Leicestershire County Council Pension Fund
(reference number 00328856RQ)

contents

Management Structure	2 - 3
Summary	4 - 5
Management Report	6 - 15
Governance Compliance Statement	16 - 18
Investment Report	19 - 25
Actuary's Statement	26 - 27
Annual Accounts 2016/2017	
Fund Account and Net Assets Statement	28
Notes to the Accounts	29 - 45
Additional Reporting Requirement	46 - 47
Report of the Auditor to the members of the Leicestershire County Council Pension Fund	48
Statement of Responsibilities	49
Analysis of Investments	50

management structure

Local Pension Committee (previously called Pension Fund Management Board)

County Council Representatives

Mr G A Hart (Chairman)
Mr P C Osborne (Vice Chairman)
Mr S J Hampson
Mr M Hunt
Mr K W P Lynch

Representatives of Other Bodies

Mr J Shuter
Cllr L Moore
Cllr D Bajaj
Cllr T Barkley (to May 2016)
Cllr M Graham
Cllr N Frost (from May 2016)

Staff Representatives

Ms J Dean
Mr R Bone
Mr N Booth

Local Pension Board

Employer Representatives

Mr D Jennings
Mr A M Kershaw
Cllr D Alfonso

Member Representatives

Ms D Stobbs
Ms D Haller
Ms A Severn-Morrell

Officers Responsible for the Fund:

Head of Finance
Chris Tambini, - Director of Finance, 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
Catapult Venture Managers, Leicestershire
Colliers Capital, London
Delaware Investments, Philadelphia
IFM, London
JPMorgan Asset Management, London
Kames Capital, Edinburgh
Kempen Capital, Amsterdam
Kleinwort Benson Investors, Dublin
Kohlberg Kravis Roberts, London

management structure

Legal & General Investment Management, London
Markham Rae LLP, 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
County Solicitor, Leicestershire County Council

Actuary and Investment Consultant
Hymans Robertson LLP, Glasgow

Independent Investment Advisor
Scott Jamieson

Auditor
KPMG LLP, Birmingham

AVC Provider
Prudential, London

Banker
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 2016/2017. Most of these events are covered in more detail in the main body of the report, but can be summarised as follows:-

- On 23rd June 2016 a referendum was held in the UK into whether the electorate wished to remain within the European Union. Whilst the polls had been quite tight, the decision to leave came as a significant shock and the immediate market reaction was for sterling to fall sharply and for equity markets across the world to plunge.

- Within a matter of days, however, equity investors had reassessed how the vote might impact onto the medium term prospects for companies and markets initially steadied, and then started to rise. Somewhat unexpectedly, the falls were recouped relatively quickly and markets then continued to push upwards. By the year end almost all equity markets were higher than their level at the beginning of the year in local currency terms, and sterling investors also received a significant boost to the value of their overseas holdings due to the weakness of sterling. Over the financial year the increase in the value of the US dollar against sterling added 15% to returns, with the Euro exchange rate adding 8% and the Japanese Yen 16%.

- The Leicestershire Pension Fund has a high exposure to overseas currencies through the investments it owns. Although the exposure varies depending on the decisions taken within the portfolios of some of the managers, currency exposure will normally be relevant for about 60% of assets. Clearly this exposure had a very positive impact onto returns during 2016/17.

- The Fund has a neutral position whereby a certain proportion of the currency exposure that it gains via its overseas equity holdings is hedged back to sterling – for most of 2016/17 the neutral position was a 50% hedge, but this was increased to 70% in February 2017. The actual hedges are, however, managed by Kames Capital and will vary from the neutral position due to their views on the relative value of currencies against sterling and the risks within each currency. In the week leading up to the UK referendum all currency hedges were removed, in the belief that the possibility of a vote to leave was not being priced into sterling. This decision proved to be excellent, and decisions taken by Kames in respect of the currency hedge added about £85m in value (relative to the neutral position) during 2016/17, with a large proportion of this being directly related to the hedge removal in June 2016.

- Equity markets produced strong returns in local currency terms during 2016/17, and these returns were enhanced significantly to sterling investors due to the impact of sterling devaluation. Even the UK market was boosted by sterling weakness, as many of its largest companies have significant overseas earnings and assets, but its 22% return still looked a bit lacklustre against other markets! Japan, the US, the Pacific region and emerging markets all produced sterling returns of 30%+.

- Bonds produced positive returns and UK index-linked bond returns were particularly strong. Bonds with long maturities performed much better than their shorter-dated equivalents.

- The UK commercial property market was a noticeable laggard during the year and it fell in capital terms, although the income yield helped it to produce a positive return of almost 4%. There was a significant downward revision to prices in the immediate aftermath of the referendum, and also some sensationalist press coverage of a collapsing commercial property market, but actual selling pressure was muted and prices stabilised relatively quickly.

- The outcome of the US Presidential election also came as a surprise to many, but as President Trump's agenda was generally considered to be investor friendly it did not have a particularly meaningful impact onto markets. US bonds saw their yields spike higher – the US was already in a rising interest rate environment and the prospect of significant bond issuance to support Trump's plans for infrastructure spending meant that this was an almost inevitable reaction. Bond markets elsewhere, however, reacted far less and even in the US the market soon became more relaxed about the outlook for the asset class.

- The Fund's investments produced a positive return of 22.5% for the year, which was over 2% above the benchmark. This absolute return was significantly more than could possibly have been anticipated in any circumstances, let alone in circumstances where two unexpected risks (Brexit and the inauguration of a US President who is likely to be somewhat unpredictable) came to the fore. The possibility that these returns have been 'borrowed' from the future, and that a period of disappointing returns lies ahead, cannot be ruled out.

- During the year considerable progress was made in respect of investment pooling within the LGPS, with the pool in which the Leicestershire Fund is involved (LGPS Central) being accepted by Central Government. LGPS Central will be operating from 1st April 2018 and will be responsible for implementing the Fund's investment wishes, although asset allocation (i.e. the markets in which the assets are invested), which is the major determinant of investment performance, will remain the responsibility of the Fund.

- The Fund's membership increased by over 2,100 during 2016/17 and at the year-end stood at just above 88,600. There were increases in all three classes of membership – active, pensioner and deferred.

- The Fund's triennial actuarial valuation, based on the position at 31st March 2016, was completed during the year and new employer contribution rates for the period between 1st April 2017 and 31st March 2020 were set. In general there was a requirement for employing bodies to increase their employers' contributions, and for most employers this will occur on a phased basis that is likely to continue beyond the period for which rates were set – in other words, the 2019 actuarial valuation has an in-built bias for further employers' contribution increases. The actuarial valuation is simply an attempt to calculate the present value of accrued benefits and how much it will cost to pay for future benefits as they accrue, and these will vary depending on the assumptions used. Ultimately actuarial valuations impact onto the pace of funding future obligations as the true value of those obligations will actually only be known after-the-event.

management report

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 as they have their own schemes.

Both employees and employers make contributions to the Scheme. Employee contribution rates vary between 5.5% and 12.5% of pay.

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 was, however, changed from 65 to State Pension Age so the vast majority of members will have to retire later if they wish to receive all of their 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 2016 showed that the Fund had enough assets to cover 76.2% of its accrued liabilities at that date, which was an increase from the 72% funding position of the 2013 valuation. Many employing bodies faced further meaningful upward pressure onto their contribution rates and were allowed phased annual increases that covered the period 1st April 2017 to 31st March 2020. The next actuarial valuation will not take place until 2019, but there is a high possibility that employers' contribution rates will need to rise for many employers after the outcome of that valuation is known. The phasing allowed as part of the 2016 actuarial valuation means that some employers will not be making significant enough inroads into their deficits to make any outcome other than further rises likely.

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 depending on their circumstances.

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 2017	1.0%
April 2016	0.0%
April 2015	1.2%
April 2014	2.7%
April 2013	2.2%

Pension increases are set annually and put into force via an annual Pensions Review Order, which is agreed by Parliament. Since 2011 Public Sector Pension Schemes have been linked to the Consumer Price Index as opposed to the previous link to the Retail Price Index.

Scheme Membership

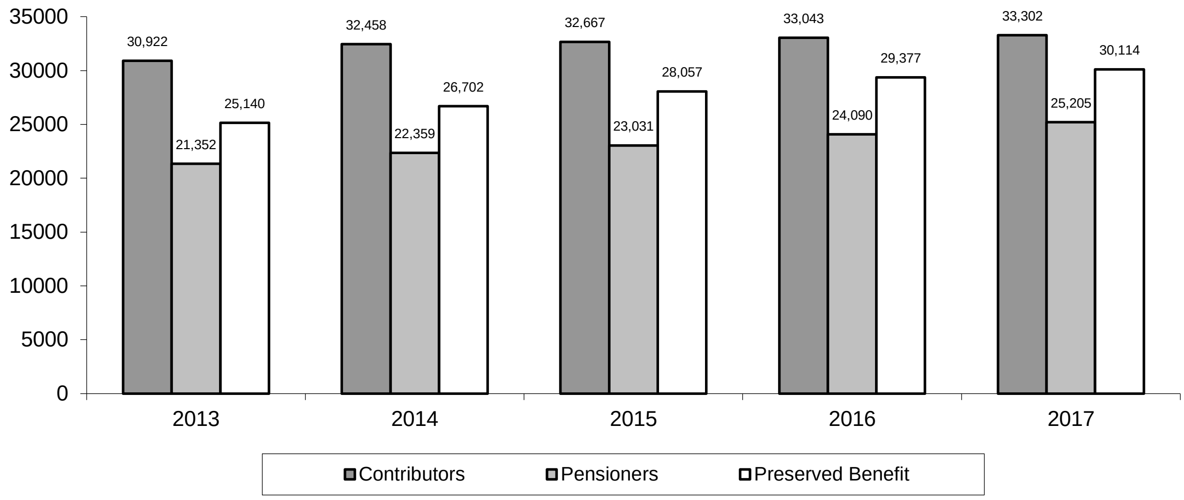
The number of scheme members who are either receiving a benefit or who have a future entitlement to one increased by over 2,100 (2.4%) over the course of the year, to 88,621. This figure excludes the 4,000+ members who have no entitlement to a benefit from the fund but do retain the right to either a refund of contributions or a transfer to an alternative pension arrangement.

Active membership increased from 33,043 to 33,302, and this increase continues the modest upward trend of recent years. The growing awareness of the value of a Local Government pension has meant that fewer members choose not to join the scheme, although there remains a higher-than-expected proportion that do not take advantage of their entitlement to membership. The City and County Councils delayed the implementation of auto enrolment (which forces employing bodies to bring almost all employees that are eligible to join the LGPS but are not currently scheme members into the scheme) until mid-2017 and it is likely that there will be a meaningful spike in membership when this occurs. Previous experience suggests that a reasonable proportion of those that are auto-enrolled do not opt out again, so the balance of probability is that active membership will increase again in 2017/18.

The net increase (i.e. new pensions commenced less those ceasing) in pensioner members was 1,115, or 4.6%. There were just over 1,600 new retirements during the year, of which 650 were from deferred benefit status. This was offset by the death of over 600 existing pensioners. Many of the deaths were of members that were widows/widowers of the original beneficiary, but about 1 in 4 of the deaths gave rise to a dependant's pension. There are considerable numbers of active and deferred members that will reach the age at which their benefits become payable in the coming years, so there will remain large numbers of new pensioners for the foreseeable future.

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 year end) continued to show a significant increase. Deferred membership increased by 2½% over the year and it is likely to continue to grow, although the pace has slowed as a result of the increased vesting period effective from 1st April 2014. Many deferred members are entitled to very low levels of future benefits, and will probably opt for a one-off compounded payment.

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



management report

Membership Statistics

Employing body	*Contributors 31 March '17*	*Contributors 31 March '16*	*Employers' Contribution Paid 2016/17 (% of pensionable pay plus cash)*	*Full Rate set in 2016 Actuarial Valuation* (% of pensionable pay plus cash)*
Leicester City Council	*9,053*	*9,358*	21.7	24.7
Leicestershire County Council	*7,669*	*7,911*	22.3	25.3
Office of the Police and Crime Commissioner/Chief Constable	*1,444*	*1,401*	18.7	21.8
De Montfort University	*1,437*	*1,369*	16.5 + £735k	20.2 + £626k
Loughborough University	*1,325*	*1,292*	18.9 + £345k	21.0 + £654k
North West Leicestershire DC	*514*	*522*	18.0 + £479k	22.2 + £349k
Rutland County Council	*476*	*449*	20.7	23.7
Charnwood Borough Council	*468*	*475*	18.4 + £1,046k	22.1 + £1,030k
Hinckley & Bosworth BC	*335*	*335*	17.3 + £468k	21.3 + £387k
Blaby District Council	*314*	*297*	18.0 + £300k	21.5 + £286k
Harborough District Council	*190*	*181*	16.4 + £472k	21.4 + £471k
Melton Borough Council	*156*	*163*	17.2 + £256k	22.0 + £164k
Oadby & Wigston BC	*149*	*129*	18.7 + £345k	22.2 + £358k
Leics Combined Fire Authority	*134*	*131*	16.9 + £141k	22.5 + £32k
Academies, Free and Studio Schools (a)	*7,164*	*6,537*	17.0 – 22.3	19.8 – 28.3
FE and Sixth Form Colleges (b)	*1,688*	*1,727*	17.9 -19.9	22.0 -24.3
Other Employers (c)	*668*	*669*	15.0 – 29.7	0.0 – 31.1
Parish and Town Councils (d)	*118*	*97*	15.0 – 27.5	20.7 – 32.6
Total	***33,302***	***33,043***		

(a) Consisting of: 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, Bottesford, Bradgate Education Partnership, Bringhurst, Brockington, Brocks Hill, Brooke Hill, Brookvale High, Broom Leys, Casterton Business and Enterprise College, Castle Donington College, Castle Rock, Church Hill Junior, Cobden, Corpus Christi MAT, Cottesmore Primary, Countesthorpe Leysland Community College, David Ross Education Trust, Diocese of Leicester Academy Trust, Discovery Schools, Dorothy Goodman, Falcons Free School, Forest Way, Frisby, Gartree, Gilmorton Chandler, Groby Community College, Hall Orchard, Hastings High, Hinckley Academy, Holywell, Humphrey Perkins, Huncote, Ibstock Community College, Ivanhoe College, Ivanhoe under 5s, Kibworth High, L.E.A.D. Academy Trust, King Edward VII, Kirby Muxloe, Krishna Avanti Free School, Lady Jane Grey, Langham, Launde, Learn Academies Trust, Learning Without Limits Academy Trust, LiFE Academy Trust, Limehurst, Lionheart Academies Trust, Long Field, Loughborough C of E Primary, Lutterworth Academies Trust, Lutterworth High, Manor High, Market Bosworth High, Martin High, Measham, Mercenfeld, Midland Academies Trust, Mountfields Lodge, Mowbray Education Trust, Newbridge, Odyssey Educational Trust, Old Dalby, Outwoods Edge, Oval Learning Trust, OWLS Academy Trust, The Pastures, Queensmead, Queniborough, Ratby, Rawlins, Red Hill Field, Redmoor, Rendell, Robert Bakewell, Robert Smyth, Rothley, Rushey Mead Educational Trust, Rutland & District Schools' Federation, Rutland Learning Trust, Ryhall, St Dominics Catholic MAT, St. Gilbert of Sempringham, St. Michael & All Angels, St Peters C of E, South Charnwood, South Wigston High, Stafford Leys, Stanton under Bardon, Stephenson Studio School, Stonebow, Success Academy Trust, Symphony Learning Trust, Thringstone, Thrussington, Townlands, Tudor Grange Samworth Academy, Uppingham Community College, Welland Park, Wigston Academies Trust, Woodbrook Vale, Wreake Valley.

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

(c) Consisting of: ABM Catering, Age UK, Aspens Services, Bradgate Park Trust, Capita Business Services, Capita Managed IT Solutions, Caterlink, Chartwells, East Midlands Shared Services, East West Community Project, Eastern Shires Purchasing Organisation, EMH Homes, Fusion Lifestyle, G4S, G Purchase, ICare, Melton Learning Hub, Quadron Services, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, Turning Point, Voluntary Action Leicester.

(d) Consisting of: Anstey PC, Ashby TC, Ashby Woulds TC, Bagworth & Thornton PC, Barrow Upon Soar PC, Barwell PC, Blaby PC, Braunstone TC, Broughton Astley PC, Countesthorpe PC, Enderby PC, Glen Parva PC, Groby PC, Kirby Muxloe PC, Leicester Forest East PC, Lutterworth TC, Market Bosworth PC, Oakthorpe, Donisthorpe & Acresford PC, Shepshed TC, Sileby PC, Syston TC, Thurcaston & Cropston PC, 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 2016/17.

*Full rate refers to the amount that will be paid in the 2019/20 financial year.

Management of the Fund

The Local Pension Committee is responsible for the management of the Fund, and focuses primarily on investment issues and the important policies that the Fund has to have. The Committee comprises 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 Committee for a three year period but arrangements have been made to ensure that at least one staff representative place becomes available each year. The Local Pension Committee 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 Committee 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 Local Pension Committee) and one non-voting staff representative. 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 Committee and Subcommittee receive investment advice from Hymans Robertson and an Independent Advisor, Scott Jamieson. Other consultants will also be utilised if there is felt to be an advantage to this.

The Local Pension Board is a statutory committee required under LGPS Regulations. This committee consists of three member (i.e. employee) representatives – elected in the same manner as the employee representatives on the Local Pension Committee - and three employer representatives, with the latter being two elected members of Leicestershire County Council and one from Leicester City Council. Their role is to assist the administering authority in ensuring compliance with Regulations and the requirements of the Pensions Regulator, and as such their main focus is on pension administration issues.

From 1st April 2018 individual LGPS Funds will be required to operate pooled investment arrangements, in line with Central Government Policy. After this date the Leicestershire Fund will remain responsible for deciding where it wants to invest its assets but implementation of this decision will rest with LGPS Central, a company owned by eight Midlands-based LGPS Funds (including Leicestershire) and set up to ensure that the investment requirements of the Funds are met in a cost-effective manner. The Leicestershire Fund will no longer retain responsibility for the appointment and dismissal of individual investment managers.

Investment pooling will lead to a requirement for small compromises on the part of individual Funds, but the expected outcome is that there will be significant cost savings made as a result of the economies of scale brought by having fewer, but much larger, investment portfolios. Set-up costs and the costs associated with the need to restructure assets into a series of co-mingled investment funds will lead to higher costs for a period of time, but meaningful medium and longer-term savings will accrue.

In the period since the LGPS Central Funds started discussing the potential to form an investment pool (late 2015) there has been significant progress made. All Funds are very closely aligned in terms of their broad investment beliefs and this has made progress easier than would otherwise have been the case, but the extent of the progress in what is a very complex project has been outstanding. Central Government, which will ultimately decide which pools are acceptable and which are not, has indicated that LGPS Central's proposition is very much in line with their expectations and has approved the pool. The combined value of the assets of LGPS Central partner funds was c.£40bn at the year end.

With pooled investment arrangements due to commence in the near future, all changes to investments need to be considered more carefully than would have otherwise have been the case. As an example, the replacement of one investment manager with another (which brings with it restructuring costs and, as a result, a short-term negative impact onto investment returns) may turn out to be only a short-term appointment as LGPS Central could dispense with the new manager's services within a few years. There is, however, still a necessity to take actions that are believed to be in the best interests of the Fund rather than to simply allow the Fund to 'drift' for a period of time.

During the year there were relatively few changes to the Fund's investments, with the most significant being the agreement to increase exposure to credit (specifically 'private debt', or loans that are made directly to companies) by 2 ½%, with the strategic asset allocation to equities being reduced by the same amount. This change was agreed at the Annual Strategy Meeting that was held in January 2017 and the same meeting agreed to allocate the increased weighting to Partners Group, who already managed private debt for the Fund. It was deemed sensible to build up the increased weighting over a period of approximately 18 months, and the first stage of the increase took place in April 2017 at an amount of £70m.

At the beginning of July 2016 the Fund invested $90m into a pooled infrastructure fund that is managed by JPMorgan. This investment was in line with the decision that was made in January 2016 to increase the Fund's strategic asset allocation to infrastructure, and followed a presentation by the manager to the Investment Subcommittee that had taken place in March 2016. Whilst the investment took place during the 2016/17 financial year, it was actually implementing a decision taken in the previous year.

Whilst by far the most significant influence onto investment returns achieved is the setting of strategic asset allocation, the Leicestershire Fund has arrangements in place that allow tactical decisions to be taken where there are obvious risks (or potential reward) to the Fund. There were two notable tactical decisions taking during 2016/17, both of which proved to be profitable, although in both cases the 'profit' came from not losing money that would otherwise have occurred through inaction.

The first, and by far the most significant, was a decision to remove the Fund's currency hedge in the lead up to the UK referendum on membership of the European Union. The Fund employs Kames Capital to manage the currency risks that it is exposed to as a result of its overseas equity holdings, and Kames are given a 'neutral' position around which they choose how much to hedge. At the time of the referendum the neutral position was to hedge 50% of the currency exposure back to sterling, and in the week before the referendum Kames became concerned that the market was failing to price in the risk that there would be a vote to leave. Whilst their central expectation was that the vote would be to remain, they held a view that a 'leave' vote would see a significant sterling depreciation (which would lead to loss-making hedges), whilst a 'remain' vote would see only a minor – and possibly short-lived – boost to sterling. Put simply, a vote with two possible outcomes would either bring significant cost or modest gain to the Fund and the risk of a big loss was simply not worth taking. The odds on a 'leave' vote were quoted by bookmakers at about 3 – 1, but currency markets were effectively pricing the odds at 15 – 1. The decision to remove the hedges and to not reinstate them for some months saved about £85m that would have been lost at the neutral position.

The other tactical move was to sell 1/3rd of the Fund's long-dated index-linked holdings after their value had surged in the months after the leave vote. Index-linked bonds appeared to be very expensive, and although there were some scenarios in which they might rise even further, it was considered appropriate to 'bank' some of the profit. The sales took place at the end of August 2016 and purchases to bring the Fund back to its target weight in the asset class were made in February 2017. The outcome to the Fund was to have saved £4.3m of losses that would have been made by doing nothing, so the exercise was worthwhile. Although this sum is quite small in relation to the size of the Fund, it is £4.3m (plus future investment growth on this sum) that will not have to be paid by employers in the future.

Investment Management Arrangements

At the January 2017 Annual Strategy meeting of the Local Pension Committee 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	48.0% - 50.0%
Alternative Assets:	25.5% - 27.5%
Targeted Return	*11.5%*
Credit	*7.5%*
Emerging Market Debt	*2.5%*
Other	*4% - 6%*
Property	10%
Inflation-Linked	14.5%

The setting of the strategic benchmark is the most important decision that the Committee 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.

After investment pooling within the LGPS becomes effective, the Local Pension Committee will retain full responsibility for asset allocation and will continue to be accountable for the huge majority of the Fund's investment performance.

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 (KBI 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, which are both now in 'wind-down' mode.

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 - Aspect Capital Partners, Ruffer and Pictet Asset Management.

The major exposure within credit is in a private debt fund managed by Partners Group, although there are also modest exposures to a 'best ideas' bond fund managed by JPMorgan and a Prudential/M & G Fund that lent directly to UK medium sized companies in the aftermath of the credit crunch. This latter investment is in its wind-down stage and a number of the companies have repaid the loans early. The Fund's exposure to Emerging Market Debt is in a pooled fund manged by emerging market specialist manager Ashmore.

The 'Other' weighting is often referred to as the 'opportunity pool'. The broad principle of these investments is that they will offer the prospect of excellent returns, but they will not generally fit neatly into the Fund's strategic benchmark. The high returns will often be available as a result of a market disconnection or a misunderstanding of the risks and this situation will not last indefinitely, and hence the opportunities cannot be considered for inclusion within the strategic benchmark. At the year-end the opportunity pool consisted of three different funds managed by M & G that have virtually identical investment aims. The intention is for the manager to utilise their expertise in restructuring the balance sheets of companies that are stressed, to the advantage of bond holders. The first two of these funds have passed their investment periods and distributions so far point to very strong investment returns, whilst the third is still only partially invested. A commitment of $40m to a further investment within the opportunity pool strategy has also been made, to the Markham Rae Trade Capital Partners fund, but only a very limited amount of this commitment had been drawn by 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.

The Fund has also invested in two stand-alone property 'recovery' funds, managed by Kames Capital. The first of these was originally considered to be part of the opportunity pool but was re-allocated to the property weighting, partly to 'free up' capital for future opportunity pool investments.

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 Fund has a three-pronged approach to obtaining 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 three global infrastructure managers - IFM, KKR and JPMorgan - whilst the timberland investment is through two pooled funds managed by Stafford Timberland.

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.

Kames Capital pro-actively manages the Fund's exposure to currencies that comes from holding overseas equities. The neutral position at the year end was to hedge 70% of this currency exposure back to sterling (it was 50% until the end of January 2017, and the increase was encouraged by the weakness in sterling), but the actual hedge will depend on Kames' view on the relative value of the currency and also the overall risks at a total Fund level.

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 Local Pension Committee and/or Local Pension 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 the appropriate 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 Local Pension Committee 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 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 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 a pensioner 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. Non-investment cash flows were positive by almost £22m in 2016/17, compared to £24m in 2015/16. This small reduction comes as a result of a number of relatively small changes in the various income and expenditure types, and none of these changes were out-of-line with expectations. Employer contribution rates are on an upward trajectory, while the pension increase in April 2017 was just 1%; the surplus position will not change in the short term. In addition the Fund received net income (investment income less investment management expenses) of almost £33m.

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 - partly as a result of increasing numbers of pensioners and partly as a result of inflation-linked annual increases - but it is also highly likely 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 £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 on a quarterly basis to the Local Pension Board.

The introduction of the 2014 LGPS brought with it additional pressures to both the administering authority and to employers, and it became clear that it was necessary to appoint additional staff to deal with the higher workload. Given the lack of experienced pension administrators these staff required a significant amount of training before they could deal with more complex matters, and the increased resource and training has already started to show through in performance of tasks. Over the course of the year customer satisfaction improved from already high levels and process-related indicators improved and, on average, were better than the targets.

Increases in staffing levels will decreased the ratio of staff to fund-members, but 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, cost per member is low.

Investment Management Costs

Best practice suggests that all investment management costs, including transaction costs and performance-related fees, should be included within the Fund's accounts. Given that the Leicestershire fund invests in a large number of pooled investment funds where the fees are deducted within the funds themselves (and hence is already taken into account within the investment performance achieved), collection of this information is a difficult and time-consuming process.

Given the need to assess current costs as part of the investment pooling agenda, a body of work has been carried out by the Fund and the full investment costs are estimated to have been £16.0m in 2016/17 (0.45% of average assets), in comparison to £14.9m in 2015/16 (0.47% of average assets).

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 Local Pension Committee (the LPC). This delegation to a specialist committee is in line with guidance from the Chartered Institute of Public Finance & Accountancy (CIPFA).

2.2 The LPC 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 LPC or, in extreme circumstances and where it is impractical to bring a matter to the LPC, following consultation with the Chair and Vice-Chair.

2.3 The LPC may delegate certain actions to the Director of Finance. It is the expectation of the LPC 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 Finance.

2.4 An Investment Subcommittee, with its members drawn from the LPC, meets in the months that there is no LPC 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 Local Pension Board, where this is relevant to their role of assisting the administering authority to meet the requirements of Regulations or the Pension Regulator. Many of the day-to-day pension administration issues are the responsibility of the Director of Finance.

3.0 REPRESENTATION

3.1 The LPC 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.

3.2 The LPB is made up of 6 members – 3 employer representatives (2 elected politicians of Leicestershire County Council and 1 from Leicester City Council) and 3 member representatives. There will be at least one member 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 positions on the LPC and member representatives for any vacant positions on the LPB.

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 LPC 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 2016/2017

- Equity market returns had been weak during the 2015/16 financial year, as investors began to worry about how companies were going to meaningfully increase profits when economic growth remained generally quite weak. Whilst there were signs of a general economic improvement during 2016/17, consensus forecasts did not really point to a much easier environment for improvements in profitability. Despite this, and also additional risks surrounding the UK's progression towards leaving the EU and a more erratic US President, investors were willing to push markets higher.

- The vote to leave the EU saw sterling fall sharply, which improved overseas equity market returns to sterling investors. Sterling weakness also had a knock-on impact to the strong performance of the UK equity market, as many of the UK's largest companies derive a large proportion of their earnings in overseas currencies – a good example would be oil companies, where almost all of their sales are denominated in US dollars.

- The most surprising outcome from the leave vote was not the immediate reaction of global equity markets – which fell substantially – but the speed with which these losses were recouped, and how markets subsequently rose much higher. It is easy to overestimate the potential impact of the vote onto future global economic performance, and it is probable that the immediate falls were an overreaction, but there are still undoubted risks associated with Brexit and markets seem to be very relaxed about these risks. Time will ultimately tell whether markets have priced the risks appropriately.

- In the initial aftermath of the EU referendum outcome investors punished the share prices of UK domestically-focused companies, such as retailers and house builders, particularly hard; this was a logical reaction as they did not have the revaluation of overseas earnings back to sterling to protect them from what was considered likely to be a sharp slowdown in the UK economy. When it became apparent that the UK economy had not suffered any negative reaction to the vote, and that the economy was actually growing at a stronger pace than before the vote, there was a strong recovery in domestically-focused companies and their performance over the whole year was strong.

- The UK equity market return of +22% during 2016/17 would, under normal circumstances, be seen as spectacular. It was actually relatively pedestrian when judged against the return to sterling investors achieved in the other regions, with North America, Japan, Pacific (Ex-Japan) and Emerging Markets all producing returns of over 30%.

- Donald Trump's victory in the US Presidential Election was a surprise, but as his policies could be broadly described as investor-friendly this did not have a particularly noticeable impact onto equity markets. US bond yields initially moved sharply higher, spooked by the possibility of significant bond issuance to pay for some of his policies, but then settled back as it became clear that many of these policies would not be easy to implement.

- UK bonds produced positive returns over the year, with the returns on long-dated bonds being particularly strong. Index-linked bonds outperformed their conventional equivalents as inflation-protection became extremely desirable to investors that were looking to mitigate this future risk; there appear to be some investors to whom the cost of this inflation protection is almost irrelevant. The longest dated UK government index-linked bond (maturing in 2068) increased in price by over 40% during the year and at the yearend it guaranteed a real (i.e. after adjusting for inflation) return of –1.5% p.a. return until maturity.

- During 2016/17 the US Central Bank continued to increase interest rates on a gradual basis, and they stood at 1% at the yearend. In contrast the UK reduced its base rate to 0.25% in August 2016, citing the risks to economic growth caused by uncertainties around Brexit. In general Central Bank interest rates were maintained at very low levels throughout the year and there was no obvious reason to suggest that this was likely to change imminently.

- UK commercial property produced a return of just below 4% during 2016/17, which reflected a fall in capital value that was more-than-offset by rental income. Following the referendum there was a fear that many overseas investors (who are major UK property investors) would want to withdraw their money, and prices fell. There were actually relatively few transactions carried out and buyers did not withdraw from the market, and as a result prices were gradually revised upwards.

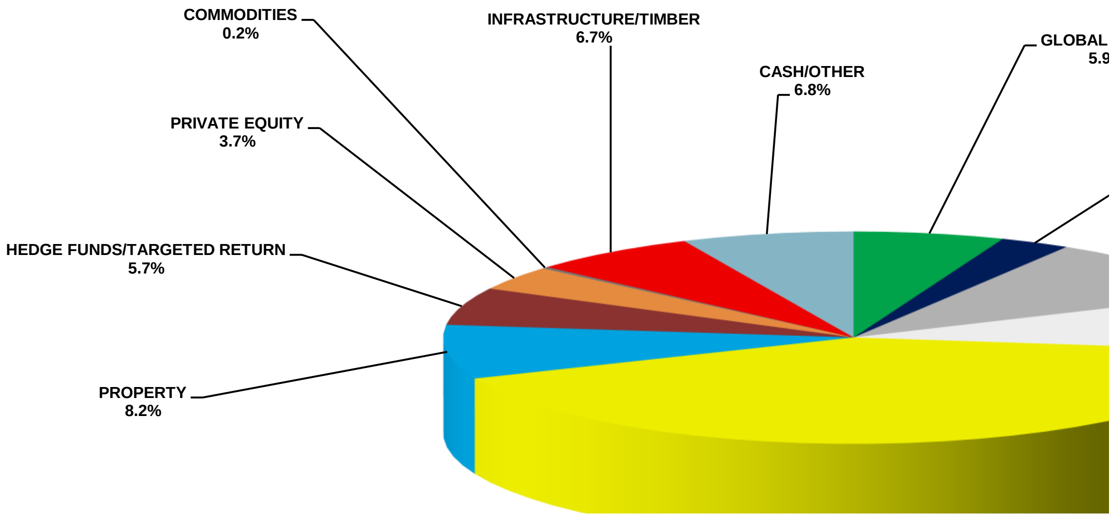
Investment Returns

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

	Year to 31 March 2017 %	Year to 31 March 2016 %
UK Government Bonds	+6.6	+3.2
UK Index-Linked	+19.9	+1.7
Overseas Bonds	+11.0	+9.8
UK Equities	+22.0	-3.9
United States Equities	+34.7	+3.6
European (Ex UK) Equities	+27.9	-4.2
Japanese Equities	+32.8	-3.3
Pacific (Ex Japan) Equities	+36.3	-5.4
UK Property	+3.9	+11.7
Cash	+0.4	+0.4

Value of Investments

The value of the Fund at 31st March 2017 was £3,880.8m, which was £716.9m more than the value a year earlier. The analysis of investments, in summary form, is shown below:-



Investment Performance

Investment returns from equities were exceptionally strong in 2016/17, as highlighted previously within this report. Overseas equities outperformed the UK market, and overall performance was boosted by the fact that approximately 80% of the Fund's equities are overseas.

The Fund also has a high exposure to overseas currencies within areas such as targeted return, infrastructure and timberland and returns from these assets were generally very good. The Fund's investment return of +22.5% for the year was higher than its strategic benchmark (which returned +20.2%), and most of the individual managers did well within their own specialist areas.

The Fund has a large number of investment managers and it is inevitable that some of them will have periods of disappointing performance – sometimes this disappointing performance can last multiple years, and can be the result of a particular investment 'style' not being in favour with market sentiment. It is important to understand why managers are performing as they are – regardless of whether this is above or below their benchmark – and to assess whether this is of cause for concern. Knee-jerk reactions that are based on relatively short periods of poor performance are not sensible, and understanding the reasons for poor performance is vital. It is implausible to believe that all managers appointed by the Fund can simultaneously perform well – in fact the Fund is cognisant of the fact that it needs to have a reasonable spread of management styles and asset classes and occasionally a manager is chosen specifically because they are different to other managers.

In the five years to the end of 2016/17 the Fund has outperformed its benchmark on four occasions and underperformed once, although one of the years of outperformance was very marginal. Whilst individual years do matter, it is more important to focus on the medium term and it is pleasing that over the last five years the Fund has outperformed its objective by 0.8% p.a. (10.7% vs. 9.9%).

The Local Pension Committee and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate, although the impending pooling of investments within the Local Government Pension Scheme mentioned earlier in this report means that there needs to be a great awareness of when action is appropriate and when it is not. 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 during 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 (6.8% vs. 3.9%). Performance over the medium and long-term is impressive, with annualised returns 1.3% above the benchmark over 20 years.

- ***Aviva Investors***
  Aviva manage a portfolio of pooled property funds and produced a return of 5.1% over the year, which was 1.4% above their benchmark. Over the last three and five years they have outperformed the benchmark by about 1% p.a., despite some meaningful costs due to the high cost of making new investments.

- ***Millennium Asset Management***
  The active currency portfolio managed by Millennium is based on a notional £340m and over the course of the year they lost about £4.3m. This is obviously

disappointing, as it follows losses in the previous year of a similar magnitude. Their ability to make money depends on the correct assessment of the likely movement in currency values in both the short and medium-term and it is inevitable that they will be wrong on occasions. Over the period since their appointment in April 2006 they have added almost £23m in value to the Fund, and whilst this is below their performance objective it is recognised that there have been periods during this time (most notably after the Global Financial Crisis) in which currencies were influenced by factors that would have been almost impossible to have foreseen. Relative to most other currency managers, their performance has been highly creditable in the medium-term.

- ***JP Morgan Asset Management***

  The Fund has a small holding in a 'best ideas' bond fund managed by JPMorgan which produced acceptable performance over the year, but the holding is not large enough (0.7% of total assets) to have any meaningful impact on total Fund performance.

  In July 2016 a $90m investment was made into the JPMorgan Infrastructure Investments Fund. Given how long it can often take for committed capital to actually get invested into infrastructure, it was pleasing to deploy the agreed investment within a few months. It is too early to make any meaningful judgement about the performance of this investment.

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

  The Fund has committed a total of $86m to two KKR infrastructure funds, of which $64m had actually been invested by the yearend. Given the long-term nature of infrastructure as an investment and the fact that the first investment was not made until late in 2011, it is still too early to judge the performance but there have been a number of successful sales, or partial sales, of assets that suggest that the investments will ultimately prove very worthwhile.

  Income flows from portfolio companies remain strong, which gives an underpinning of the capital value of the assets.

- ***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. They 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 (£28.2m) were received from successful realisations of investments, while £22.1m was invested. Over the long-term the portfolio has produced over 2% outperformance of quoted markets, net of all costs.

- ***Ruffer LLP***

  Ruffer manages a targeted return portfolio for the Fund and significantly outperformed their benchmark for the year (+13.0% vs. +4.4%). 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 2016/17 Ruffer increased their exposure to 'fear' investments at the expense of 'greed' but still managed to produce meaningful outperformance as markets on both sides of the divide produced strong performance.

Over the last 5 years Ruffer has outperformed its benchmark by a meaningful degree (+7.1% vs. +4.4%), and the unique philosophy of the investment process means that they provide meaningful diversification to the Fund.

- ***Pictet Asset Management***
  The Fund's investment with Pictet is in their Dynamic Asset Allocation Fund, where the main driver of returns is expected to be their skill at allocating capital to markets that they expect to produce strong performance. They are attempting to achieve long-term equity-like returns with meaningfully lower volatility, and they are classed as a 'targeted return' manager by the Fund.

  During 2016/17 they produced a return of +11.5% against a benchmark of +4.4%.

- ***Delaware Investments***
  Delaware are a good example of why it is important to understand the drivers of a manager's expected performance, and to be willing to stick with them if poor performance can be explained by them backing their investment principles – principles that were part-and-parcel of the decision to appoint them.

  For a significant period of time up to September 2015, Delaware's emerging market equity portfolio had underperformed the agreed benchmark. It was apparent that they had not deviated from their beliefs, and that market sentiment was not aligned to these beliefs. There was also no obvious reason why the market was not recognising the value of many of the companies that they held and as a result the Fund continued to support their stance.

  When the market did change its view, excess performance was achieved very quickly and the underperformance was recouped. During 2016/17 they outperformed their benchmark by 8.6% (43.3% vs. 34.7%) and over the last three years – covering both the period of underperformance discussed above, and the subsequent recovery in performance – they have outperformed by 2% p.a.

- ***KBI (formerly Kleinwort Benson Investors)***
  KBI manages a 'dividend focused' global equity portfolio, which marginally underperformed its broad global equity market benchmark during 2016/17 (31.6% vs. 32.2%). This underperformance is in line with expectations, given the style-bias of the portfolio.

  Since inception of the portfolio in November 2012, performance is marginally above the broad equity market (16.4% p.a. vs. 16.2% p.a.).

- ***Kempen***
  Kempen also manages a 'dividend focused' portfolio and their performance in 2016/17 was also marginally below the broad market index (31.9% vs. 32.2%).

  They have a less diversified portfolio than KBI and have underperformed the broad market by almost 1% p.a. over the last three years, and much of this performance can be attributed to the fact that they only buy stocks with a dividend above a given dividend yield. Many stocks and regions that have performed exceptionally well over this period have failed to meet this criteria.

- ***Aspect Capital***
  Aspect is one of the Fund's 'targeted return' managers and can broadly be described as a 'trend-following' manager. Their computer models identify trends (whether up or down) and they take positions in liquid futures contracts within equities, bonds, commodities and currencies to derive benefit from these trends.

2016/17 was an exceptionally difficult one for this kind of manager, with trends either being weak or becoming meaningful and then breaking down. Their performance of -10.4% was exceptionally disappointing, but not unexpected given their style. Their 3 year return of +12.4% p.a. includes one fantastic (50%+) year, one lacklustre year and one very poor year. Volatility of returns is normal within this sector, and part of their attraction is that they are different to other managers and provide diversification.

Despite a poor 2016/17 they have outperformed their objective by 7.9% p.a. over the last three years.

- ***IFM***
  A \$56m investment was made into the IFM Global Infrastructure Fund in February 2013, with \$7.5m invested in February 2017 and a further investment of \$7.5m in April 2017 (just after the yearend). The portfolio initially consisted of 8 underlying assets but by 31st March 2017 this had increased to 12. During 2016/17 the value of the Fund's investment increased by over 25% after adjusting for the new investment and some small distributions to the Fund. The fact that 75% of the assets are denominated in overseas currency was obviously advantageous, although there was some excellent performance that was not currency-related.

- ***Kames Capital***
  Kames manage a global index-linked bond portfolio on behalf of the Fund, and during the year the performance of 23.6% was marginally below their benchmark. For much of the year the benchmark for the portfolio was the over 15-year index-linked bond index, which was chosen following advice by Kames, as this was changed to the All Stock index from 1st February 2017. The underperformance of the benchmark was insignificant in comparison to the added value created by the choice of index, given the level of outperformance achieved by longer-dated maturities.

  Kames also manage a currency hedging programme, with a neutral position that was to hedge half of the Fund's currency exposure that comes via the overseas equity benchmark until 31st January 2017 and 70% of the exposure thereafter. Their decision to remove the hedges completely in the week leading up to the EU Referendum turned out to be excellent, and the hedge remained off for a meaningful period after the vote. Over the year the actual position of the hedge added £85m relative to the neutral position, which added approximately 2.3% to total fund performance.

- ***Partners Group***
  The Fund invested £100m into Partners Group's 2014 Private Debt fund, which was drawn in four equal instalments that ended in May 2015. The rate of return achieved up to the end of March 2017 was 6.2% p.a. which was in line with expectations and a highly acceptable return for this kind of investment.

- ***Stafford Timberland***
  The Fund has investments in two timberland funds managed by Stafford, and performance from them has been excellent. It is too early to be able to judge with certainty the success of the manager, despite the first investment being in 2012, but the current signs are good.

- ***Ashmore***
  The Emerging Market Debt portfolio managed by Ashmore produced excellent performance in both absolute terms, and also relative to the benchmark, during 2016/17 (34.4% vs. 22.6%). The Fund started to invest in Emerging Market Debt in late 2014 after a period of poor performance had made it look outstanding value, and returns to date have fully justified this decision.

- ***Opportunity Pool***
  The 'opportunity pool' is a concept whereby the Fund can invest in opportunities which arise that do not fit naturally into the strategic asset allocation. These will often be opportunities that are time-limited and come about as a result of the market's lack of understanding or general unwillingness to take on risk that might be very highly rewarded.

  At the end of the year the Fund had two 'strands' of investment within the opportunity pool – European corporate bonds that had been issued by fundamentally sound companies that needed to restructure their balance sheet (M & G Debt Opportunities Fund, with three investments into different pooled funds) and the Markham Rae Trade Capital Partners Fund (which will gain exposure to trade financing deals and receive payments from banks that are linked to the advantages they receive from the ability to utilise their capital elsewhere). The Markham Rae fund commitment was largely 'undrawn' at the year end.

  During the year there were a number of successful exits from the first two M & G funds, while the third fund continues to be in its investment phase. There are strong indications that the first two funds will achieve their targeted returns of over 15% p.a.

Five Year Returns		
	Returns	
	LCC %	Benchmark %
2012/13	+12.4	+11.0
2013/14	+3.9	+7.3
2014/15	+15.6	+11.4
2015/16	+0.6	+0.4
2016/17	+22.5	+20.2
Average Annual Return Over 5 years	+10.7	+9.9
Annualised 5 year investment returns (for managers employed for more than 5 years)		
Colliers CRE	+11.9	+9.7
Millennium	+1.1	+1.5
Aviva Investors	+9.5	+8.5
Legal & General	+13.9	+13.9
Ruffer	+7.1	+4.5
Delaware	+9.7	+5.9

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 (Lloyds Banking Group) is valued at £5.1m (0.13% of total fund assets), so this information has been omitted from the report.

Leicestershire County Council Pension Fund ("the Fund")
Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated January 2017. 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 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 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme (Administration) Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,164 million, were sufficient to meet 76.2% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £989 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a specified time period as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

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 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	3.2%
Benefit increase assumption (CPI)	2.1%

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_2013 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	22.1 years	24.3 years
Future Pensioners*	23.8 years	26.2 years

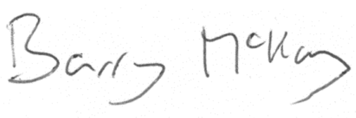
* Age 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Barry McKay FFA
For and on behalf of Hymans Robertson LLP
5 May 2017

Hymans Robertson LLP
20 Waterloo Street, Glasgow, G2 6DB

annual accounts 2016-17

Fund Account

	Notes	2016-17 £000	2015-16 £000
Contributions and Benefits			
Contributions	3	169,542	161,227
Transfers in	4	8,716	4,140
		178,258	165,367
Benefits	5	143,088	134,269
Payments to and on account of leavers	6	11,867	5,867
Administrative expenses	7	1,450	1,239
		156,405	141,375
Net additions from dealings with members		21,853	23,992
Returns on investments			
Investment income	8	37,508	30,273
Change in market value of investments	9	662,181	(13,446)
Investment management expenses	11	(4,618)	(5,117)
Net returns on investments		695,071	11,710
Net increase in the fund during the year		716,924	35,702
Net assets of the Fund at 1st April		3,163,872	3,128,170
Net assets of the Fund at 31st March		**3,880,796**	**3,163,872**

Net Assets Statement

	Notes	31 March 2017 £000	31 March 2016 £000
Investment assets	9	3,876,352	3,157,588
Investment liabilities	9	(3,738)	(2,277)
		3,872,614	3,155,311
Current assets	13	11,394	10,905
Current liabilities	13	(3,212)	(2,344)
Net assets of the Fund at 31st March		**3,880,796**	**3,163,872**

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 29 and 30 of these accounts and should be read in conjunction with them.

The notes on pages 32 – 49 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 2016/17 financial year and its position at year-end as at 31st March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 an accrual 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

	2016-17 £000	2015-16 £000
Employers		
Normal	126,528	119,930
Termination Valuation Payments	52	365
Additional payments for early retirements	4,189	2,896
Additional payments for ill-health retirements	1,129	946
Members		
Normal	37,243	36,718
Purchase of additional benefits	401	372
	169,542	**161,227**

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 generally paid by the insurance company, where the employer has taken out ill-health insurance and the claim has been accepted as valid. On occasions employers without ill-health insurance are charged for at least part of the ill-health costs. Purchase of additional benefits by members allows either extra service to be credited on top of any service earned via employment, or an additional annual pension amount in cash to be paid following retirement. 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:-

	2016-17 £000	2015-16 £000
Leicestershire County Council	42,790	41,702
Scheduled bodies	118,806	111,475
Admitted bodies	7,946	8,050
	169,542	**161,227**

4. Transfers In

	2016-17 £000	2015-16 £000
Individual transfers in from other schemes	8,716	4,140
	8,716	**4,140**

5. Benefits

	2016-17 £000	2015-16 £000
Pensions	108,853	103,315
Lump sum retirement benefits	30,629	27,747
Lump sum death benefits	3,606	3,207
	143,088	**134,269**

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

	2016-17 £000	2015-16 £000
Leicestershire County Council	52,229	50,871
Scheduled bodies	80,773	73,270
Admitted bodies	10,086	10,128
	143,088	**134,269**

6. Payments to and on account of leavers

	2016-17 £000	2015-16 £000
Refunds to members leaving scheme	684	610
Payments for members joining state scheme	199	269
Individual transfers to other schemes	10,984	4,988
	11,867	**5,867**

7. Administration expenses

	2016-17 £000	2015-16 £000
Administration and Processing	1,128	1,036
Actuarial fees	115	89
Legal and other professional fees	25	25
Computer system costs	182	89
	1,450	**1,239**

8. Investment income

	2016-17 £000	2015-16 £000
Dividends from equities	2,196	2,456
Income from government bonds	107	100
Income from index-linked securities	1,778	2,580
Income from pooled investment vehicles	25,148	18,042
Net rents from properties	7,271	5,766
Interest on cash or cash equivalents	344	157
Net currency profit/(loss)	614	1,120
Securities lending commission	12	16
Insurance commission	38	36
	37,508	**30,273**

9. Investments

	Value at 31.3.16 £000	Purchases at Cost and Derivatives Payments £000	Sale Proceeds and Derivative Receipts £000	Change in Market Value £000	Value at 31.3.17 £000
Equities	72,234	31,520	(46,570)	20,355	77,539
Government bonds	21,501	2,081	(24,879)	1,297	0
Index-linked securities	303,669	339,498	(345,689)	75,800	373,278
Pooled investment vehicles	2,636,520	169,030	(342,213)	606,806	3,070,143
Properties	96,225	152	(954)	871	96,294
Cash and currency	14,759	223,338	0	0	238,097
Derivatives contracts	8,348	67,814	(17,656)	(42,948)	15,558
Other investment balances	2,055	0	(350)	0	1,705
	3,155,311	**833,433**	**(778,311)**	**662,181**	**3,872,614**

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.

annual accounts 2016-17

9. Investments (continued)

The Fund has investments of £267.804m in the Legal & General North America index fund (31/3/16, £233.087m) and £261.991m in the Legal & General FTSE RAFI North America fund (31/3/16, £229.777m) that exceed 5% of the total value of net assets.

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

	31st March 2017 £000	31st March 2016 £000
Equities		
UK quoted	24,577	9,991
Overseas quoted	52,962	62,243
	77,539	**72,234**
Government Bonds		
UK Government quoted	**0**	**21,501**
Index-linked securities		
UK Government quoted	331,846	188,197
Overseas government quoted	41,432	115,472
	373,278	**303,669**
Pooled investment vehicles		
Property funds	223,022	222,379
Private equity	142,701	121,096
Bond and debt funds	337,870	347,372
Hedge funds	563	3,201
Equity-based funds	1,876,706	1,563,238
Commodity-based funds	9,814	7,371
Timberland fund	80,371	63,856
Managed futures fund	124,804	137,824
Targeted return fund	96,178	84,129
Infrastructure funds	178,114	86,054
	3,070,143	**2,636,520**
Properties		
UK (note 12)	**96,294**	**96,225**
Cash and currency	**238,097**	**14,759**
Derivatives contracts		
Forward foreign exchange assets	15,677	9,033
Currency option assets	877	156
Other option assets	2,742	1,436
Forward foreign exchange liabilities	(3,738)	(2,277)
	15,558	**8,348**
Other investment balances	**1,705**	**2,055**
Total Investments	**3,872,614**	**3,155,311**

At 31/3/17 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £141.255m in private equity, £11.510m in illiquid corporate bonds and £80.371m 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:

	2016-17 £000	2015-16 £000
Active currency positions (those whose purpose is solely to seek economic gain)	(843)	(1,488)
Passive currency positions (those whose purpose is to hedge the Fund’s benchmark exposure to currencies back to sterling)	12,782	8,244
	11,939	**6,756**

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	USD	10,556	AUD	13,760	50	
Up to one month	AUD	6,920	USD	5,269	7	
Up to one month	CAD	7,037	AUD	6,890	19	
Up to one month	CNH	36,378	USD	5,220	57	
Up to nine months	CZK	200,378	EUR	7,480	7	
Up to one month	JPY	2,367,808	EUR	19,530	287	
Up to one month	GBP	12,643	EUR	14,660	98	
Up to one month	USD	5,310	EUR	4,910	43	
Up to one month	USD	108	GBP	86	0	
Up to one month	JPY	1,133,207	USD	10,150	17	
Up to one month	MXP	12,025	USD	610	22	
Up to one month	AUD	6,840	USD	5,249		(26)
Up to one month	EUR	4,880	AUD	6,931		(49)
Up to one month	USD	5,220	CNH	36,930		(121)
Up to nine months	CZK	203,537	EUR	7,620		(11)
Up to one month	EUR	19,530	JPY	2,366,537		(279)
Up to one month	EUR	14,660	GBP	12,780		(236)
Up to one month	SEK	94,612	EUR	9,950		(36)
Up to one month	EUR	4,910	USD	5,301		(36)
Up to one month	USD	10,150	JPY	1,133,97		(17)
Up to one month	USD	11,050	MXN	216,672		(356)
Up to one month	GBP	0	USD	193		(155)
Up to one month	EUR	60,000	GBP	52,443		(1,112)
Up to one month	GBP	26,723	KRW	37,800		(312)
Up to one month	GBP	92,968	JPY	13,000,000		(342)
Up to one month	GBP	14,533	HKD	138,000	332	
Up to one month	GBP	177,692	EUR	206,000	1,458	
Up to one month	GBP	24,392	CAD	40,000	408	
Up to one month	GBP	42,292	AUD	68,500	520	
Up to one month	GBP	46,920	CNY	390,000	583	
Up to one month	GBP	519,731	USD	636,000	11,232	
Up to one month	GBP	55,263	TWD	2,100,000	0	
Up to one month	GBP	9,786	THB	420,000	15	
Up to one month	GBP	2,485	CAD	4,094	35	
Up to two months	GBP	4,784	EUR	5,630		(5)
Up to two months	GBP	19,665	JPY	2,836,114		(645)
Up to two months	GBP	55,432	USD	69,463	132	
Up to one month	GBP	4,139	USD	4,998	143	
Up to one month	GBP	7,391	EUR	8,391	212	
					15,677	**(3,738)**
Net forward currency contracts at 31 March 2017						**11,939**
Prior year comparative Open forward currency contracts at 31 March 2016					9,033	(2,277)
Net forward currency contracts at 31 March 2016						**6,756**

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:

	2016-17 £000	2015-16 £000
Currency-based	877	156
Equity market-based	2,742	1,436
	3,619	**1,592**

Purchased/written options

Investment underlying option contract	Expires	Notional Holding £000	Market Value 31st March 2017 £000
Assets			
EUR call/USD put	<2 months	345	135
EUR call/JPY put	<1 month	151	10
EUR call/GBP put	<1 month	260	73
USD put/MXN call	<1 month	83	521
USD call/JPY put	<1 month	193	138
Equity protection option	Over 1 year	16,342	2,742
			3,619

11. <u>Investment management expenses</u>

	2016-17 £000	2015-16 £000
Administration, management and custody	4,496	5,034
Performance measurement services	5	16
Other advisory fees	47	67
LGPS Central set up costs	70	0
	4,618	**5,117**

The above expenses relate to costs paid directly by the Fund. When other expenses incurred within the pooled investment funds are included, the total expenses were approximately £16.112m in 2016/17 and £15.204m in 2015/16.

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 2016		Year ending 31st March 2017
£000		£000
90,481	Opening balance	96,225
	Additions:	
2,845	Purchases	-
-	Construction	-
-	Subsequent expenditure	151
(4,386)	Disposals	(954)
7,285	Net increase in market value	872
96,225	**Closing balance**	**96,294**

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 2017 £000	**31st March 2016 £000**
Freehold	64,854	64,560
Long leasehold (over 50 years unexpired)	16,120	15,505
Medium/Short leasehold (under 50 years unexpired)	15,320	16,160
	96,294	**96,225**

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 2017. 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 2017 £000	**31 March 2016 £000**
Contributions due from employers	8,564	8,193
Cash balances	66	132
Other receivables	1,304	755
Due from Ministry of Justice	1,460	1,825
Current assets	***11,394***	***10,905***
Due to Leicestershire County Council	(779)	(444)
Fund management fees outstanding	(916)	(865)
Other payables	(1,517)	(1,035)
Current liabilities	***(3,212)***	***(2,344)***
Net current assets and liabilities	**8,182**	**8,561**

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 was originally payable over 10 years at £365,000 per annum and at 31/3/17 there were four more payments due.

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 2017 £000	%	At 31st March 2016 £000	%
Legal & General	1,379,166	35.6	1,188,571	37.7
Kames Capital	352,358	9.1	273,466	8.7
Ruffer LLP	243,166	6.3	214,996	6.8
KBI (formerly Kleinwort Benson)	185,371	4.8	140,827	4.5
Aviva Investors	171,979	4.4	166,855	5.3
Delaware Investments	156,369	4.0	108,879	3.4
Adams Street Partners	141,255	3.7	118,888	3.8
Kempen Capital	136,341	3.5	107,872	3.4
Aspect Capital	124,804	3.2	137,824	4.4
Colliers Capital UK	116,805	3.0	124,443	3.9
Ashmore	107,202	2.8	80,343	2.5
Partners Group	106,008	2.7	104,964	3.3
JP Morgan Asset Management	96,459	2.5	24,581	0.8
Pictet Asset Management	96,178	2.5	84,129	2.7
Prudential/M & G	86,983	2.2	119,958	3.8
Stafford Timberland	80,371	2.1	63,856	2.0
IFM	59,698	1.6	43,040	1.4
Kravis Kohlberg Roberts	48,124	1.3	43,013	1.4
Catapult Venture Managers	1,446	0.0	2,208	0.0
Permal	580	0.0	689	0.0
Internally Managed and currency managers	181,951	4.7	5,909	0.2
	3,872,614		**3,155,311**	

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 16.

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 2016), the Fund had assets of £3,164m. At that date the Fund's assets covered 76.2% 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 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,241,986	641,395	274,207	3,157,588
Financial liabilities at fair value	(2,277)			(2,277)
Net financial assets	**2,239,709**	**641,395**	**276,178**	**3,155,311**

	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
Values at 31st March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,843,584	631,019	401,749	3,876,352
Financial liabilities at fair value	(3,738)			(3,738)
Net financial assets	**2,839,846**	**631,019**	**401,749**	**3,872,614**

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 Leicestershire County Council's Local Pension Committee (formerly called 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 2017/18 reporting period:

Asset type	**Potential market movements (+/-)**
Global 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 2016	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	9,991	16	11,590	8,392
Overseas equities	62,243	19	74,069	50,417
UK government bonds	21,501	8	23,221	19,781
Global index-linked bonds	303,669	8	327,963	279,375
Pooled property funds	222,379	15	255,736	189,022
Pooled private equity funds	121,096	28	155,002	87,190
Pooled bond and debt funds	347,372	10	382,109	312,635
Pooled hedge funds	3,201	12	3,585	2,817
Pooled equity funds	1,563,238	19	1,860,253	1,266,223
Pooled commodity funds	7,371	14	8,403	6,339
Pooled targeted return funds	84,129	12	94,224	74,034
Pooled timberland fund	63,856	16	74,072	53,640
Pooled managed futures fund	137,824	12	154,363	121,285
Pooled infrastructure fund	86,054	14	98,102	74,006
UK property	96,225	15	110,659	81,791
Cash and currency	14,759	1	14,907	14,611
Options, futures, other investment balances, current assets and current liabilities	18,964	1	19,154	18,774
Total assets available to pay benefits	**3,163,872**		**3,667,412**	**2,660,332**

Asset type	Value at 31st March 2017	Percentage change	Value on increase	Value on decrease
	£000	%	£000	£000
UK equities	24,577	16	28,509	20,645
Overseas equities	52,962	19	63,025	42,899
Global index-linked bonds	373,278	8	403,140	343,416
Pooled property funds	223,022	15	256,475	189,569
Pooled private equity funds	142,701	28	182,657	102,745
Pooled bond and debt funds	337,870	10	371,657	304,083
Pooled hedge funds	563	12	631	495
Pooled equity funds	1,876,706	19	2,233,280	1,520,132
Pooled commodity funds	9,814	14	11,188	8,440
Pooled targeted return funds	96,178	12	107,719	84,637
Pooled timberland fund	80,371	16	93,230	67,512
Pooled managed futures fund	124,804	12	139,780	109,828
Pooled infrastructure fund	178,114	14	203,050	153,178
UK property	96,294	15	110,738	81,850
Cash and currency	238,097	1	240,478	235,716
Options, futures, other investment balances, current assets and current liabilities	25,445	1	25,699	25,191
Total assets available to pay benefits	**3,880,796**		**4,471,256**	**3,290,336**

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 2017 and 31st March 2016 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 2017**	**As at 31st March 2016**
	£000	**£000**
Cash and Currency	238,097	14,759
Fixed interest securities	337,870	368,873
Total	**575,967**	**383,632**

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 2016**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	14,759	148	(148)
Fixed interest securities	368,873	3,689	(3,689)
Total	**383,632**	**3,837**	**(3,837)**

Asset type	**Carrying amount as at 31st March 2017**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	238,097	2,381	(2,381)
Fixed interest securities	337,870	3,379	(3,379)
Total	**575,967**	**5,760**	**(5,760)**

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 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 at the year end was to hedge 70% of the exposure back to sterling. The table below summarises the Fund's currency exposure if it was unhedged as at 31st March 2017 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31st March 2017	Asset value as at 31st March 2016
	£000	£000
Overseas equities	52,962	62,243
Overseas government index-linked bonds	41,432	115,472
Private equity pooled funds	141,255	118,888
Pooled hedge Funds	563	3,201
Overseas and Global equity-based pooled funds	1,876,706	1,298,478
Commodity-based pooled funds	9,814	7,371
Infrastructure pooled funds	178,114	86,054
Timberland pooled fund	80,371	63,856
Emerging Market Debt pooled fund	107,202	80,343
Total overseas assets	**2,488,419**	**1,835,906**

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 2016	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	62,243	70,335	54,151
Overseas government index-linked bonds	115,472	130,483	100,461
Private equity pooled funds	118,888	134,344	103,432
Pooled hedge Funds	3,201	3,617	2,785
Overseas equity-based pooled funds	1,298,478	1,467,280	1,129,676
Commodity-based pooled funds	7,371	8,329	6,413
Infrastructure pooled funds	86,054	97,241	74,867
Timberland pooled fund	63,856	72,157	55,555
Emerging Market Debt pooled fund	80,343	90,788	69,898
Total change in assets available	**1,835,906**	**2,074,574**	**1,597,238**

Currency exposure – asset type	Asset value as at 31st March 2017	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	52,962	59,847	46,077
Overseas government index-linked bonds	41,432	46,818	36,046
Private equity pooled funds	141,255	159,618	122,892
Pooled hedge Funds	563	636	490
Overseas equity-based pooled funds	1,876,706	2,120,678	1,632,734
Commodity-based pooled funds	9,814	11,090	8,538
Infrastructure pooled funds	178,114	201,269	154,959
Timberland pooled fund	80,371	90,819	69,923
Emerging Market Debt pooled fund	107,202	121,138	93,266
Total change in assets available	**2,488,419**	**2,811,913**	**2,164,925**

At 31st March 2017 and 31st March 2016 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 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 2016**	**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 2017**	**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 a Standard Life 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 2017 was £238.097m (31st March 2016: £14.759m). This was held with the following institutions.

	Rating	Balances at 31/3/17	Balances at 31/3/16
		£000	£000
Money Market Funds			
Standard Life	AAA	166,212	0
JPMorgan	AAA	32,104	7,187
Bank Deposit Accounts			
National Westminster Bank	BBB+		73
JPMorgan Chase	AA-	10,458	7,499
Credit Agricole	A	29,323	0
Total		**238,097**	**14,759**

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 2017 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £721.065m, which represented 18.6% of total Fund assets. (31st March 2016: £594.782m, which represented 18.8% 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 2017 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

The Fund ceased to take part in securities lending activities towards the end of the financial year and there was no stock on loan at 31 March 2017

Income from stock lending for the part-year that it was undertaken amounted to £0.012m and is detailed in note 8 to the accounts.

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. Related party transactions

From the information currently available there were no material transactions with related parties in 2016/2017 that require disclosure under FRS8.

22. Contingent liabilities

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 £1.255m 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 2017, the Fund had the following contractual commitments:-

(i) Undrawn commitments totalling $199,891,850 (£159,855,932) to thirty one different pooled private equity funds managed by Adams Street Partners (31st March 2016 £102,340,465 to twenty eight different funds).

(ii) An undrawn commitment of £497,666 to two private equity funds managed by Catapult Venture Managers (31st March 2016 £528,517 to two funds).

(iii) An undrawn commitment of $22,221,391 (£17,770,715) to two KKR Global Infrastructure funds (31st March 2016 £19,081,060 to two funds)

(iv) An undrawn commitment of €5,362,500 (£4,586,717) to the Stafford International Timberland VI Fund (31st March 2016 £6,431,922)

(v) An undrawn commitment of $3,300,000 (£2,639,050) to the Stafford International Timberland VII Fund (31st March 2016 £8,035,901).

(vi) An undrawn commitment of £20,048,000 to the M & G Debt Opportunities Fund III (31st March 2016 £27,374,000)

(vii) An undrawn commitment of $7,500,000 (£5,997,841) to the IFM Global Infrastructure Fund (31st March 2016 £10,436,235).

(viii) An undrawn commitment of $39,752,618 (£31,790,650) to the Markham Rae Trade Capital Partners Fund (31st March 2016 £27,829,959)

(ix) An undrawn commitment of £18,181,818 to the Kames Active Value Property Unit Trust II.

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 2016/17 £1.825m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £14.231m.

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 305 7656, 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 2016/2017 or 2015/2016. 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 2016/17 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. I have been instructed by the Administering Authority to provide the necessary information for the Leicestershire County Council Pension Fund ("the Fund").

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 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.

Present value of Promised Retirement Benefits

Present value of Promised Retirement Benefits	Year ended	
	31 March 2017	31 March 2016
Active members (£m)	2,829	2,895
Deferred pensioners (£m)	1,264	845
Pensioners (£m)	1,894	1,415
Total (£m)	**5,987**	**5,155**

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). 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 total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £970m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £62m.

additional reporting requirement

Financial assumptions

Year ended	31 March 2017 % p.a.	31 March 2016 % p.a.
Pension increase rate	2.4%	2.2%
Salary increase rate	3.4%	4.2%
Discount rate	2.6%	3.5%

Longevity assumption

Life expectancy is based on the Fund's Vitacurves with improvements in line with the CMI 2013 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:

Average future life expectancies at age 65 (years)	Males	Females
Current pensioners	22.1	24.3
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.8	26.2

Please note that the assumptions have changed since 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.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Change in assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in the pension increase rate	8%	490
0.5% increase in the salary increase rate	2%	104
0.5% decrease in the real discount rate	10%	604

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2017 for accounting purposes’. 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

10 May 2017

For and on behalf of Hymans Robertson LLP report of the auditor

Independent auditor's report to the Members of the Leicestershire County Council Pension Fund (the "Authority") on the pension fund financial statements published with the Pension Fund Annual Report

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 28 to 45.

Respective responsibilities of the Financial Officer and the auditor

As explained more fully in the statement of the *Financial Officer's* Responsibilities the *Financial Officer* is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the *Pension Fund Annual Report* with the pension fund financial statements included in the annual published statement of accounts of the Leicestershire County council, and their compliance with applicable law and the Code of Practice on Local authority in the United Kingdom 2016/17.

In addition, we read the information given in the *Pension Fund Annual Report* to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements of inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Leicestershire County Council for the year ended 31 March 2017 and comply with the applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We have not considered the effects of any events between the date we signed our report on the full annual published statements of accounts 29 September 2017 and the date of this report.

Matters on which we are required to report by exception

The Code of audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local authority and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

John Cornett

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
St. Nicholas House
31 Park Row
Nottingham
NG1 6FQ
3 November 2017

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 2017 and its income and expenditure for the year ended the same date.

Chris Tambini
Director of Finance
3 November 2017

	31st March 2017		31st March 2016	
	£000	%	£000	%
Fixed & Variable Interest Stocks				
UK Government Bonds	0	0.0	21,501	0.7
UK Index Linked	331,846	8.5	188,197	6.0
Overseas Index Linked	41,432	1.1	115,472	3.6
Global Credit	230,668	5.9	267,029	8.5
Emerging Market Debt	107,202	2.8	80,343	2.5
	711,148	18.3	672,542	21.3
Equities – United Kingdom	335,998	8.7	274,752	8.7
Equities – Overseas/Global				
Global dividend-focused/smaller companies	321,713	8.3	249,779	7.9
North America	543,187	14.0	485,302	15.3
Europe	240,888	6.2	205,176	6.5
Japan	152,766	3.9	131,787	4.2
Pacific ex Japan	122,723	3.2	108,940	3.4
Emerging Markets	236,970	6.1	179,736	5.7
	1,618,247	41.7	1,360,720	43.0
Private Equity	142,701	3.7	121,096	3.8
Hedge Funds	563	0.0	3,201	0.1
Targeted Return	220,982	5.7	221,953	7.0
Commodity Funds	9,814	0.2	7,371	0.2
Infrastructure/Timberland Funds	258,485	6.7	149,910	4.7
Property				
United Kingdom:				
Retail & Retail Warehouses	32,875	0.8	34,085	1.1
Offices	24,615	0.6	24,500	0.8
Industrial	17,585	0.5	16,855	0.5
Leisure	18,425	0.5	18,010	0.6
Agricultural	2,794	0.1	2,775	0.1
Indirect	223,022	5.7	222,379	7.0
	319,316	8.2	318,604	10.1
Cash, Currency and derivatives				
Cash and deposits	238,097	6.1	14,759	0.5
Foreign exchange derivatives	12,816	0.3	6,912	0.2
Other derivatives contracts	2,742	0.1	1,436	0.0
Other Net Assets/(Liabilities)	9,887	0.3	10,616	0.4
	263,542	6.8	33,723	1.1
TOTAL	3,880,796	100.0	3,163,872	100.0

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

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