable accounting policies and then applied them consistently.
ii) Made judgements and estimates that were reasonable and prudent.
iii) Complied with the Code.

The Director of Corporate Resources has also:

i) Kept proper accounting records which were up to date.
ii) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the above responsibilities have been complied with and the Statement of Accounts herewith presents a true and fair view of the financial position of the Leicestershire Pension Fund as at 31 March 2014 and its income and expenditure for the year ended the same date.

Chris Tambini
Assistant Director, Strategic Finance & Property
22 October 2015

	31st March 2015		31st March 2014	
	£000	%	£000	%
Fixed & Variable Interest Stocks				
UK Index Linked	176,147	5.6	43,097	1.6
Overseas Index Linked	128,791	4.1	196,081	7.2
Global Credit	226,754	7.3	178,748	6.5
Emerging Market Debt	76,047	2.4	0	0.0
	607,739	19.4	417,926	15.3
Equities – United Kingdom	390,463	12.5	385,106	14.0
Equities – Overseas/Global				
Global dividend-focused/smaller companies	253,296	8.1	227,543	8.3
North America	441,182	14.1	396,066	14.5
Europe	225,764	7.2	196,713	7.2
Japan	91,507	2.9	31,293	1.1
Pacific ex Japan	101,809	3.3	85,164	3.1
Emerging Markets	157,200	5.0	146,942	5.4
	1,270,758	40.6	1,083,721	39.6
Private Equity	124,432	4.0	111,307	4.1
Hedge Funds	2,901	0.1	4,368	0.2
Targeted Return	166,225	5.3	227,725	8.3
Commodity Funds	71,005	2.3	75,320	2.7
Infrastructure/Timberland Funds	127,074	4.1	101,286	3.7
Property				
United Kingdom:				
Retail & Retail Warehouses	33,300	1.1	30,070	1.1
Offices	19,235	0.6	15,510	0.6
Industrial	15,825	0.5	13,110	0.5
Leisure	20,710	0.7	19,025	0.7
Agricultural	1,411	0.0	1,225	0.0
Indirect	214,149	6.8	176,382	6.4
	304,630	9.7	255,322	9.3
Cash, Currency and derivatives				
Cash and deposits	52,423	1.7	69,968	2.5
Foreign exchange derivatives	(3,181)	(1.0)	(210)	(0.0)
Other derivatives contracts	3,484	1.0	2,105	0.1
Other Net Assets/(Liabilities)	10,217	0.3	5,909	0.2
	62,943	2.0	77,772	2.8
TOTAL	3,128,170	100.0	2,739,853	100.0

Pooled and Unitised Funds are included in the asset class in which the underlying investments are made.

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