Gloucestershire Local Government

Pension Fund

2011/12

www.gloucestershire.gov.uk

Gloucestershire
COUNTY COUNCIL

Contents

Introduction

It is with pleasure that we introduce this year's Annual Report of the **Gloucestershire Pension Fund.** It contains details of the administration of the Fund, together with its investments and accounts for the year to 31st March 2012.

The Fund is managed and administered by Gloucestershire County Council on behalf of Gloucestershire local authorities, other bodies providing public services and certain admitted bodies, as part of the national Local Government Pension Scheme (LGPS) Regulations. The Fund meets the cost of pension benefits due to current and former employees of these organisations.

This report is primarily aimed at Fund members and participating employer organisations within the Gloucestershire Pension Fund (listed on pages 13 to 15), to provide information on the management arrangements and performance of the Fund over the last 12 months. The latest version of the Fund's policy statement covering, investment principles, funding strategy, governance and communication, as well as details of Fund membership and a brief summary of scheme benefits are also included within the Report. The formal accounts of the Fund for the year ended 31st March 2012 can be found on page 32. Membership of the Pension Fund continued to rise during 2011/12 and a breakdown of the Fund membership is included on page 11.

At 31st March 2012 the Fund's investments were valued at £1,200 million, an increase of £48.4 million compared to the value at 31st March 2011. During the year the Fund achieved a 3.2% return on its investments. This exceeds the average local authority return of 2.6% and places Gloucestershire in the second quartile of top performing funds. Further details on the Fund's performance can be found on page 21.

The performance of all of the Gloucestershire Pension Fund investment managers are kept under regular review to help ensure that our management policies have the best possible prospect of adding value over a full market cycle. During the period covered by this report the active emerging market equity mandate was replaced with a passively managed emerging market equity mandate with an existing manager. A new property multi manager became operational to supplement the Funds property investment. Other changes to the Fund involved the regional overseas equity funds being amalgamated into a global equity fund and an element of the bond portfolio being transferred into a separate global multi sector fixed interest mandate.

The Fund's investment strategies are set out in the Statement of Investment Principles, which is shown on pages 76 to 82 of this report. More details on the Fund's investments and performance can be found on pages 12 to 22.

We remind both existing and future pensioners, that the Local Government Pension Scheme (LGPS) is determined by statutory legislation. This legislation can only be changed by the Government via the department of Communities and Local Government (CLG) and the scheme cannot be changed fundamentally by the County Council or other scheduled employers of the Gloucestershire Pension Fund. Following the Public Service Pensions Commission chaired by Lord Hutton and proposals for the new LGPS which were jointly agreed by Employer and Employee representatives in May 2012, the Government are now preparing draft legislation with the aim of introducing an amended LGPS scheme from April 2014.

To ensure the Fund holds sufficient investments to meet obligations to pay pension benefits to existing and future pensioners, the scheme's Actuary undertakes a valuation of the Fund every three years. The Actuary sets the employer contribution rates at a level to maintain the long-term solvency of the Fund so ensuring funding over the longer term will be sufficient to meet all payments to existing and future pensioners. The most recent valuation took place on 31st March 2010, with the new employer contribution rates being effective from 1st April 2011. These rates can be found on pages 71 to 74. The next valuation of the Fund will take place on 31st March 2013.

There were no changes to the Pension Committee's membership during 2011/12.

We express our thanks to all those involved with the investment, accounting and pension administration activities of the Fund. In this, we acknowledge the continuing work of the members of the Pension Committee in overseeing the Fund's investment management and administration arrangements.

We trust you find the report informative and as we are always seeking to make improvements we would welcome any constructive comments on its content and presentation. Further information is available from the contact points shown on page 8.

Raymond Theodoulou
Chairman of the Pension Committee

Jo Walker, CPFA
Strategic Finance Director

Independent Investment Advisor's Report

Economic and Market Background

Developed economies failed to follow the hoped for cyclical recovery pattern of earlier recessions. So for equity markets it was a second year of consolidation, following the dramatic falls in 2008/09 and the partial recovery in 2009/10 as the banking system narrowly averted complete collapse.

The Eurozone economies were generally weakest though collectively less extremely indebted than the US, UK or Japan as increasing lack of competitiveness in the southern periphery relative to Germany has brutally highlighted the dangers in currency without full fiscal union. The acute strain on national budgets led to popular protests and political upheaval and technocrats have been appointed to govern in Italy and briefly in Greece. Sentiment has swung wildly as fears for a disorderly Greek default and possible Euro exit have been assuaged by the European Central Bank (ECB) providing liquidity to banks, though this was deployed mainly to invest in domestic government bonds, which allowed foreign investors to exit and hardly disperses risk. Portugal was bailed out in May 2011 and Greece eventually for the second time in February 2012. Unsurprisingly the stock market value of banks and other companies reflected this turmoil.

The US economy was restrained by political machinations over limiting Federal debt and weak consumer spending as house prices adjusted to reflect mortgage foreclosures, forced sales and the prospect of many years of oversupply. The resulting slow return to US growth combined with stagnation in Europe provided weak demand for goods from the former developing economies. Trade imbalances were further assuaged by China's growing imports, as the newly rich sought prestige products, such as BMW cars and Apple iPads. Even in Spain, which had previously seen some of the greatest housing and construction excesses, the trade account moved to near balance, albeit at a crippling cost in consumption and in youth unemployment.

Equity markets were led by the US, which returned 8%, while the UK and Japan both returned 1%, all better than the Eurozone with Germany -8%, France -13%, Spain -24% and Italy -26%. China (including Hong Kong) returned -9%, which was similar to the overall figure for the other "emerging" markets. The overall return from global equities was close to zero. The economically sensitive sectors of mining and oil fell back, giving up their relative outperformance of the previous year. Technology did well returning 14%, led conspicuously by Apple. Consumer staples were relatively strong led by companies well exposed to consumption in emerging markets, notably tobacco. Financials were weak again with banks returning -11%.

UK property overall again returned more than equities at 6% led by offices, particularly in London's West End. However bonds were the stand out leaders as yields were driven down to levels almost unimaginable before the banking crisis and resulting regulatory pressure. UK government index linked returned 21% and fixed interest 19%, both significantly better than credit at 9% and cash at just 0.5%.

Performance

The Gloucestershire fund returned 3.2%, well below the 5.1% benchmark return mainly due to the poor performance of our bond manager. Nevertheless the return was above the Local Authority average of 2.6%.

Economic Outlook

The steady economic growth to 2007 in the US, UK and most other developed economies was largely based on the rapid industrialization of China and other developing economies. This was well-founded but the flow of cheap imports restrained inflation and permitted interest rates to be kept artificially low. This unsoundly encouraged a credit binge that fuelled speculative price increases in housing and other assets. Banks contrived to disguise the scale and poor quality of much of the borrowing and regulators are still struggling to repair the damage without choking off the availability of credit to consumers and to smaller companies that cannot directly access financial markets. The former inflated tax base has been much reduced, putting an acute strain on public finances and severely limiting the scope for any capital projects or personal tax cuts to help boost growth. Resolution of this debt overhang seems to be preventing the normal path of cyclical recovery.

European experience is mixed with Germany relatively unscathed whereas Spain is struggling to cope with the implosion of its former boom in construction and housing. In the weaker European economies there is much talk of strategies for growth but little sign that there is much political will or electoral support for deregulation or increased capital spending at the expense of current expenditure. The only quick fixes might be a major consumer boom in Germany or the issuance of Eurobonds backed collectively by the governments of the Eurozone. Although German consumption has picked up somewhat, it will always be tempered by ingrained inflation aversion. Also, German distaste for any moral hazard suggests that the Eurobond option will be reserved as a potential last throw of the dice if nothing else will save the Euro. This feels like a dangerous bluff with several respectable commentators suggesting that there are only months before markets force their hand – nations borrowing at 6% or more with inflation subdued is unsustainable. At best this leaves the prospect of a prolonged period of Greece, Spain and even Italy wrestling with the appalling austerity that is required to regain competitiveness. Recent experience suggests that this could be punctuated alternately by bouts of panic and euphoric relief as weaker banks either suffer from runs (as Northern Rock did in 2007 or Bankia recently) or benefit from renewed support from the ECB, newly empowered by the proposed development of a banking union. German pressure for greater central control, including national budgets, is making politicians elsewhere appear ineffective, which risks further unrest and potentially a void to be filled by fringe parties espousing nationalism.

At least in the UK both manufacturing and service industries benefit from an exchange rate that should broadly reflect competitiveness. However, continental customers are very important and their markets mostly remain either highly competitive, in Germany and neighbours, or weak, in the southern periphery, and sterling has recently strengthened a bit against the euro. Despite the drip feed of revelations over systemic banking malpractice, London continues to benefit from an inflow of personal wealth from the Gulf and Russia and now increasingly from Greece and Spain, seeking relative security and stability. The UK also benefits from its professionals moving closer to the centres of economic growth in Asia and repatriating earnings.

This shift of power to Asia and particularly to an autocratic China may be less comfortable to international businesses and their shareholders than a world dominated since 1990 by the well-established, if not always well-directed, liberal democratic values of the US. Only the US can credibly ensure that oil supplies from the Gulf will be protected. BP has demonstrated in Russia how difficult it can be to prosper in an authoritarian state. China's support for free trade is utterly commercial. It may be tested as their labour costs are rising steadily; shipping goods around the world is not as cheap as it used to be and western manufacturers seem to be on the brink of significant advances in automated manufacturing. A further unwinding of former big trade imbalances should also be helped as technology leads to a recovery in domestic energy production, particularly US shale gas.

The unwinding of the debt overhang in developed economies will probably remain the dominant factor for some years but confidence in an early return to the growth trend regarded as normal before the world banking crisis would be much enhanced if only Europe could resolve its political problems.

Strategic Asset Allocation

The central role of equities even in a relatively unconstrained portfolio such as Gloucestershire's is being widely questioned after over a decade in the doldrums, with disconcerting volatility and increasing regulatory pressure on many institutional investors to buy bonds. There is strong historical evidence that the long-term investor should be influenced by valuation rather than by trend or sentiment but the cyclically adjusted price earnings ratio and aggregate market value of companies compared to their net worth suggest that most equity markets are still quite highly valued. By implication the expected returns are broadly in line with the long term average of about 5% real return. This is clearly attractive relative to bonds, with only the longest dated UK government bonds yielding more than projected inflation. UK property yields 6% but significantly less after depreciation and cost of management and there is pressure on rents, particularly on the high street. Many other alternative investments are constrained by the availability and cost of credit whether directly for leverage or indirectly to ensure liquid markets, including for stockmarket flotation of private companies.

Some 5% of the total Fund within the bond mandate has been reallocated to an absolute return basis designed to significantly outperform cash. If bond yields do fall even further as a result of regulatory pressure on insurance companies and private sector pension schemes then consideration will be given to further increasing this component.

The bulk of the Fund, 65%, continues to be held in equities to produce the long-term returns from global activities that should best help to minimise employer contributions. Within the equity portfolio the former active emerging markets manager has been terminated with the assets moved to an index tracking mandate. BlackRock's scientific active global equity mandate has been adjusted from a regional "silo" approach to a truly global one, including emerging markets. Both global managers have been reallocated some assets from UK equities and emerging markets have been strategically increased

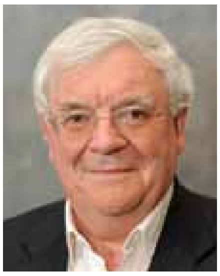
Paul Meredith
2nd Juy 2012

Management and Financial Performance

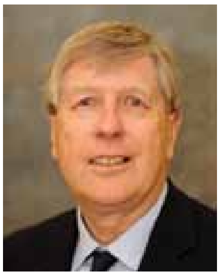
Scheme Management and Advisors

Administering Authority: Gloucestershire County Council

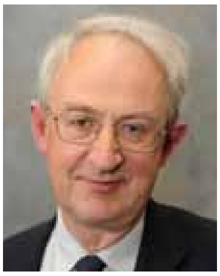
Pension Committee at 31st March 2012
Representing Gloucestershire County Council:



Cllr. R. Theodoulou (Chairman)



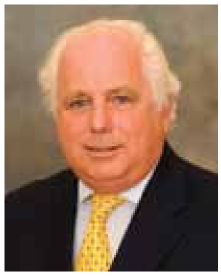
Cllr. P. McLellan



Cllr. S. Parsons

Cllr. L. Stowe

Cllr. M. Sztymiak



Cllr. D. Thorpe

Representing Gloucestershire District Councils:
Cllr. N. Cooper

Representing Employees:
Mr. W. Defraine

County Council Officers:
Mrs. J. Walker
Strategic Finance Director

Mr. G. Burrow
Head of Finance: Exchequer and Pension Fund

Independent Advisor:
Mr. P. Meredith

Fund Actuary:
Mr. B. Chalmers, Hymans Robertson

Scheme Administrator:
Gloucestershire County Council

Investment Managers as at 31st March 2012:
BlackRock Advisors (UK)
CBRE Global Collective Investors UK (CBREI)
Grantham, Mayo, Van Otterloo & Co LLC (GMO)
Hermes Real Estate Investment Management
Standard Life Investments
Western Asset Management Company
Yorkshire Fund Managers (YFM) Group

AVC Provider:
Prudential Assurance Company Limited
Phoenix Life Limited

Auditor:
Audit Commission

Global Custodian:
BNY Mellon Asset Servicing

Performance Measurement:
BNY Mellon Asset Servicing / WM Company

Banker:
HSBC

Legal Advisor:
Gloucestershire County Council in-house legal team

Post Year-End Changes:

Mr. W. Defraine, the employee representative, resigned in April 2012 and a replacement will be appointed.

Enquiries

For information/contact details for committee members, fund managers and advisors or for details regarding the Funds' investments and accounting activities, please contact the Pension Accountant at Shire Hall, Gloucester, phone (01452) 425083.

For details of Local Government Pension Scheme benefits and administration, please contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 425936.

Complaints

In the event of a complaint members should contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 425936 in the first instance.

Website:

Investments and Accounting
www.gloucestershire.gov.uk/pensionsinvestments

Benefits and Administration
www.gloucestershire.gov.uk/pensions

Pension Schemes Office Registration Number:

PSO 10079170

> Financial Summary - Actuals

	2011/12 £m	2010/11 £m	2009/10 £m	2008/09 £m	2007/08 £m
Contributions and investment income	*113.0	*109.2	*112.6	104.1	96.0
Realised profit/(loss)	101.5	17.9	28.8	(83.3)	30.1
Less benefits and other expenses	*(73.9)	*(71.6)	*(68.1)	(58.8)	(55.2)
Annual surplus/(shortfall)	140.6	55.5	73.3	(38.0)	70.9
Increase/(decrease) in market value of investments	(92.1)	42.1	242.7	(145.3)	(100.0)
Increase/(decrease) in Fund during year	48.5	97.6	316.0	(183.3)	(29.1)
Market Value of net assets at 31st March	**1,199.6**	**1,151.1**	**1,053.5**	**737.5**	**920.8**

* Excludes recoverable expenditure

> Management Performance

The Pension Fund has a number of local performance targets which are detailed in the table below. The table shows the levels of achievement for the last two years.

Activity	Target %	2011/12 %	2010/11 %
Retirement estimates within 10 days	80	**90.8**	92.5
Retirement benefit within 10 days	90	**94.9**	98.5
Refunds paid within 10 days	80	**96.2**	87.1

The Fund also carries out an annual employer satisfaction survey to measure the level of benefit/improved understanding employers derive from attending the employers' forums. In the July 2012 survey, 100% felt the forums had raised their understanding of current pension issues and 100% felt that what they had learned would help them in their role as a pension fund employer. The survey also asked employers to indicate their level of agreement with the following statement: 'Where I have contacted the pensions office regarding a pension related issue, I am satisfied with the assistance given in relation to the query raised'. 94% agreed or strongly agreed with this statement.

The Pension Fund subscribes to the annual CIPFA Benchmarking Survey. This survey for 2011/12 shows that while we have an above average number of employers, including schools, within the fund (195 compared to an average of 125) our administration costs per member are £14.68 compared to an average cost of £21.54 per member within the survey. This places the Fund in the lowest cost quartile.

This survey also showed our level of active members (36%) closely matched the average for all the Funds in the survey (37%).

The following gives an age profile of fund members.

Gender	Category Age	Active	Deferred	Pensioner	Widow(er)/ Dependant
F	under 15				16
M	under 15				14
F	15 to 19	40	26		38
M	15 to 19	36	15		25
F	20 to 24	305	306		15
M	20 to 24	155	149		10
F	25 to 29	631	680		
M	25 to 29	245	324		1
F	30 to 34	989	943		2
M	30 to 34	308	346		
F	35 to 39	1,335	1,131	2	1
M	35 to 39	316	309		3
F	40 to 44	2,329	1,760	12	9
M	40 to 44	414	470	2	6
F	45 to 49	2,802	2,235	17	10
M	45 to 49	512	568	12	7
F	50 to 54	2,272	2,079	92	29
M	50 to 54	528	609	54	27
F	55 to 59	1,635	1,593	340	46
M	55 to 59	537	535	184	40
F	60 to 64	795	396	1,739	79
M	60 to 64	393	152	831	44
F	65 to 69	81	16	1,764	107
M	65 to 69	61	19	1,077	78
F	70 to 74	10	2	1,063	161
M	70 to 74	2	1	722	52
F	75 to 79			642	200
M	75 to 79			512	52
F	80 to 84			388	233
M	80 to 84			365	38
F	85 to 89			209	212
M	85 to 89			188	20
F	90 to 94			85	113
M	90 to 94			77	2
F	95 to 99			14	30
M	95 to 99			17	
F	100 to 104			2	5
M	100 to 104			1	
F	105 to 109				1
Total Members	**43,532**	**16,731**	**14,664**	**10,411**	**1,726**

> Membership Summary

	2011/12	2010/11	2009/10	2008/09	2007/08
Contributors	16,731	17,301	18,019	18,047	17,470
Pensioners	12,137	11,344	10,728	9,956	9,472
Deferred pensioners	14,664	13,595	12,478	11,394	10,523
	43,532	**42,240**	**41,225**	**39,397**	**37,465**

Deferred pensioners are former employees who have not transferred their pension rights and to whom benefits will be paid, from their eligible retirement date.

For 2011/12 the inflow of cash to the Fund continued to exceed the outflow. Details of the net cash inflow to the Fund for the past 3 years are shown below:

	2011/12 £000	2010/11 £000	2009/10 £000
Net cash inflow	**39,056**	37,649	44,605

There are a number of factors that affect the size of the net cash inflow. These factors include changes in the levels of retirements and pensioner numbers, contribution levels, dividend income and transfers into and out of the scheme.

> Risk Management

Risks associated with the Fund's administration, management and investments are detailed in the Funding Strategy Statement and the key risks are included in the County Council's Corporate Risk Register. These risks and the actions taken to mitigate them are reviewed on a quarterly basis. All these risks and actions to manage and reduce them are detailed on pages 68 to 70 of this report.

There is an additional note on the Nature and Extent of Risks Arising from Financial Instruments within the Notes to the Accounts on pages 52 to 57.

Investment Policy and Performance Report

> Management Report

The Pension Scheme

The Local Government Pension Scheme (LGPS) is governed by statutory regulations. The statutory responsibility of the LGPS is with the department of Communities and Local Government (CLG).

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008 both became operative from the 1st April 2008. The LGPS is a statutory funded, final salary scheme and the benefits are defined and guaranteed by law. Any changes to the legislation of the scheme are governed by CLG.

The scheme applies to employees of local authorities and certain other bodies providing a public service. Teachers, police officers and fire officers have their own pension schemes and are excluded from this Fund. Under the LGPS Regulations, Gloucestershire County Council administers the Pension Fund in the county on behalf of its own employees and those of a number of other public bodies, in particular District Councils. Within the County Council, Strategic Finance is responsible for the investment administration of the Fund supported by the Fund's Global Custodian, BNY Mellon Asset Servicing, who provides custody and accounting support. The Fund is a member of the NAPF (National Association of Pension Funds) and delegates voting rights to fund managers to exercise these rights in line with NAPF or PIRC proxy voting guidelines. Details of the Fund's investment managers and their mandates are detailed on page 17 of this report. A list of participating employer bodies within the Fund is shown on pages 13 to 15.

The Fund is financed by contributions from employees and employers, together with proceeds from investments. Contributions in the financial statements represent those amounts receivable from various employing authorities in respect of their own contributions and those of their pensionable employees.

Employee Contributions

Employee contributions are prescribed by statute and are based on pay bands. The pay bands and rates applicable from April 2012 are detailed on the right.

The pay band ranges are increased each April in line with the cost of living (CPI).

Whole Time Equivalent Pay	Employee Contribution Rate
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,000	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

Employer Contributions

Employer contributions are assessed every three years by the Scheme Actuary. The contributions are required to be sufficient to maintain the long-term solvency of the Fund.

The results of the most recent actuarial valuation of the Fund, as at 31st March 2010, were announced in March 2011 and set the employers' contribution rates payable in each of the three years commencing 1st April 2011. The next actuarial valuation is due as at 31st March 2013, which will prescribe the employer rates from 1st April 2014.

Employer Contributions as a % of pay	31st March 2010	31st March 2007
(a) Future Service Funding Rate	15.5%	14.6%
(b) Past Service Adjustment	10.3%	7.7%
Total Common Contribution Rate	**25.8%**	**22.3%**

Further information regarding the valuation and the scheme's funding position is included in the Actuarial Report on Fund on pages 24 to 25.

The LGPS exceeds the minimum pension requirements of the State Earnings Related Pension Scheme (SERPS) brought in by the 1975 Social Security Act, and is therefore contracted out of the State Scheme. Details of benefits payable under the LGPS and how they are calculated are contained in a scheme booklet that is issued to new employees. A general guide to the benefits payable is contained on pages 85 to 86 of this report. In accordance with the Pensions (Increase) Act 1971 pensions payable are increased in relation to the movement in the Consumer Price Index.

Participating Employers and Contributions Receivable

A list of the Fund's participating and contributing employers is shown below. Development of the in-house reporting package to allow employee contributions to be split by banding is currently in progress. The Rates & Adjustment Certificate showing each individual employers' contribution rate, as agreed with the Scheme Actuary, for the period 1st April 2011 to 31st March 2014 may be found in the Funding Strategy Statement on, page 59.

2011/2012 Contributions	Employer Contributions	Employee Contributions	Total
Administering Authority			
Gloucestershire County Council*	**31,875,175**	**7,967,979**	**39,843,154**
Scheduled Bodies			
Cheltenham Borough Council	3,189,809	759,838	3,949,647
Cotswold District Council	1,720,613	406,673	2,127,286
Forest of Dean District Council	1,582,139	322,020	1,904,159
Gloucester City Council	3,497,117	518,160	4,015,277
Stroud District Council	2,137,362	563,620	2,700,982
Tewkesbury Borough Council	1,627,115	354,124	1,981,239
Gloucestershire Police Authority	3,606,666	1,295,819	4,902,485
Gloucestershire Probation Board	1,658,040	265,645	1,923,685
Parish and Town Councils (pooled)	287,742	88,649	376,391

* including schools

continued...

2011/2012 Contributions	Employer Contributions	Employee Contributions	Total
Cirencester College	342,937	135,750	478,687
Gloucestershire College	1,497,057	424,416	1,921,473
Hartpury College	462,288	178,525	640,813
Stroud College of Further Education	401,625	124,084	525,709
University of Gloucestershire	2,312,442	754,539	3,066,981
Cheltenham Borough Homes	498,311	218,514	716,825
Cotswolds Conservation Board	39,671	23,305	62,976
Gloucester City Homes	336,783	137,743	474,526
Gloucestershire & Severnside Valuation Tribunal	4,450	2,045	6,495
Lower Severn Drainage Board	106,855	27,175	134,030
Academies**			
All Saints	83,831	22,695	106,526
Balcarras	164,457	48,844	213,301
Bishops Cleeve Primary	48,990	15,402	64,392
Charlton Kings Infants	27,559	7,230	34,789
Charlton Kings Junior	52,697	6,191	58,888
Cheltenham Bournside	185,005	51,594	236,599
Chipping Campden	78,939	22,661	101,600
Chosen Hill	192,768	52,936	245,704
Churchdown Secondary	101,615	24,049	125,664
Churchdown Village Infants	22,928	6,107	29,035
Cirencester Deer Park	145,232	46,706	191,938
Cirencester Kingshill	68,515	21,046	89,561
Cleeve School	156,696	47,710	204,406
The Cotswold School	155,038	37,710	192,748
The Crypt School	68,834	21,480	90,314
Dene Magna	96,994	22,310	119,304
Farmors	122,299	19,504	141,803
Field Court C of E Infant School	29,595	6,460	36,055
Field Court C of E Junior School	25,807	5,265	31,072
Gloucester Academy	339,239	68,951	408,190
Gotherington Primary	18,915	3,988	22,903
Gretton Primary	1,330	316	1,646
High School for Girls	78,336	25,640	103,976
Highnam C of E Primary	6,268	1,528	7,796
Katherine Lady Berkeley's School	181,359	31,019	212,378
Marling School	63,417	14,956	78,373
Millbrook Academy	45,559	7,873	53,432
Pate's School	121,446	30,852	152,298
Redmarley C of E Primary	5,460	1,302	6,762
Ribston Hall	70,203	23,396	93,599
Robinswood Primary	87,304	27,884	115,188
Rosary Catholic Primary School	13,951	4,319	18,270
Rowanfield Junior	25,755	8,056	33,811
Severn Vale	75,715	27,298	103,013
Sir Thomas Rich's	98,434	24,429	122,863

** joined the Fund after the 2010 actuarial valuation

continued...

2011/2012 Contributions	Employer Contributions	Employee Contributions	Total
Academies (continued)**			
Sir William Romney's School	56,798	14,638	71,436
Springbank Primary	23,833	8,218	32,051
St Dominic's Catholic Primary School	8,605	2,396	11,001
St Mary's Catholic Primary School	24,739	7,280	32,019
St Peter's High School	168,221	44,463	212,684
Staunton and Corse C of E Primary	9,074	2,392	11,466
Stroud High School	84,127	25,767	109,894
Tewkesbury School	64,544	16,034	80,578
Thomas Keble	68,681	20,323	89,004
Winchcombe	84,959	23,607	108,566
Wyedean School	115,200	29,460	144,660
	29,078,293	**7,582,929**	**36,661,222**
Admitted Bodies			
Aspire Sports and Cultural Trust	173,996	74,287	248,283
Atkins/Gloucestershire Highways	57,453	16,450	73,903
Atkins Tupe	51,290	18,665	69,955
Barnardo's Family Tree Children's Centre**	7,785	2,608	10,393
Barnardo's Stroud Children's Centre**	29,509	9,122	38,631
Barnardo's River Children's Centre**	20,082	6,996	27,078
Barnardo's The Link Children's Centre**	28,603	8,550	37,153
Brandon Trust	73,845	22,190	96,035
Civica UK Ltd**	80,315	27,482	107,797
Cotswold Archaeology	108,997	38,116	147,113
Enterprise (AOL)	205,892	64,669	270,561
Fosseway Housing Association	899,736	65,083	964,819
Gloucestershire Airport	191,974	34,329	226,303
Gloucestershire Deaf Association	1,632	368	2,000
Gloucestershire Group Homes	69,098	25,364	94,462
Gloucestershire Primary Care Trust	128,243	42,988	171,231
Lovells**	82,994	26,645	109,639
The Orders of St John Care Trust	206,841	55,013	261,854
SSE (formerly Southern Electric Contracting)	3,977	1,312	5,289
Severnvale Housing Association	427,327	56,950	484,277
Stroud Court Community Trust	77,387	19,260	96,647
Two Rivers Housing	253,818	113,234	367,052
	3,180,794	**729,681**	**3,910,475**
Total contributions	**64,134,262**	**16,280,589**	**80,414,851**

** joined the Fund after the 2010 actuarial valuation

Investment Powers and Duties

Powers and duties concerning the investment of Fund monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The 2009 Regulations require the County Council, as Administering Authority for the Gloucestershire LGPS Fund, to invest any monies that are not immediately required to pay pensions and other benefits.

The Regulations allow a wide range of investments, but set certain limits. The main asset categories in which investments may be made are:

- Any security on any recognised stock exchange (no single investment to exceed 10% of the value of the fund).
- Unlisted securities (subject to a maximum of 15% of the total value of the fund).
- Bank deposits etc. (subject to a maximum of 10% of the value of the fund in any single bank).
- Loans to approved institutions (subject to a maximum of 10% of the total value of the fund).
- Managed funds with an insurance company or similar body (subject to a limit of 35% of the total value of all investments in a single contract), unit trusts (subject to a limit of 35% of the value of the fund which may be invested in unit trusts managed by a single body), open-ended investment companies (subject to a limit of 35% of the value of the fund which may be invested in open-ended investment companies managed by a single body), or stock lending (subject to a limit of 35% of the value of the fund).
- Investments in partnerships (subject to a maximum of 15% of the value of the fund).

The Regulations require the County Council to have a suitably diversified portfolio of investments and must obtain the advice of properly qualified persons on investment matters. In carrying out these duties, the County Council owes a fiduciary duty to the contributors and beneficiaries of the Fund, as well as to the council taxpayers who ultimately 'guarantee' the financing of future liabilities.

Investment Strategy

The Pension Committee is directly responsible for the Fund's investment policy. During 2011/12 the Committee comprised of six County Councillors, one District representative and a Unison nominated representative for staff / deferred / pensioner members. Further details on the Pension Committee regarding meetings held and voting arrangements can be found in the Governance Compliance Statement report on pages 26 to 29.

The Committee determines the overall investment strategy for the Fund after receiving advice from its independent advisor and its investment managers. The investment strategy developed by the Pension Committee is detailed in the Statement of Investment Principles on pages 76 to 82 of this report. This includes details of the Fund's agreed strategic asset allocations to the various investment markets.

The Fund's policy in respect of Socially Responsible Investment issues may be found on page 79 of the Statement of Investment Principles contained within this report.

Investment Management

The objective of LGPS pension fund investment policy is to minimise the level of the contributions to be paid into the Fund by employer bodies to ensure its solvency, the Gloucestershire Fund is no exception. In place at the year-end were six specialist investment managers, Standard Life Investments, BlackRock, Western Asset Management, GMO, Hermes Investment Management and CBREI who each manage portfolios within specific asset categories of the Fund's investments.

The Committee adopted a fund-specific benchmark commencing April 2005, and details of the Fund benchmark currently being used is shown in our Statement of Investment Principles (page 78). The benchmark represents the optimal investment portfolio distribution between asset classes to deliver the Fund back to 100% funding in accordance with the principles outlined in our Funding Strategy Statement.

The Fund also invests in the YFM Group a specialist private equity/ venture capital manager and currently holds two investments:

1. The South West of England Regional Venture Capital Fund. Backed by the Department of Trade and Industry, supporting fast growing small and medium enterprises (SME's) across the South West region. The Pension Fund's maximum commitment to the Fund is £2.5m and this has now been fully drawn-down.

2. The Chandos Fund. This fund invests in small, fast growing businesses targeting, buy-outs, buy-ins, development capital, financing pre Initial Public Offerings, and equity release/partial sales. The Pension Fund's maximum commitment to the Fund is £3m.

The Fund's Investment Managers are:	Mandate	Bid Market Value 31st March 2012 £m
Standard Life Investments	UK Equities	261.3
BlackRock	Global Equities Including Emerging Markets Emerging Markets	282.0 45.4
Western Asset Management	Global Fixed Interest Global Multi Strategy Fixed Interest	264.1 55.0
GMO	Global Equities	197.8
Hermes Investment Management	UK Property Unit Trusts	65.5
CBREI	Global Property	10.4
YFM Group	Private Equity	4.3

Each manager is required to have regard for the Fund's Statement of Investment Principles and the legislative environment in which the Fund operates.

BNY Mellon Asset Servicing is the Fund's appointed global custodian. The appointment has been effective since January 2005.

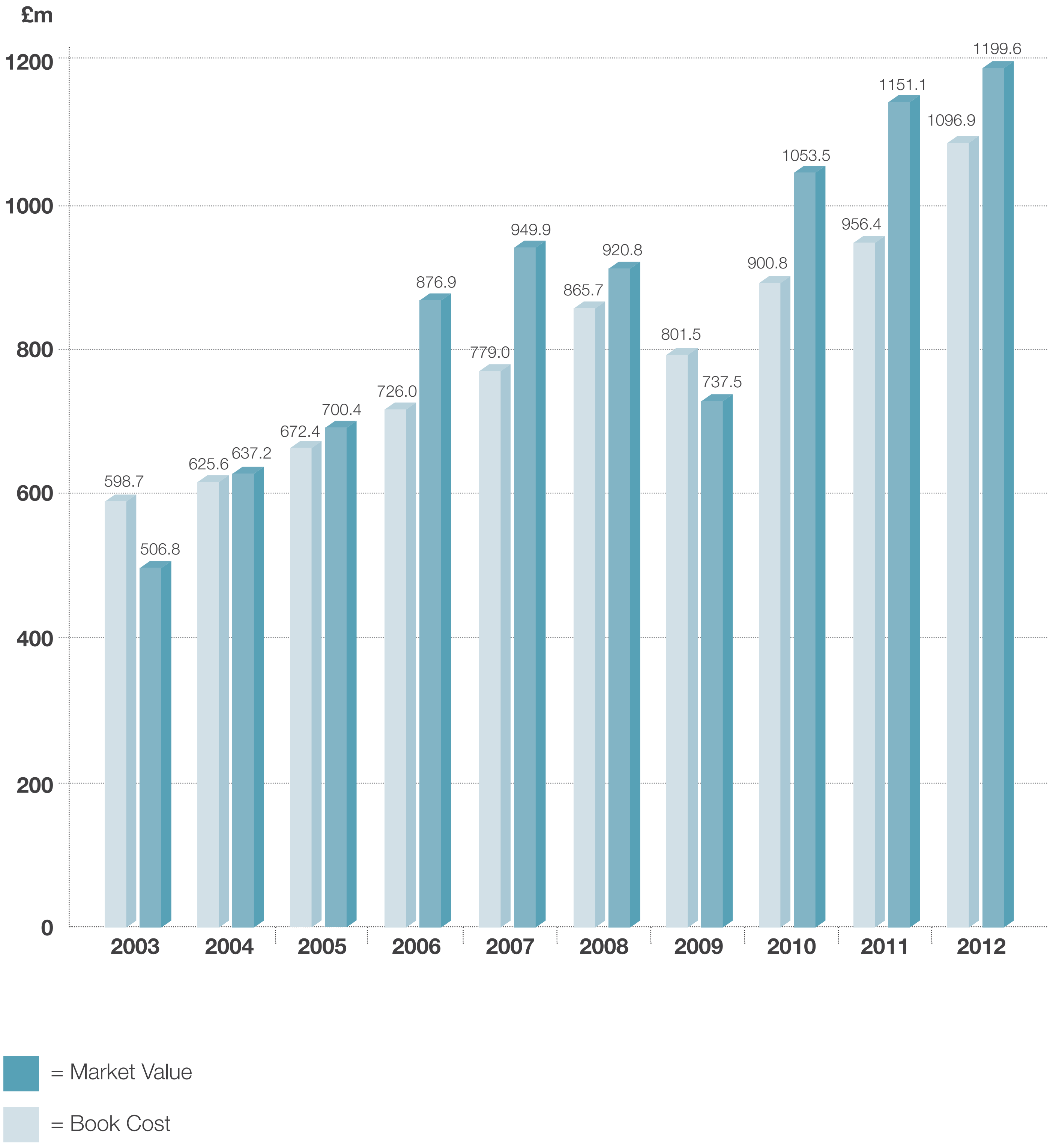
Investment performance by fund manager against benchmarks as at 31st March 2012, annualised, for 1 and 3 years and since inception:

	Mandate	Benchmark	1 year		3 years		Since Inception	
			Portfolio %	B/mark %	Portfolio %	B/mark %	Portfolio %	B/mark %
Standard Life	UK Equity	FTSE All Share	1.0	1.4	18.1	18.9	6.3	6.5
BlackRock	Global Equity Inc. Emerging Markets*	MSCI All Country World Index	-0.5	-1.1	15.6	15.3	7.4	7.4
BlackRock	Emerging Markets	MSCI Emerging Market Index	n/a	n/a	n/a	n/a	8.9	11.0
Western Asset	Global Fixed Interest	Composite UK/Overseas	12.3	16.6	16.0	10.9	6.2	7.0
Western Asset	Global Multi Strategy Fixed Interest	3 Month Sterling Libor	n/a	n/a	n/a	n/a	4.0	0.7
Hermes Investment	UK Property	IPD UK PPF Balanced PUT	8.3	5.6	10.9	8.5	3.5	1.8
CBREI	Global Property	IPD All Balanced Property Funds Index	n/a	n/a	n/a	n/a	5.2	4.4
GMO	Global Equity	MSCI World Index	1.2	0.9	n/a	n/a	13.2	13.9

* The new Global Fund commenced 8th March 2012 replacing the regional funds and their benchmarks. Both performance and benchmark returns, for the original regional funds, are included above to the end of February 2012.

Value of Fund

The Fund's investments were valued at £1,199.6m at 31st March 2012, an increase of £48.5m from the beginning of the year. The chart below illustrates the movement in the market value of the Fund over the last ten years by setting the purchase cost (book value) against the market value of investments.



Analysis of Investments as at 31st March 2012

31st March 2011 £000	Geographical Analysis	31st March 2012 £000	%
649,208	United Kingdom	647,379	54.0
219,014	North America	277,547	23.1
129,469	Europe	107,227	8.9
103,041	Far East	82,993	6.9
50,444	Emerging Markets	84,443	7.1
1,151,176		**1,199,589**	**100.0**

31st March 2011 £000	Sector Analysis		31st March 2012 £000	%
307,843	Equities	UK	262,532	21.9
480,794		Overseas	525,212	43.8
156,287	Fixed Interest	UK	165,810	13.8
38,980		Overseas	63,195	5.3
76,355	Index-Linked	UK	77,829	6.4
63,325	Property Unit Trusts	UK	70,389	5.9
-		Overseas	4,685	0.4
28,353	Cash, Net Current Assets & Other Balances		29,775	2.5
-761	Derivatives		162	0.0
1,151,176			**1,199,589**	**100.0**

31st March 2011 £000	UK Equity Analysis	31st March 2012 £000		%	%
	Basic Materials				
809	Chemicals	1,597		0.6	
40,103	Basic Resources	26,502	**28,099**	10.1	**10.7**
	Industrials				
2,004	Construction & Materials	-		-	
43,013	Industrial Goods & Services	32,822	**32,822**	12.5	**12.5**
	Consumer Goods				
5,433	Automobiles & Parts	4,455		1.7	
3,354	Food & Beverage	7,734		3.0	
12,680	Personal & Household Goods	15,903	**28,092**	6.1	**10.8**
	Consumer Services				
4,068	Retail	4,093		1.6	
7,958	Media	5,768		2.2	
9,144	Travel & Leisure	11,881	**21,742**	4.5	**8.3**
	Financials				
37,057	Banks	28,506		10.9	
15,863	Insurance	14,092		5.4	
5,168	Financial Services	5,108	**47,706**	1.9	**18.2**
61,941	**Oil & Gas**		**51,717**		**19.7**
15,037	**Health Care**		**14,556**		**5.5**
19,015	**Telecommunications**		**17,181**		**6.5**
7,631	**Utilities**		**5,315**		**2.0**
5,883	**Technology**		**3,490**		**1.3**
11,682	**Pooled Funds**		**11,812**		**4.5**
307,843			**262,532**		**100.0**

Asset Allocations

Snapshot of the Fund's actual investment exposure in the worlds' markets as at 31st March 2012 and 31st March 2011 expressed as a percentage of the Fund:

Total Fund	Gloucestershire Fund 31st March 2012 %	Gloucestershire Fund 31st March 2011 %
UK Equities	**25.2**	28.2
North American Equities	**20.6**	16.6
European Equities	**7.4**	10.0
Far East Equities	**6.8**	8.9
Emerging Markets	**5.3**	4.4
Fixed Interest	**25.7**	23.6
Property	**6.3**	5.5
Private Equity	**0.3**	0.3
Cash	**2.4**	2.5
	100.0	100.0

> As at 31st March 2012 the scheme assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The majority of the equities held by the scheme are in international blue chip entities as included in the FTSE and MSCI Indices. The aim is to hold a globally diversified portfolio of equities with a small allocation to higher risk markets, such as Emerging Markets, to maintain a wide range of diversification and to improve return opportunities.

Fund Performance

Primarily, BNY Mellon Asset Servicing and additionally, WM Company, measure the Fund's investment performance. These companies provide independent performance measuring services for the Fund.

To 31st March 2012 the Fund realised the following returns: >

	Fund % p.a.	Benchmark % p.a.
1 year	3.2	5.1
3 years	16.1	15.4
10 years	5.1	6.0

For general market background information the following shows rates of return achieved on representative market indices over the 12 months to 31st March 2012:

- UK Index Linked Gilts provided the best performance of the major asset categories, returning 18.1%.
- European Equities (Exc. UK) were the worst performers of the major asset categories with a -11.4% return.
- North American Equities returned the best performance of the overseas equity regions with 6.9%.
- By contrast, Pacific Equities (Exc. Japan) were the worst performers of the overseas region, with the exception of the European return shown above, with -4.6%.
- The UK Retail Price Index increased by 3.6% and the UK Consumer Price Index increased by 3.5%.

Local Authority Universe

For 2011/12, 84 local authority funds were included directly in the WM Company Universe. The aggregate market value of these funds was £143 billion. The average investment return achieved by Local Authority Pension Funds within the Universe for 2011/12 was 2.6%, 0.6% below the Gloucestershire Fund's return, placing Gloucestershire 37th out of the 84 funds.

The annualised total fund returns for the average local authority funds are shown below:

Annualised returns over:	Average Local Authority Fund %
1 year	2.6
3 years	14.5
10 years	5.7

>The annualised total Fund return of the Gloucestershire Fund compared to other local authority returns placed the Gloucestershire Fund 28th out of 78 and 46th out of 71 over these three and ten year periods respectively.

Investment Performance

31st March 2012 investment returns over 12 months and 3 years as derived from the various asset categories in the Gloucestershire Fund compared to the fund specific performance benchmark:

	12 months		3 years	
	Fund %	Benchmark %	Fund %	Benchmark %
UK Equities	0.7	1.4	18.3	18.9
Emerging Market Equities	-13.6	-8.5	18.4	20.6
Global Equities Excluding Emerging Markets and UK	-0.1	-0.3	15.1	15.2
UK Bonds	13.5	14.4	16.4	10.1
Overseas Bonds	10.9	7.1	9.5	4.1
UK Index-Linked	25.0	21.2	13.9	12.6
Property	8.0	5.6	10.9	8.5
Total Fund Return	**3.2**	**5.1**	**16.1**	**15.4**

10 year returns are not available in the same format, by each major asset class, as present performance reporting commenced from inception of the current mandates during 2005. However, the 10 year total fund performance returns, from WM Company, are shown on page 20. Performance returns by fund manager are shown on page 17.

Each mandate awarded over the asset categories has a targeted outperformance of their fund specific benchmark over a rolling 3 year period.

Main Holdings as at 31st March 2012

	Market Value £m	Fund %		Market Value £m	Fund %
United Kingdom					
Hermes Property Unit Trust	64.7	5.4	Treasury IL 0.75% 2047	3.8	0.3
Treasury 4.25% 2040	27.9	2.3	AstraZeneca	3.8	0.3
Royal Dutch Shell 'B' Shares	18.8	1.6	BT Group	3.8	0.3
Treasury 4.25% 2039	16.2	1.4	WPP Plc	3.6	0.3
BP	13.8	1.1	Aviva	2.6	0.2
HSBC Holdings	13.7	1.1	South West Venture Fund	2.5	0.2
Treasury 3.75% 2021	12.9	1.1	Lloyds Banking Group	2.5	0.2
Treasury IL 1.25% 2027	12.1	1.0	Babcock Intl Group	2.5	0.2
Vodafone Group	11.8	1.0	Bodycote	2.4	0.2
GlaxoSmithKline	10.8	0.9	Compass Group	2.4	0.2
Rio Tinto	9.0	0.8	Stagecoach Group	2.3	0.2
Treasury IL 1.125% 2037	8.6	0.7	Easyjet	2.3	0.2
BG Group	8.1	0.7	Lamprell	2.3	0.2
British American Tobacco	7.6	0.6	Bellway	2.3	0.2
Treasury IL 1.875% 2022	7.3	0.6	William Hill	2.3	0.2
Treasury IL 2% 2035	7.2	0.6	Reckitt Benckiser Group	2.2	0.2
Treasury IL 1.25% 2032	7.2	0.6	Hunting	2.2	0.2
Treasury IL 4.125% 2030	6.9	0.6	Rentokil Initial	2.1	0.2
Treasury IL 0.625% 2040	6.8	0.6	Spectris	2.0	0.2
Treasury IL 1.25% 2055	6.7	0.6	Lancashire Holdings	2.0	0.2
Barclays	6.5	0.5	Imagination Technologies Group	2.0	0.2
Standard Life Smaller Companies Fund	6.3	0.5	Cookson Group	1.9	0.2
Treasury IL 0.375% 2062	6.3	0.5	Pennon Group	1.9	0.2
BHP Billiton	6.0	0.5	Talktalk Telecom Group	1.9	0.2
Standard Chartered	5.4	0.5	Chandos Fund	1.8	0.1
DS Smith	5.3	0.4	Centrica	1.7	0.1
Anglo American	5.2	0.4	HSBC Holdings 6% 2040	1.7	0.1
Xstrata	5.0	0.4	Tesco Property Finance 5.801% 2014	1.7	0.1
European Investment Bank	5.0	0.4	Tesco	1.7	0.1
Diageo	5.0	0.4	Western Power Distribution	1.7	0.1
GKN	4.8	0.4	Weir Group	1.7	0.1
Treasury IL 0.625% 2042	4.5	0.4	BG Energy Capital	1.7	0.1
Prudential	4.4	0.4	Aberdeen Asset Management	1.7	0.1
IMI	4.4	0.4	Travis Perkins	1.7	0.1
Legal and General Group	4.3	0.4	ITE Group	1.6	0.1
Treasury 5.25% 2012	4.3	0.4	Telecity Group	1.6	0.1
Tullow Oil	4.0	0.3	Yule Catto & Co	1.6	0.1
Imperial Tobacco Group	3.9	0.3	Abbey National Treasury 5.125% 2021	1.6	0.1
Overseas					
BlackRock Global Equity Fund	282.0	23.5	WA Opportunistic Local Market Debt Securities	5.4	0.5
GMO Developed World Equity Fund	197.8	16.5	Global Alpha Fund	4.7	0.4
Legg Mason Global Funds - WA GMS	55.0	4.6	US $ Highyield Secport Ltd	1.7	0.1
BlackRock Emerging Markets Index Fund	45.4	3.8	Legg Mason Institutional Funds	0.7	0.1
Cash Instruments					
BNY Mellon Sterling Liquidity Fund	7.3	0.6	BNY Mellon US $ Liquidity Plus Fund	1.8	0.1

Scheme Administration Report

Administration Arrangements

The Pensions Administration team is responsible for the scheme member and pensioner administration of the Fund. In addition, members of the Pensions Finance team provide support to the Pension Committee including the production of management information and reports.

The County Council website (see web addresses on page 8) contains detailed documents and information on the following areas:

- All the Pension Fund's policy statements.
- The actuary's triennial valuation report at March 2007 and March 2010.
- Annual reports from 2004/05 to the present.
- A range of guides for scheme members in "booklet" form covering 17 different topics.
- Online copies of the various forms members may wish to use in connection with their scheme membership.
- Updates on latest developments affecting the pension scheme.
- Information on the Annual Benefit Statements.
- Employer pages' providing an Employer's Administration Guide and associated forms/ documentation together with other relevant information.

Scheme Administration Costs

Total scheme administration costs for the last three years were as follows:

	2011/12 £000	2010/11 £000	2009/10 £000
Administration costs	**1,157**	1,167	1,498
Investment management costs	**3,213**	3,291	3,184
	4,370	4,458	4,682

The Fund's Internal Disputes Resolution Procedure (I.D.R.P.)

Although the majority of problems relating to members benefits are normally the result of misunderstandings or incorrect information and can be dealt with informally, the LGPS Regulations provide a formal complaint procedure known as the Internal Dispute Resolution Procedure. This formal process consists of two stages, although many of the complaints are resolved during the first stage. More detailed information can be found on the pages of the Pension Section's website by using the following link **www.gloucestershire.gov.uk/lgpsmemberguides** and downloading "Booklet 11 – Help with Pensions Problems". Alternatively, you can contact the Pensions Section by telephoning (01452) 426677.

Details of scheme member appeals during 2011/2012 are as follows:

There have been no appeals against the County Council, as Administering Authority, during 2011/2012.

Actuarial Report on Fund

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the Gloucestershire County Council Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

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

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31st March 2010. This valuation revealed that the Fund's assets, which at 31st March 2010 were valued at £1,054 million, were sufficient to meet 70.4% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £444 million.

Individual employers' contributions for the period 1st April 2011 to 31st March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31st March 2011.

Method

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

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 2010 valuation were as follows:

Financial assumptions	31st March 2010 % p.a. Nominal	 % p.a. Real
Discount rate	6.1	2.8
Pay increases *	4.8	1.5
Price inflation/Pension increases	3.3	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 4.8% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.7 years	23.6 years
Future Pensioners	23.5 years	25.8 years

Copies of the 2010 valuation report and FSS are available on request from Gloucestershire County Council, Administering Authority to the Fund.

Experience Over the Period Since April 2010

The funding level is likely to have worsened since 31st March 2010. The reasons for this are:

- Total investment returns were slightly below the long term assumption made at the 2010 valuation; and

- there has been a significant fall in Government bond yields (meaning that the nominal discount rate has decreased). This has been partially offset by a decrease in the markets expectation for long term inflation (resulting in a decrease in the pension increase assumption) but overall there has been an increase in the real discount rate (the nominal discount rate net of inflation). This will have led to an increase in the value placed on the liabilities.

The next actuarial valuation will be carried out as at 31st March 2013. The FSS will also be reviewed at that time.

Bryan T Chalmers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
23 August 2012

Governance Compliance

The Pension Fund's Governance structure and the roles and responsibilities of each element within the structure are contained in the Governance Policy Statement on pages 29 to 31 of this report.

Membership of the Pension Committee showing voting rights, attendance at meetings and training received are shown in the matrix below. Training days shown below includes attendance at training courses, seminars and conferences. This is in addition to training received at Pension Committee meetings which includes fund manager and performance presentations, as well as officer and investment advisor briefings.

Member	Voting Rights	Meetings Attended	Training Received Number of Days	
			During 2011/12	From 2008/09 to 2010/11
Cllr. Ray Theodoulou	Yes	5	**2**	7
Cllr. Shaun Parsons	Yes	3	**-**	2
Cllr. Mike Sztymiak	Yes	4	**-**	3
Cllr. Nigel Cooper	Yes	5	**3**	-
William Defraine (Employee Representative)	No	2	**3**	-
Cllr. David Thorpe	Yes	1	**-**	-
Cllr. Lynden Stowe	Yes	4	**-**	4
Cllr. Phillip McLellan	Yes	4	**-**	2

Meetings were held on 13th May 2011, 5th August 2011, 4th November 2011, 29th November 2011 (Annual Meeting) and 10th February 2012.

The Fund has adopted the CIPFA Knowledge & Skills Framework to help assess and action the training needs of both Committee Members and Pension Fund Officers. An assessment of training needs was undertaken during 2011/12 and a training plan has been produced. The Strategic Finance Director is responsible for ensuring training requirements are implemented.

Fund Governance Compliance Statement

Pension Funds are required to produce a statement explaining how well they comply with a number of best practice principles covering governance arrangements for the Fund. Good governance means there are clear arrangements and controls in place to help ensure the Pension Fund is managed efficiently. The following Governance Compliance Statement details the areas where these best practice principles apply, for example, covering committee structure and representation, arrangements for training, etc. The Governance Compliance Statement then indicates whether the Fund is fully compliant in all these areas and refers to the relevant policy documents such as the Governance Policy Statement (on page 29) which gives more information on the governance arrangements which are in place.

Fund Governance Compliance Statement

Area	Principle	Level of Compliance	Reason for Non-Compliance
A) Structure	a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	FULL - see Governance Policy Statement	
	b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	FULL - see Governance Policy Statement	
	c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Applicable - There is no secondary committee or panel	
	d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Applicable - There is no secondary committee or panel	
B) Representation	a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	i. employing authorities (including non-scheme employers, e.g. admitted bodies);	PARTIAL - not all employing authorities are represented	Concerns over logistics and potential size of Committee but will keep under review
	ii. scheme members (including deferred and pensioner scheme members);	FULL - see Governance Policy Statement	
	iii. where appropriate, independent professional observers; and	FULL - see Governance Policy Statement	
	iv. expert advisors (on an ad-hoc basis).	FULL - see Governance Policy Statement	
	b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	FULL - see Governance Policy Statement	

Area	Principle	Level of Compliance	Reason for Non-Compliance
C) Selection and Role of Lay Members	a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	FULL - see Governance Policy Statement	
	b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	FULL - see Governance Policy Statement	
D) Voting	a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	FULL - see Governance Policy Statement	
E) Training/ Facility Time/ Expenses	a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	FULL - see Governance Policy Statement and Members Allowances scheme within the Council's Constitution	
	b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	FULL - see Governance Policy Statement and Members Allowances scheme within the Council's Constitution	
	c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	FULL - see Governance Policy Statement	
F) Meetings - Frequency	a) That an administering authority's main committee or committees meet at least quarterly.	FULL - see Governance Policy Statement	
	b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not Applicable - There is no secondary committee or panel	
	c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	FULL - see Governance Policy Statement	

Area	Principle	Level of Compliance	Reason for Non-Compliance
G) Access	a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	FULL - see Governance Policy Statement	
H) Scope	a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	FULL - see Governance Policy Statement	
I) Publicity	a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	FULL - see Governance Policy Statement	

> Governance Policy Statement

Introduction

1. The County Council, as Administering Authority, has prepared this policy statement and consulted upon it with major employers.

2. This statement addresses the best practice principles identified in the statutory guidance issued in accordance with regulation 73A of the Local Government Pension Scheme (LGPS) Regulations 1997.

3. The County Council's Compliance Statement which identifies the level of compliance against these best practice principles is shown on page 26 to 29.

Purpose of Governance Policy Statement

4. The regulations on governance policy and compliance statements require an Administering Authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out:

(a) whether it delegates its functions in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;

(b) and, if so, it must state:

- the frequency of any committee /sub-committee meetings;
- the terms of reference, structure and operational procedures of the delegation;
- whether the committee/sub-committee includes representatives of
  - employing authorities (including non-scheme employers)
  - scheme members
- and, if there are such representatives, whether they have voting rights.

5. Thus, the policy statement should include information about all of the Administering Authority's pension fund governance arrangements. Information about the representation of employers should also cover any arrangements for representing admitted body employers (non-scheme employers).

Principle A - Structure

6. The purpose of the Pension Committee is to give advice on the proper management of the Gloucestershire Pension Fund and carry out the function of the Council as Administering Authority.

7. Under the cabinet structure in local government, management of the pension fund is a non-executive function. In Gloucestershire it is linked to the administration by virtue of the Chairman of the Pension Committee being the Cabinet Member for Resources.

Pension Committee

The Pension Committee reports to County Council. It meets formally each quarter and more frequently if formal decisions on fund management are required.

Terms of Reference:

- To set the investment policies of the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon professional service providers.
- To appoint and review the performance of all Fund Managers and associated professional service providers.
- To approve and keep under review the Funding Strategy Statement.
- To approve and keep under review the Statement of Investment Principles.
- To report annually to the full Council.
- To consider any other matter relevant to the proper operation and management of the Fund.
- To review the Council's performance as Administering Authority.
- To decide upon arrangements for managing the Administering Authority's relationship with employers in the Fund e.g. agreeing contribution rates, establishing dispute resolution procedures and ensuring employers have established policies as required by Regulations.
- To decide upon requests for admission of qualifying organisations wishing to join the Fund.
- To decide upon key pension policy and discretions that are the responsibility of the Administering Authority.

8. The Pension Committee's formal terms of reference (above) are interpreted as including:

- Determining the overall investment strategy and strategic asset allocations of the Fund, with regard to investment suitability and diversification.
- Overseeing the preparation of the Statement of Investment Principles (SIP), including the Fund's policy on socially responsible investment and Corporate Governance.
- Annually reviewing the SIP.
- Monitoring compliance with the SIP.
- Overseeing the preparation of the Funding Strategy Statement.
- Approving the Annual Report.
- Appointing, reviewing and when necessary, dismissing, the Fund's investment managers and custodian.
- Reviewing investment manager performance against set benchmarks on a regular basis.
- Appointing, reviewing and when necessary, dismissing, the Fund's actuary, investment advisors/ consultants and performance measurement consultants.
- Holding an Annual General Meeting.

Principle B - Representation

9. The role of independent professional observers in e.g. assessing compliance with the Myners' principles and risk management will be met by elected councillors with support from specialist officers within the County Council.

Principle C – Selection & Role of Lay Members

10. The Agenda for any meetings of the Pension Committee will include an item at the start of the meeting inviting all committee members to declare any financial or pecuniary interest related to specific matters on the agenda.

Principle D – Voting

11. The Pension Committee comprises 6 County Councillors, including the Cabinet Member for Resources, together with one voting district council representative and one non-voting scheme member representative (who also represents pensioners and deferred members). The scheme member representative is non-voting because as the LGPS is a statutory scheme with benefits fully protected by statute, any changes in investment or other policies which were voted on by the scheme member representative does not affect the scheme members' benefits.

The Fund's investment advisor and the Chief Financial Officer and staff support the Committee in its role.

12. Elected councillors already have legal responsibilities for the prudent and effective stewardship of LGPS funds and in more general terms have a clear fiduciary duty in the performance of their functions. Lay members (non councillors) should be reminded that they owe a duty of care to the fund beneficiaries and are required to act in their best interests at all times, particularly in terms of their investment decisions. They are not there to represent their own local, political or private interest.

Principle E – Training/ Facility Time/Expenses

13. Myners' first principle states that decisions should only be taken by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take. All members of the Committee (including lay members) are offered training; including that offered by the Employers Organisation (and are exposed to presentations at the Committee's quarterly meetings on investment matters). Substitutions are not permitted on the Pension Committee.

14. Committee members complete an annual training requirement self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the Administering Authority.

15. The members' allowances scheme within the County Council's Constitution outlines the process for both councillors and lay members reclaiming expenses. The same rules apply to both councillors and lay members.

Principle F – Meetings (frequency/quorum)

16. The Pension Committee reports to County Council. It meets formally each quarter and more frequently if formal decisions on fund management are required.

Other ways of engaging stakeholders which the Council have adopted are:

- bi-lateral discussions, and similar forums, involving employers and other stakeholders;
- an annual general meeting for all employers and fund members;
- a triennial meeting between all employers and the actuary to discuss the results of the actuarial valuation.

Principle G – Access

17. All members of the Pension Committee have equal access to committee papers, documents and advice.

Principle H – Scope

18. The terms of reference of the Pension Committee (as detailed in paragraph 7, on pages 29 and 30 of this document) include general scheme and other administrative issues in connection with their role as Administering Authority.

19. The finance and operational arrangements of the Fund are subject to review and audit both by the Audit Commission's appointed auditor, the District Auditor, and the Council's own internal audit service. Reports issued by our auditors are subject to consideration by the Council's elected members acting as an audit committee.

Principle I – Publicity

20. The County Council is committed to the widest inclusion of all stakeholders in consultation and communication outside of the formal governance arrangements. In this respect it has made arrangements to make its publications available via the Council's public website and its intranet.

21. A copy of the Governance Compliance Statement will be published as part of the Pension Fund Annual Report. The Annual Report is discussed at the Fund's Annual General Meeting which is open to all fund members and employers.

Fund Account and Net Assets Statement

> Statement of Accounts 2011/12

Statement of Responsibilities and Foreword to Accounts

The audited accounts and notes following on pages 33 to 57, summarise the transactions and net assets of the Fund.

Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (the Chief Financial Officer).
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the statement of accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

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

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code of Practice on Local Authority Accounting.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Jo Walker, CPFA
Strategic Finance Director
(and Section 151 Officer)
27th September 2012

Independent Auditor's Report to the Members of Gloucestershire County Council

Opinion on the Pension Fund Accounting Statements

I have audited the pension fund financial statements for the year ended 31st March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Gloucestershire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective Responsibilities of the Strategic Finance Director and Auditor

As explained more fully in the Statement of the Strategic Finance Director's Responsibilities, the Strategic Finance Director is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31st March 2012 and the amount and disposition of the Fund's assets and liabilities as at 31st March 2012; and

- have been prepared properly in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on Other Matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on Which I Report by Exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

Martin Robinson

Officer of the Audit Commission
Audit Commission
Westward House
Lime Kiln Close
Stoke Gifford
Bristol
BS34 8SR

27 September 2012

Fund Account for the year ended 31st March 2012

2010/11 re-stated £000		2011/12 £000	2011/12 £000	Note
	Dealings with members, employers and others directly involved in the scheme			
	Contributions			
60,123	from employers	**64,134**		N21
17,311	from members	**16,281**		N21
77,434			**80,415**	N7
	Transfers in from other pension funds			
6,275	individual transfers in from other schemes	**3,906**		
-	group transfers in from other schemes	**618**		
6,275			**4,524**	
	Other income			
151	recoveries for services provided		**195**	N23
	Benefits			
(47,810)	pensions	**(51,606)**		
(11,145)	commutation of pensions and lump sum retirement benefits	**(11,928)**		
(1,441)	lump sum death benefits	**(1,875)**		
(60,396)			**(65,409)**	N7
	Payments to and on account of leavers			
(14)	refunds of contributions	**(12)**		
1	state scheme premiums	**4**		
(6,735)	individual transfers out to other schemes	**(3,621)**		
-	group transfers out to other schemes	**(537)**		
(6,748)			**(4,166)**	
(1,167)	**Administrative expenses**		**(1,157)**	N9, N19 & N23
15,549	**Net additions from dealings with scheme members**		14,402	
	Returns on investments			
25,369	investment income		**27,879**	N15
22	taxes on income		**(12)**	N3 & N15
59,983	profit and losses on disposal of investments and changes in value of investments		**9,357**	N4
(3,291)	investment management expenses		**(3,213)**	N19 & N24
82,083	**Net returns on investments**		34,011	
97,632	**Net increase / (decrease) in the net assets available for benefits during the year**		48,413	
1,053,544	**Opening net assets of the scheme**		1,151,176	
1,151,176	**Closing net assets of the scheme**		1,199,589	

Net Asset Statement as at 31st March 2012

2010/11 £000		2011/12 £000	Note
	Investment assets		
174,936	Fixed interest securities	**165,810**	
297,391	Equities	**251,991**	
76,355	Index-linked securities	**77,829**	
508,052	Pooled investment vehicles	**594,694**	
63,325	Property unit trusts	**75,074**	
736	Derivative contracts	**1,187**	*N17*
3,526	Other investments - Venture Capital/Private Equity	**4,254**	*N10*
18,046	Cash held on behalf of the investment managers	**12,195**	
6,731	Other investment balances	**8,442**	
1,149,098		**1,191,476**	
	Investment liabilities		
(1,497)	Derivative contracts	**(1,025)**	*N17*
(3,740)	Other investment balances	**(4,591)**	
(5,237)		**(5,616)**	
	Current assets		
3,514	Contributions due from employers	**4,512**	*N26*
233	Other current assets	**206**	
5,155	Cash balances	**10,357**	*N25*
8,902		**15,075**	
	Current liabilities		
(98)	Unpaid benefits	**(13)**	
(1,489)	Other current liabilities	**(1,333)**	
(1,587)		**(1,346)**	
1,151,176	**Net assets of the scheme available to fund benefits at the period end**	**1,199,589**	*N5, N14 & N18*

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end but rather summarise the transactions and net assets of the scheme.

The actuarial present value of promised retirement benefits is disclosed at Note N27.

The notes on the following pages form part of these Financial Statements.

> Notes to the Accounts 2011/12

N1 Introduction

The County Council is the administering body for the Gloucestershire Local Government Pension Fund. This is not only for County Council employees but also for district councils within the County and other local bodies providing public services. A full list of all employing bodies who are members of the Fund are shown on pages 13 to 15. The Local Government Pension Scheme is a statutory funded pension scheme. It is "contracted out" of the state scheme and is termed a defined benefit (or final salary) scheme. The scheme is made available to all (*) employees except fire fighters and teachers (who have their own separate nationally-administered schemes). The Fund is financed by contributions paid in by the existing employees and their employers and by earnings from the investment of Fund monies. The number of contributors at 31st March 2012 was 16,731 (2011 17,301). The Fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009

A full analysis of membership can be found on page 86. The Fund exists to provide pensions to former employees and certain other benefits. The Pension Fund is not a Gloucestershire County Council fund and is subject to its own audit; therefore balances are not included in the Gloucestershire County Council Consolidated Balance Sheet. The Fund is administered by the Pension Committee, which is a committee of Gloucestershire County Council.

* There are restrictions with some casual staff

N2 Accounting Policies

Basis of Preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. The accounts are prepared on a going concern basis.

Accruals Concept Applied

Income and expenditure have been accounted for on an accruals basis so far as amounts due have been determined in time for inclusion in the accounts. Any amount due in year but unpaid will be classed as a current financial asset. Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Transfer values are accounted for when they are paid or received.

Investment Manager Expenses

The managers' fees have been accounted for on the basis contained within their management agreements. Broadly these are based on the market value of the investments under management and therefore increase or decrease as the value of these investments change. In addition the Fund has agreed with the following managers that an element of their fee be performance related:

- Standard Life Investments - UK Equities
- GMO - Global Equities
- Hermes - Property Unit Trusts
- Acadian - Emerging Market Equities (last holding sold in Jan 2012)

Hermes deducts its fees from a combination of assets held and income distributions and Acadian, GMO and Yorkshire Fund Managers deduct their fees from the value of the assets under their management.

Where the Fund has obtained investment advice from external consultants the cost is included in investment management charges.

Administering Authority Recharges

The Regulations permit the County Council to charge the cost of both the management and administration of the pension scheme to the Fund. A proportion of relevant officers' salaries, on-costs and general overheads have been charged to the Fund on the basis of time spent on fund administration.

Valuation of Assets

The SORP requires securities to be valued on a Fair Value Basis therefore assets, where there is an active and readily available market price, are valued at the bid (selling) price and liabilities on an offer (buying) price basis. Where assets do not actively trade through established exchange mechanisms a price is obtained from the manager of the investment asset. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing as at 31st March 2012. Purchases and sales during the year which require settlement in a foreign currency are converted from/ to sterling at the exchange rate prevailing on the trade date. Fixed interest securities are recorded at net market value based on their yields. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is re-invested in the fund, net of applicable withholding tax. Property within the property unit trusts are independently valued in accordance with the Royal Institute of Chartered Surveyors valuation standards and Private Equity valued in accordance with the International Private Equity and Venture Capital Guidelines.

Cash

Cash balances held in accordance with the County Councils' Treasury Management Strategy and those held with the Funds' Custodian BNY Mellon, on behalf of investment managers, are in instant access accounts, subject to timing deadlines.

Derivatives

Derivative contracts are valued at fair value and are determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Derivative contract assets, those with a positive value, are valued at bid price and derivative contract liabilities, those with a negative value, are valued at the offer price. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts. The fair value of the forward currency contracts are based on market forward exchange rates at the year end date.

Acquisition and Transaction Costs of Investments

Acquisition costs of investments (e.g. stamp duty) and transaction costs are included within the purchase cost/proceeds of investment purchases and sales.

N3 Taxation

The Fund is exempt from UK capital gains tax on the proceeds of investments sold. Corporation Tax is deducted from UK equity dividends; tax deducted from property unit trusts can be reclaimed. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit.

N4 Investment Movements Summary

Asset Class	Market value at 31st March 2011 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value, new money and accruals £000	Market value at 31st March 2012 £000
Fixed Interest	174,936	125,544	147,898	13,228	**165,810**
Equities	297,391	*107,991	*124,308	-29,083	**251,991**
Index Linked	76,355	30,850	43,188	13,812	**77,829**
Derivatives	-761	-	371	1,294	**162**
Pooled Investments	508,052	979,230	906,314	13,726	**594,694**
Property Unit Trusts	63,325	10,242	-	1,507	**75,074**
Private Equity	3,526	405	-	323	**4,254**
	1,122,824	1,254,262	1,222,079	14,807	**1,169,814**
Cash movement, currency adjustments and other end of year settlements	28,352			-5,450	**29,775**
	1,151,176			9,357	**1,199,589**

* Within these figures is an in-specie transfer of £29.9m from UK equities to global equities, as per the funds new strategic allocation.

The change in market value of investments 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.

The derivatives in the previous table represent futures, options and forward foreign exchange contracts. The closing market value represents fair value as at the year end date. In the case of derivative contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date and entering into an equal and opposite contract as at that date. The profit or loss arising is included within the total 'cash movement' figure.

All derivative contracts settled during the period are reported within the table as purchases and sales.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amount to £875,872 (2010/11 £601,375). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. The amount of indirect costs are not separately provided to the Fund.

N5 Management of Fund Assets

The market value of investments managed by each external manager at the end of the financial year was:

	2010/11		2011/12	
	£000	%	£000	%
Western Asset Management Company	285,885	24.8	**319,128**	**26.6**
BlackRock	253,772	22.0	**327,404**	**27.3**
CBREI	-	-	**10,426**	**0.9**
GMO	176,715	15.4	**197,845**	**16.5**
Standard Life Investments	308,496	26.8	**261,271**	**21.8**
Hermes Investment Management Property Unit Trust	64,446	5.6	**65,470**	**5.5**
BNY Mellon Asset Management International	102	-	**3**	**-**
Acadian Asset Management	50,407	4.4	**-**	**-**
YFM Group	3,526	0.3	**4,254**	**0.3**
Total - External Managers	1,143,349	99.3	**1,185,801**	**98.9**
In-house cash and accruals	7,315	0.6	**13,729**	**1.1**
Cash instruments with Custodian	512	0.1	**59**	**-**
	1,151,176	100.0	**1,199,589**	**100.0**

Where the value of an investment exceeds 5% of the total value of net assets or 5% of its asset class, details have been disclosed in note N18.

N6 Actuarial Position of the Fund

- In line with the Local Government Pension Scheme (Administration) Regulations 2008, actuarial valuations of the Fund are required to be undertaken every three years, for the purpose of setting employer contribution rates for the forthcoming triennial period. The latest valuation took place as at 31st March 2010. This valuation was the relevant valuation for employer contributions required during the year to 31st March 2012. The next valuation will take place as at March 2013.

- The estimate of the pension fund liability is subject to significant variations, based on changes to the underlying assumptions used - see below.

- Results showed that the required level of contributions to be paid to the Fund by the County Council for the year to 31st March 2012, in accordance with the Fund's Funding Strategy Statement, was 22.9% (2010/11 21.9%) of pensionable pay. This rate of contribution is the rate which, in addition to the contributions paid by the members, is sufficient to meet:

  - 100% of the liabilities arising in respect of service after the valuation date;

  - plus an adjustment over a period of 20 years to reflect the shortfall of the value of the County Council's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

- The market value of the Fund's assets at the March 2010 triennial valuation date was £1,054m (£950.5m March 2007) and represented 70.4% (74.1% March 2007) of the Fund's accrued liabilities, allowing for future pay increases. When a valuation reveals a deficiency, the employer contribution rates are adjusted to target restoration of a solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Scheme Actuary and employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

- The contribution rate has been calculated using the projected unit method in line with accepted guidelines and the main actuarial assumptions used are as follows:

Funding Basis

Rate of return on investments
6.1% per annum

Rate of general pay increases*
4.8% per annum

Rate of increase to pensions in payment (in excess of guaranteed minimum pension)
3.3% per annum

* An allowance is also made for promotional pay increases. Note that the assumption at 31st March 2010 is actually 1% pa for 2010/11 and 2011/12, reverting to 5.3% pa thereafter.

- The full actuarial valuation report for both 2007 and 2010 has been published on the County Council's website and can be viewed using the following web address: **www.gloucestershire.gov.uk/pensionsinvestments**

- See note N27 for details of the Actuarial Present Value of Promised Retirement Benefits.

N7 Analysis of Contributions Receivable and Benefits Payable

	2010/11		**2011/12**	
	Contributions receivable £000	Benefits payable £000	**Contributions receivable £000**	**Benefits payable £000**
Gloucestershire County Council (Administering Authority)	42,632	34,058	**39,844**	**35,474**
Scheduled Bodies (89) (Bodies admitted by right)	31,941	24,038	**36,661**	**27,376**
Admitted Bodies (22) (Bodies admitted by agreement)	2,861	2,300	**3,910**	**2,559**
	77,434	60,396	**80,415**	**65,409**

Scheduled Bodies now include forty six schools who have converted to academy status; formerly these were included with the County Council.

N8 Statement of Investment Principles

A Statement of Investment Principles, which sets out the Pension Fund's long-term investment objectives, its style of management and policies together with risk management, performance targets and details of how that performance is monitored and reviewed, can be found on page 76 to page 82.

N9 Related Party Transactions

Gloucestershire County Council, as Administering Authority for the Fund, provided services for which it charged the following amount: >

	2010/11 £000	**2011/12 £000**
Administrative expenses	1,167*	**1,157**

* The 2010/11 comparative figure has been restated following reclassification of expenses including custody, performance measurement and investment consultancy fees as investment management expenses. More detail is shown in Note N19.

Of the County Council's key management personnel, some of the Director: Strategic Finance's remuneration costs were charged to the Fund to reflect time spent. These consisted of salary, fees and allowances (£9,626) and employers' pension contributions (£2,204).

A member of the Pension Committee, Councillor Lyndon Stowe is Cotswold District Council's nominated Shareholder for Ubico Limited. Ubico Limited has been accepted into the Fund as an Admitted Body from 1st April 2012. One member of the Pension Committee, W Defraine, was a member of the Fund during 2011/12. This individual was the employee representative on the Committee.

Transactions between employers and the Fund are disclosed in note N7. Surplus cash balances are invested through the Council's short-term investment procedures.

N10 Contingent Liabilities and Contractual Commitments

The Fund has an investment within a private equity fund managed by Yorkshire Fund Managers. The following table shows the Fund's total commitment and the remaining liability, following drawdowns, at the year end.

	Total Commitment £000	Outstanding liability 2010/11 £000	**Outstanding liability 2011/12 £000**
Chandos Fund	**3,000**	1,438	**1,032**

N11 Contingent Assets

Due to retrospective adjustments to how pension payments are made for Registration staff working additional hours or on a fee basis, a contingent asset of £41,579 has been recorded for possible additional contributions from ex members of staff, during 2012/2013 and future years.

N12 Unlisted Holdings

The following holdings are unlisted:

Pooled investment vehicles	2010/11 £000	**2011/12 £000**
UK equity unitised insurance policy	6,926	**6,287**
Overseas equity managed funds	227,022	**197,845**
Overseas equity unitised insurance policies	253,772	**281,953**
Overseas limited liability partnerships	18,913	**7,416**
	506,633	**493,501**
Property unit trusts		
UK property unit trust	-	**5,652**
Overseas property unit trust	-	**4,685**
	-	**10,337**
	506,633	**503,838**

N13 Stocklending

The Pension Funds' custodian has been authorised to release stock to third parties under a stock lending arrangement. At 31st March 2012 the value of stock out on loan was £2.7m (2010/11 £28.1m) of which £2.7m (£18.2m) were UK equities and £0 (£9.9m) were UK government stock. Collateral of £2.8m (£29.4m) equal to 105% (105%) of stock out on loan was held in the form of £2.0m (£1.8m) in FTSE 350 UK equities and £0.8m (£27.6m) in AA rated UK and Overseas government debt and AAA rated fixed interest stock issued by Supranational bodies. The Pension Fund stipulates those institutions that are allowed to borrow its stock and the type of collateral that is acceptable.

N14 Financial Asset Analysis

Financial assets			2010/11 £000	2011/12 £000
Fixed interest securities				
UK	- Public Sector	– Quoted	63,730	**60,993**
	- Other	– Quoted	92,557	**104,817**
Overseas	- Public Sector	– Quoted	16,797	**-**
	- Other	– Quoted	1,852	**-**
			174,936	**165,810**
Equities				
UK		– Quoted	297,391	**251,991**
Index-linked securities				
UK	- Public Sector	– Quoted	74,390	**77,780**
	- Other	– Quoted	1,965	**49**
			76,355	**77,829**
Pooled investment vehicles				
Unit Trusts				
Overseas	- Equities – managed from inside the UK	– Quoted	-	**45,413**
Unitised Insurance Policies				
UK	- Equities	– Unquoted	6,926	**6,287**
Overseas	- Equities – managed from outside the UK	– Unquoted	-	**281,953**
Overseas	- Equities – managed from within the UK	– Unquoted	253,772	**-**
Other Managed Funds				
O.E.I.C.'s	- Overseas Fixed Interest – managed from outside the UK	– Quoted	1,419	**731**
	- Overseas Fixed Interest – managed from within the UK	– Quoted	-	**55,049**
	- Overseas Equities – managed from outside the UK	– Unquoted	227,022	**197,845**
Limited Liability Partnerships				
	- Overseas Fixed Interest – managed from outside the UK	– Unquoted	18,913	**7,416**
			508,052	**594,694**
Property Unit Trusts				
UK	- managed from within the UK	– Quoted	63,325	**64,737**
UK	- managed from outside the UK	– Unquoted	-	**5,652**
Overseas	- managed from outside the UK	– Unquoted	-	**4,685**
			63,325	**75,074**
Derivative Contracts (note N17)				
Futures	- UK		86	**92**
	- Overseas		74	**-**
Forward Foreign Exchange Contracts			576	**1,095**
			736	**1,187**
Other Investments				
Venture Capital/Private Equity - UK			3,526	**4,254**
Cash (Managers)				
Cash instruments	- UK		15,958	**7,981**
	- Overseas		753	**2,743**
Cash Deposits	- UK		866	**1,438**
	- Overseas		469	**33**
			18,046	**12,195**
Other Investment Balances				
Debtors				
Outstanding settlement of investment transactions			1,844	**3,800**
Accrued dividend income and tax reclaims due on dividend income			4,887	**4,642**
			6,731	**8,442**
Total Financial Assets			**1,149,098**	**1,191,476**

Continued - Financial Asset Analysis

Financial Liabilities	2010/11 £000	2011/12 £000
Derivative Contracts (note N17)		
Futures – Overseas	-42	**-**
Forward Foreign Exchange Contracts	-1,455	**-1,025**
	-1,497	**-1,025**
Other Investment Balances		
Creditors		
Outstanding settlement of investment transactions	-3,740	**-4,591**
Total Financial Liabilities	-5,237	**-5,616**
Current Assets		
Contributions due from employer	3,514	**4,512**
Other current assets (debtors)	233	**206**
Cash balances	5,155	**10,357**
	8,902	**15,075**
Current Liabilities		
Unpaid benefits	-98	**-13**
Other liabilities (creditors)	-1,489	**-1,333**
	-1,587	**-1,346**
	1,151,176	**1,199,589**

N15 Investment Income

Investment income arises from the following investment categories:

	2010/11 £000	2011/12 £000
Fixed interest	8,788	**8,541**
Equities	7,940	**11,025**
Index-linked	2,821	**2,714**
Pooled investment vehicles	5,565	**5,313**
Interest on cash deposits	115	**229**
Private equity	49	**-**
Other income from stocklending and underwriting	91	**57**
	25,369	**27,879**
Withholding tax	22	**-12**
	25,391	**27,867**

N16 Separately Invested Additional Voluntary Contributions (AVC's)

Gloucestershire County Council LGPS holds assets with The Prudential Assurance Company Limited and Phoenix Life Limited. The AVC's are invested separately in funds managed by them. These are in the form of with-profits, unit-linked and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement confirming amounts held to their account and movements in the year. These amounts are not included in the Pension Fund Accounts in accordance with section 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093).

	Prudential		Phoenix Life		Total Investments	
	2010/11	**2011/12**	2010/11	**2011/12**	2010/11	**2011/12**
	£000	**£000**	£000	**£000**	£000	**£000**
Value of investments at 1st April 2011	8,014	**7,474**	212	**187**	8,226	**7,661**
Prior year adjustments	7	**-**	-	**-**	7	**-**
Contributions received in year*	627	**635**	4	**3**	631	**638**
Death in service premiums paid by members	-10	**-8**	-	**-**	-10	**-8**
Sales of investments	-1,623	**-1,017**	-30	**-35**	-1,653	**-1,052**
Changes in value of investments	459	**346**	1	**-1**	460	**345**
Present value of investments	7,474	**7,430**	187	**154**	7,661	**7,584**

* Contributions paid by members in the Prudential scheme during 2011/12 totalled £634,952 (2010/11 £626,889) which included additional death in service premiums totalling £8,139 (2010/11 £9,612).

N17 Derivatives

Investments in derivatives are only made if they contribute to a reduction of risks and facilitate efficient portfolio management. A derivative is a generic term for financial instruments used in the management of portfolios and is a financial contract between two parties, the value of which is determined by the underlying asset. Derivatives include futures, forwards, swaps and options.

The fixed income portfolio uses futures and options for duration and yield curve management purposes. Additionally, the investment strategy for this manager, for all overseas currency exposures, is to be fully hedged back in to sterling which is achieved by the use of foreign exchange forward contracts. To mitigate large unrealised profits accruing with any one counterparty the contracts are split between a handful of banks and the contracts rolled quarterly in order that any gains or losses are realised at regular intervals.

In the table on page 45, the 'notional value' of the stock purchases under futures contracts is the economic exposure and the value subject to market movements as at 31st March 2012.

Derivative Contract Analysis

	Contract type*	2010/11 Notional Value £000	2011/12 Notional Value £000	Expiration	2010/11 Market Value £000	2011/12 Market Value £000
Investment Assets						
Futures						
Futures - UK - Fixed Interest						
UK Long Gilt Future	ET	-17,810	**-25,994**	Less than 3 months	86	**92**
UK Futures		-17,810	**-25,994**		86	**92**
Futures - Overseas - Fixed Interest						
Euro-Bund Future	ET	-2,470	**-**	Less than 3 months	28	**-**
US Ultra Bond Future	ET	1,542	**-**	Less than 3 months	46	**-**
Overseas Futures		-928	**-**		74	**-**
Total Futures		-18,738	**-25,994**		160	**92**
Forward foreign exchange contracts	OTC	34,879	**86,200**	Less than 6 months	576	**1,095**
Total Derivative Assets		16,141	**60,206**		736	**1,187**
Investment Liabilities						
Futures						
Futures - Overseas - Fixed Interest						
US 10 Year Treasury Nts Future	ET	-12,995	**-**	Less than 3 months	-42	**-**
Overseas Futures		-12,995	**-**		-42	**-**
Total Futures		-12,995	**-**		-42	**-**
Forward foreign exchange contracts	OTC	75,989	**84,596**	Less than 6 months	-1,455	**-1,025**
Total Derivative Liabilities		62,994	**84,596**		-1,497	**-1,025**

* Contract types ET (exchange traded) OTC (over-the-counter)

The total Futures' initial margin for 2011/12 was £0.7m (£0.5m 2010/11) and the total variation margin was £0.7m (£0.5m 2010/11). The initial margin is an amount of money deposited by both buyers and sellers of Futures contracts to ensure performance of the terms of the contract. The variation margin reflects the accumulated cash flows from the daily marking to market that accrues in the futures broker's account.

A breakdown of the open forward foreign exchange contracts at 31st March 2012 is given opposite:-

Open Forward Currency Contracts at 31st March 2012

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to six months	GBP	16,241	USD	25,544	249	
Up to three months	GBP	10,101	USD	15,846	181	
Up to three months	GBP	8,983	USD	14,092	161	
Up to six months	GBP	12,130	USD	19,178	122	
Up to three months	GBP	5,569	USD	8,736	100	
Up to three months	GBP	5,329	USD	8,359	95	
Up to three months	GBP	3,163	USD	4,962	57	
Up to six months	GBP	11,468	USD	18,250	42	
Up to six months	GBP	1,934	USD	3,061	17	
Up to six months	GBP	2,046	EUR	2,435	15	
Up to six months	GBP	353	AUD	533	10	
Up to three months	GBP	510	USD	800	9	
Up to six months	EUR	1,240	GBP	1,026	8	
Up to six months	GBP	497	NZD	959	7	
Up to three months	GBP	1,965	EUR	2,348	6	
Up to six months	GBP	549	HKD	6,741	5	
Up to three months	GBP	1,037	EUR	1,240	3	
Up to six months	EUR	626	GBP	519	3	
Up to three months	GBP	573	EUR	685	2	
Up to three months	GBP	524	EUR	626	2	
Up to six months	GBP	1,686	EUR	2,020	1	
Up to six months	EUR	2,348	GBP	1,958		0
Up to three months	EUR	216	GBP	181		0
Up to three months	EUR	600	GBP	503		-2
Up to three months	USD	3,845	GBP	2,412		-4
Up to six months	GBP	1,403	EUR	1,687		-5
Up to six months	USD	800	GBP	506		-6
Up to three months	EUR	2,020	GBP	1,690		-6
Up to six months	GBP	2,324	EUR	2,794		-6
Up to three months	EUR	3,120	GBP	2,609		-7
Up to three months	EUR	2,663	GBP	2,228		-7
Up to six months	GBP	2,207	EUR	2,663		-14
Up to three months	USD	1,400	GBP	894		-17
Up to six months	USD	3,562	GBP	2,251		-20
Up to six months	USD	4,000	GBP	2,527		-23
Up to six months	USD	8,736	GBP	5,526		-56
Up to six months	USD	11,846	GBP	7,475		-59
Up to six months	USD	8,359	GBP	5,310		-76
Up to three months	USD	9,002	GBP	5,739		-103
Up to six months	USD	14,092	GBP	8,937		-114
Up to three months	USD	18,250	GBP	11,634		-208
Up to three months	USD	25,544	GBP	16,284		-292
					1,095	-1,025
Net forward currency contracts at 31st March 2012						**70**

Prior year comparative

Open forward currency contracts at 31st March 2011	576	-1,455
Net forward currency contracts at 31st March 2011		-879

N18 Investments Exceeding 5% of Total Net Assets or that Exceed 5% of their Asset Class

At 31st March 2012 the Pension Fund held three, (2010/11, four) investments that each exceeded 5% of the total value of the net assets of the scheme. These are detailed as follows:

Investments exceeding 5% of Total Net Assets	2010/11 £000	2010/11 %	**2011/12 £000**	**2011/12 %**
* BlackRock Global Equity Fund	n/a	0.0	**281,953**	**23.5**
* GMO Developed World Equity Investment Fund	176,715	15.3	**197,845**	**16.5**
BlackRock Ascent Life US Equity Fund	94,012	8.2	**	**
BlackRock Ascent Life European Equity Fund	75,910	6.6	**	**
* Hermes Property Unit Trust	63,325	5.5	**64,737**	**5.4**
	409,962	35.6	**544,535**	**45.4**

* Indicates assets which are in excess of 5% of both net assets and their asset class for 2011/12
** Now held in the BlackRock Global Equity Fund

BlackRock investments are Unitised Insurance Policies
GMO Investment Fund is an O.E.I.C. investing in global equities
Hermes Property Unit Trust is a Property Unit Trust

Investments exceeding 5% of their Asset Class	2010/11 £000	2010/11 %	**2011/12 £000**	**2011/12 %**
Fixed interest securities				
Treasury 4.25% 2040	21,243	12.1	**27,872**	**16.8**
Treasury 4.25% 2039	25,191	14.4	**16,248**	**9.8**
Treasury 3.75% 2021	-	-	**12,920**	**7.8**
Treasury 4.25% 2032	9,135	5.2	**-**	**-**
Equities				
Royal Dutch Shell 'B' Shares	22,060	7.4	**18,782**	**7.5**
BP	16,127	5.4	**13,761**	**5.5**
HSBC Holdings	19,765	6.6	**13,672**	**5.4**
Vodafone Group	17,268	5.8	**-**	**-**
Index-linked securities				
United Kingdom IL 1.25% 2027	-	-	**12,107**	**15.6**
United Kingdom IL 1.125% 2037	12,592	7.2	**8,623**	**11.1**
United Kingdom IL 1.875% 2022	5,728	7.5	**7,225**	**9.3**
Treasury IL 2% 2035	9,624	12.6	**7,214**	**9.3**
United Kingdom IL 1.25% 2032	5,747	7.5	**6,946**	**8.9**

continued...

Investments exceeding 5% of their Asset Class	2010/11 £000	2010/11 %	2011/12 £000	2011/12 %
Index-linked securities (continued)				
Treasury IL 4.125% 2030	20,548	26.9	**6,840**	**8.8**
Treasury IL 0.625% 2040	7,423	9.7	**6,680**	**8.6**
Treasury IL 1.25% 2055	6,543	8.6	**6,473**	**8.3**
United Kingdom IL 0.375% 2062	-	-	**5,976**	**7.7**
Treasury IL 0.625% 2042	-	-	**4,410**	**5.7**
Treasury IL 0.75% 2047	4,355	5.7	**-**	**-**
Pooled investment vehicles				
*BlackRock Global Equity Fund	-	-	**281,953**	**47.4**
*GMO Developed World Equity Investment Fund	176,715	34.8	**197,845**	**33.3**
Legg Mason Global Funds - WA GMS	-	-	**55,049**	**9.3**
BlackRock Emerging Markets Index Fund	-	-	**45,413**	**7.6**
BlackRock Ascent Life US Equity Fund	94,012	18.5	**-**	**-**
BlackRock Ascent Life European Equity Fund	75,910	14.9	**-**	**-**
RIC-OMIGSA Emerging Markets Equity Fund	50,270	9.9	**-**	**-**
BlackRock Ascent Life Japanese Equity Fund	47,248	9.3	**-**	**-**
BlackRock Aquila Life Pacific Rim Equity	27,803	5.5	**-**	**-**
Property unit trusts				
*Hermes Property Unit Trust	63,325	100.0	**64,737**	**86.2**
Global Alpha Fund	-	-	**4,685**	**6.2**
Derivatives				
UK Long Gilt Future (LIF) Exp Jun 12	-	-	**92**	**57.1**
Other investments - Venture Capital/Private Equity				
South West Venture Fund	2,507	71.1	**2,507**	**58.9**
Chandos Fund	1,019	28.9	**1,747**	**41.1**

N19 Changes to Comparative Figures

Custody costs, performance measurement, actuarial investment consultancy and investment consultancy fees have been moved from Administrative Expenses to Investment Management Expenses as a more appropriate category for this type of expenditure. Comparative figures for 2010/11 have been amended to reflect this adjustment.

	2010/11 £000	2010/11 £000 re-stated	Difference £000
Administrative expenses	1,377	1,167	-210
Investment management expenses	3,081	3,291	210
			-

N20 Potential Overpayments to Pensioners

Following the Governments identification of a potential problem with incorrect indexation of an element known as the Guaranteed Minimum Pension (GMP) for a small percentage of public sector pensioners, they confirmed that any overpayments will not be reclaimed but future payments should be corrected.

We are still in the process of obtaining further potentially missing Guaranteed Minimum Pensions from the Department of Work and Pensions. Work progressed so far by the authority has not uncovered any material overpayments.

N21 Contributions Breakdown

	2010/11 £000	2011/12 £000
From Employers:		
Normal	38,149	**32,573**
Augmentation	39	**96**
Deficit Funding	19,272	**26,102**
Other	2,663	**5,363**
	60,123	**64,134**
From Members:		
Normal	16,839	**15,861**
Additional Voluntary	472	**420**
	17,311	**16,281**

The employers' monthly contributions and deficit funding payments are based on a percentage of pensionable pay and have been identified above. The deficit funding contributions relate to past service benefit accrual and are payable over an agreed recovery period, not exceeding 20 years.

Other contributions are those contributions paid by an employer to compensate the Pension Fund for early retirement costs, excess ill health retirement costs or to improve their funding levels. During 2011/12 lump sums totalling £0.8m were received from two employers to cancel out part of their liabilities and employers continued to restructure their staffing levels resulting in an increase on the previous year.

These payments follow the principles outlined in the Funding Strategy Statement. Early retirement costs are usually paid in one lump sum or were historically paid over several years dependent on the status of the employer. When a payment is spread there is an extra cost to reflect the delay in total payment. There are currently no early retirement costs being spread; however at 31st March 2012 £0.8m (2010/11 £0.5m) was due to the Pension Fund for early retirements.

Excess ill health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily. Employers now have an option to take out a separate ill health insurance policy, with an external provider, to cover some of these costs.

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made.

N22 Custody of Investments

The accounts for the year ended 31st March 2012 use the valuations for the Fund's assets provided by our custodian, BNY Mellon Asset Servicing SA/NV. This reflects the position of the custodian who is ultimately the master book of record. Fund Managers must make sure that their records agree with those kept by the custodian, although the investment values may be obtained from different sources. Using the custodian's valuations ensures that the various portfolios are priced consistently, so that the same stocks, in different portfolios, are valued on the same basis. Investments held in the name of BNY Mellon Asset Servicing SA/NV are segregated within its books and reflected as belonging to Gloucestershire County Council's Pension Fund.

N23 Administration Expenses

	2010/11 £000	2011/12 £000
Employee costs	607	**593**
Support services including IT	333	**347**
Printing and publications	8	**7**
Pension committee	1	**2**
External audit fees	32	**36**
Actuarial fees	186	**172**
	1,167	**1,157**

In 2010/11 Administrative Expenses were reported as £1,377,000. However custody costs, performance measurement, actuarial investment consultancy and investment consultancy fees have been moved from Administrative Expenses to Investment Management Expenses as a more appropriate category for this type of expenditure. Comparative figures for 2010/11 have been amended to reflect this adjustment, please see Note N19. The remaining expenditure has also been analysed over more detailed headings to that of last years.

Within actuarial fees there were costs of £153,032 (£89,395) generated by specific employer requirements, these were then charged back to the employer. The corresponding income is included within Recoveries for Services Provided in the Fund Account.

N24 Investment Management Expenses

	2010/11 £000	2011/12 £000
Management fees	3,081	**3,066**
Custody fees	90	**74**
Performance monitoring service	30	**36**
Actuarial fees - investment consultancy	70	**17**
Investment consultancy	20	**20**
	3,291	**3,213**

In 2010/11 Investment Management Expenses were reported as £3,081,000. However custody costs, performance measurement, actuarial investment consultancy and investment consultancy fees have been moved from Administrative Expenses to Investment Management Expenses as a more appropriate category for this type of expenditure. Comparative figures for 2010/11 have been amended to reflect this adjustment, please see Note N19.

N25 Cash

From the 1st April 2010 the Pension Fund has had its own bank account. At 31st March 2012 the cash balance was £10.4m (£5.2m 2010/11) made up of a temporary bank overdraft of £226k and £10.6m invested through the County Council's short-term investment procedures. During the year the average investment balance was £5.8m (£7.3m 2010/2011) earning interest of £56.1k (£52.6k 2010/2011).

N26 Contributions Due from Employers

A breakdown of contributions due from employers split between employees and employers contributions is as follows:-

	2010/11 £000	2011/12 £000
Employee Contributions	506	**498**
Employer Contributions	3,008	**4,014**
	3,514	**4,512**

N27 Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation (See Note N6), the funds Actuary also undertakes a valuation of the pension fund liabilities on an IAS19 basis every year. These liabilities have been projected using a roll forward approximation from the last triennial valuation as at 31st March 2010.

Balance Sheet

Year ended	31st March 2011 £m	**31st March 2012 £m**
Present Value of Promised Retirement Benefits	1,652	**1,824**

Net Assets Available for Benefits

Year ended	31st March 2011 £m	**31st March 2012 £m**
Net Assets	1,151	**1,200**

The assumptions used are those adopted for the Administering Authorities IAS19 report, as required by the Code of Practice, and these differ from those used for the triennial valuation. It is estimated that the impact of the change of assumptions to 31st March 2012 is to increase the actuarial present value by £47m.

Significant Actuarial Assumptions Used

Financial

Year ended	31st March 2011 % pa	**31st March 2012 % pa**
Inflation/Pension Increase Rate	2.8	**2.5**
Salary Increase Rate	4.6**	**4.3***
Discount Rate	5.5	**4.8**

* Salary increases are 1% pa nominal for three years to 31st March 2015 reverting to the long term rate thereafter.

** Salary increases are 1% pa nominal for period to 31st March 2012, reverting to the long term rate thereafter.

Longevity assumption:

Life expectancy is based on the Fund's VitaCurves with Medium Cohort improvements from 2010 and a 1% pa underpin. Based on these assumptions the average future life expectancies at age 65 are summarised below.

	Males Years	Females Years
Current Pensioners	21.7	23.6
Future Pensioners	23.5	25.8

Future pensioners are assumed to be aged 45 at the last formal valuation. This assumption has not changed since 31st March 2011.

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 2008 service.

N28 Nature and Extent of Risks Arising from Financial Instruments

The Gloucestershire Local Government Pension Fund's ("The Fund") objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as securities (equities, bonds), collective investment schemes (or pooled funds) and cash and cash equivalents. In addition debtors and creditors arise as a result of its operations. The value of these financial instruments in the financial statements approximates to their fair value.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities i.e. promised benefits payable to members. Therefore the aim of investment risk management is to minimise the risk of an overall reduction on 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 there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund's investments are managed on behalf of the Fund by the appointed Investment Managers. Each Investment Manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Gloucestershire Local Government Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment manager and considers and takes advice on the nature of the investments made and associated risks.

The Fund's investments are held by BNY Mellon Asset Servicing, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical, industry sectors, individual securities, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee as well as appropriate monitoring of market conditions and benchmark analysis.

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, caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Investment Managers mitigate this price risk through diversification in line with their own investment strategies and mandate guidelines.

Other Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31st March 2012. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the assets, as held by the Fund's custodian, at 31st March 2012 by the amounts shown below:

As at 31st March 2012	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	165,810	7.2	177,748	153,872
UK Index Linked Gilts	77,829	9.3	85,067	70,591
UK Equities	258,278	17.2	302,702	213,854
Overseas Bonds	63,196	22.6	77,478	48,913
Overseas Equities	525,211	15.4	606,093	444,329
UK Property	70,389	3.8	73,064	67,714
Overseas Property	4,685	2.1	4,784	4,586
Venture Capital/Private Equity	4,254	9.7	4,667	3,841
	1,169,652		**1,331,603**	**1,007,700**
Total Gloucestershire Fund	1,169,652	10.74	1,295,273	1,044,031

Prior year comparative data:

As at 31st March 2011	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
Bonds	285,885	5.2	300,751	271,019
UK Equities	308,496	17.3	361,866	255,126
Overseas Equities	253,772	13.7	288,539	219,005
Global Equities	176,715	12.6	198,981	154,449
Emerging Markets	50,272	15.3	57,964	42,580
Property Unit Trust	64,397	2.5	66,007	62,787
Private Equity	4,025	21.0	4,870	3,180
Legacy Fund Manager Assets	102	39.0	142	62
	1,143,664		**1,279,120**	**1,008,208**
Total Gloucestershire Fund	1,143,664	9.7	1,254,599	1,032,729

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 due to changes in market interest rates. This risk will affect the value of both fixed interest and index linked securities. The amount of income receivable from cash balances will also be affected by fluctuations in interest rates.

The Funds exposure to interest rate movements, as a result of the bond portfolio, as at the 31st March 2012 is set out below along with the interest rate sensitivity analysis data.

Interest Rate Risk Sensitivity Analysis

The council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Over the last five years long term yields, as measured by the yield on the FTSE Over 15 Year Gilt Index, have averaged 4.2% and moved between a high of 4.9% and a low of 2.9%. As at the end of March 2012 this yield was 3.3%. Given the high degree of uncertainty at present due to the Eurozone crisis, the Fund's bond manager has advised that it is entirely possible that yields could fluctuate anywhere within this historic range in the next year, or in extreme circumstances outside these boundaries.

The analysis that follows assumes that all other variables, in particular, exchange rates, remain constant and shows the effect in the year on the values of a +/- 100bps (1%) change in interest rates.

Asset Type	Carrying amount as at 31st March 2012	Change in the year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£000	£000	£000
Bond Portfolio - Fixed Interest Securities excluding cash	306,003	-34,285	34,285

Foreign Currency Risk

Foreign 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 on both monetary and non-monetary investments denominated in a currency other than sterling. For a sterling based investor, when sterling weakens, the sterling value of foreign currency denominated investments rises. As sterling strengthens, the sterling value of foreign currency denominated investment falls. Apart from permitting the fixed income portfolio manager and global property manager to hedge currency exposures back to sterling, the Fund's current policy is to not hedge foreign currency exposure.

Currency Risk Sensitivity Analysis

Following analysis of historical data, by the Funds performance measurement service, the likely volatility associated with foreign exchange rate movements is considered to be 7.8% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.8% strengthening/weakening of the pound against the various countries in which the Fund holds investments would increase/ decrease the net assets available to pay benefits as follows (0verleaf):

Currency exposure - Asset Type	Asset value as at 31st March 2012	Change to net assets available to pay benefits	
	£000	£000	£000
		+7.8%	-7.8%
Global Fixed Interest	4,173	4,498	3,848
UK Equities	658	709	607
Global Equities	456,318	491,911	420,725
Emerging Market Equities	45,594	49,150	42,038
	506,743	**546,268**	**467,218**

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. This is often referred to as counterparty risk.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises any credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's contractual exposure to 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 the various insurance policies held by the exchanges to cover defaulting counterparties.

Bankruptcy or insolvency of the custodian may affect the Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian.

The Fund manages its risk by monitoring the credit quality and financial position of the custodian.

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

The Fund's bond portfolios have significant credit risk through its underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default). However, it should be noted from historical data that the probability of default of investment grade bonds is 6.75% over a twenty year period (Data: Moodys 1920-2010). This means that in a portfolio of one hundred investment grade bonds held for twenty years, seven would have defaulted by the end of the period.

The council believes it has managed its exposure to credit risk within an acceptable level and its default experience over the last five financial years is not significantly out of line with the industry.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. The Fund invests surplus cash held with the custodian in diversified money market funds.

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Cash collateral is not permitted.

Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is any net profit on forward contracts, should the counterparty fail to meet its obligations to the Fund when it falls due.

The credit risk within the bond portfolios can be analysed using standard industry credit ratings and the analysis as at 31st March 2012 is set out opposite.

Credit Analysis 31st March 2012	AAA £000	AA £000	A £000	BBB £000	BB £000	B £000	Unrated £000
UK Gilts	57,443	-	-	-	-	-	-
UK Index Linked	78,278	-	-	47	-	-	-
Overseas Govt Bonds	-	-	-	-	-	-	-
Corporate Bonds	1,180	7,702	25,066	87,023	5,526	-	795
Asset Backed	11,084	1,143	10,710	7,832	-	-	-
Emerging Markets	-	-	5,399	-	-	-	-
Mortgages	970	-	-	-	-	-	-
Supra/Sov/Local Govts	5,805	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	4,019	-	-	-	-	-	9,412
	158,779	**8,845**	**41,175**	**94,902**	**5,526**	**-**	**10,207**
% of Fixed Interest Portfolio	49.7	2.8	12.9	29.7	1.7	-	3.2

Treasury Management Year End Cash Balances

The management of Pension Fund cash balances not held by the Custodian is delegated to Gloucestershire County Council's Treasury Management team to manage in accordance with their Treasury Management Strategy, which reflects the CIPFA Code of Practice on Treasury Management in Public Services. Pension Fund cash is invested separately from Gloucestershire County Council monies.

The Fund's cash holding under its treasury management arrangements at 31st March 2012 is shown below.

Account Name	Rating*	Balances as at 31st March 2011 £000	Balances as at 31st March 2012 £000
RBS Liquidity Select Account	A/A1	5,000	**23**
Ignis Liquidity Fund	AAAm	-	**5,000**
Prime Rate Liquidity Fund	AAAm	-	**5,000**
Goldman Sachs	AAAm	n/a	**140**
HSBC Money Market	AA- / A1+	n/a	**420**
HSBC Current Account	AA- / A1+	155	**-226**
Total		5,155	**10,357**

* Standard and Poors ratings are quoted as at 31st March 2012.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. A substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though a significant proportion is held in pooled funds. However, the main liability of the Fund are the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements and has immediate access to its cash holdings.

All financial liabilities are due within one year.

Refinancing Risk

Refinancing risk relates to the Fund being required to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Fair Value Hierarchy

The Fund is required to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. The fair value hierarchy has the following levels:

- Level 1 - Unadjusted quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 - Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability used to measure fair value that rely on the reporting entity's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

The following sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy, as held by the Fund's custodian, at 31st March 2012.

Type of Asset	Level 1 £000	Level 2 £000	Level 3 £000
UK Equities	251,991	-	-
Global Equities (Pooled Investment)	-	-	197,845
Emerging Market Equities (Pooled Investment)	45,413	-	-
Fixed Interest	-	165,810	-
Index Linked Securities	-	77,829	-
Overseas Fixed Interest (Pooled Investment)	55,779	-	7,416
Unitised Insurance Policy (Pooled Investment)	6,288	-	281,953
Property	-	-	75,074
Private Equity	-	-	4,254
Cash & Cash Equivalents	1,798	8	8,917
Futures	93	-	-
Total	**361,362**	**243,647**	**575,459**

Benchmarking Report

The Fund's investment performance is benchmarked on an annual basis against other local authority pension funds subscribing to the WM Company's Universe of 84 local authority pension funds. The Fund was 37th in 2011/12. Further details are given on pages 20 to 21 of this report.

The Fund's administration performance is benchmarked on an annual basis against other local authority pension funds subscribing to the CIPFA benchmarking service. Over the previous seven years this has consistently shown the Fund's administration cost per member to be below the average cost of all the other funds which were benchmarked. Further details of the Fund's performance compared to other funds is given on page 9 of this report.

Funding Strategy Statement

The Funding Strategy Statement shown below is the current version of this statement.

1. Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP and after consultation with the Fund's employers and investment advisor and is effective from 31st March 2011.

1.1 Regulatory Framework

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

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:

  - FSS guidance produced by CIPFA;
  - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Reviews of FSS

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

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Vicki Morgan in the first instance on 01452 425083 or at vicki.morgan@gloucestershire.gov.uk

2. Purpose

2.1 Purpose of FSS

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

- "to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities."

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

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme's liabilities across a range of employers participating in the Fund.

2.2 Purpose of the Fund

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

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

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

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

2.3 Aims of the Funding Policy

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

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the *"future service rate"*; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "past service adjustment". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the Common Contribution Rate[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

[1] See Regulation 77(4) of LGPS Regulations 1997 | [2] See Regulation 77(6) of LGPS Regulations 1997

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.8.

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

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

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

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

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the Fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

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

The Fund operates the same target funding level for all ongoing employers of 100 % of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the Fund.

Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

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

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

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the

Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31st March 2010, this is equivalent to taking credit for excess returns on equities of 2% per annum over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% per annum on the non-equity assets.

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

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place). The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that Admit New Entrants

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

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

3.4.2 Employers that do not Admit New Entrants

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

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

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

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

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

The combined effect of these adjustments for individual employers applied by the Fund Actuary relate to:

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

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund's Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [see section 3.6 below], including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 Asset Share Calculations for Individual Employers

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

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

3.7 Stability of Employer Contributions

3.7.1 Solvency Issues and Target Funding Levels

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

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

3.7.2 Stabilisation

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

In view of this possibility, the Administering Authority has commissioned the Fund's Actuary to carry out extensive modelling to explore the long-term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes to +1% / -1% of employers' contributions per annum from 1st April 2011, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between now and 1st April 2011 which render the stabilisation unjustifiable.

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

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

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

3.7.3 Deficit Recovery Periods

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

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

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

The deficit recovery period starts at the commencement of the revised contribution rate (1st April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

Following the completion of the 2010 valuation, some employers may have a funding level greater than 100%.

These employers will have a choice not afforded to many other employers in the Fund. Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits (the future service rate), by spreading the surplus element over the maximum periods shown below for deficits in calculating their minimum contribution. However if they take the full benefit of their surplus re-payments then their ability to withstand future adverse shocks in the 2013 valuation will be diminished. It is therefore recommended that employers do not reduce their contributions below the cost of accruing benefits. Employers should consider carefully whether or not to take the full benefit of their current surplus. It is recommended that employers in surplus do not reduce their contribution rate from the rate certified at the 2007 valuation.

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

3.7.5 Phasing in of Contribution Rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. At the discretion of the Administering Authority, other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;

- for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.

3.7.6 Phasing in of Contribution Reductions

Any contribution reductions from the rate certified at the 2007 valuation will be phased in over six years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect.

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

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

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

3.7.8 Pooled Contributions

a) *Smaller Employers*

The Administering Authority allows smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill health retirements or deaths in service. The maximum number of active members to participate in a pool is set at 50 employees.

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

At the 2004, 2007 and 2010 valuations, a separate pool was operated for Town and Parish Councils.

b) *Other Contribution Pools*

Schools funded via the local authority are pooled with their funding Council.

Those employers that have been pooled are identified in Annex A (begins on page 71).

3.8 Admission Bodies Ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an Admission Agreement:

- Last active member ceasing participation in the LGPS.

- The insolvency, winding up or liquidation of the Admission Body.

- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund.

- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

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

If an Admission Body's Admission Agreement is terminated, the Administering Authority instructs the Fund's Actuary to carry out a special valuation to determine whether there is any deficit.

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

(a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For Admission Bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the Actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

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

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

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

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

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

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

3.9 Early Retirement Costs

3.9.1 Non Ill Health Retirements

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

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

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

Employers must make these additional contributions as a one off payment to the Fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 3 years.

3.9.2 Ill Health Monitoring

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

3.10 New Admitted Bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract;

- allowance for the risk of asset underperformance;

- allowance for the risk of a fall in gilt yields.

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis.

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

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment Strategy

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

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31st March 2010, the proportion held in equities and property were 74% of the total Fund assets.

The investment strategy of lowest risk would be one which provided cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

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

4.2 Consistency with Funding Basis

The funding policy currently adopts an asset out-performance assumption of 1.6% per annum over and above the redemption yield on index-linked gilts. This resulted in a return on the Fund's assets of 6.1% per annum to be adopted for the 2007 and 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short-term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium-term, the asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions.

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

4.3 Balance Between Risk and Reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Strategic Benchmarking techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-Valuation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index linked bonds and measuring investment manager returns against their mandate. Where regulatory change takes place that may have a significant and detrimental effect on the funding position actuarial advice is sought on the approach that should be adopted. The Fund also reports back to employers annually at its Annual General Meeting.

5. Key Risks & Controls

5.1 Types of Risk

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

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations subject to market experience.
Inappropriate long-term investment strategy.	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. This could be supplemented with an analysis of absolute returns against those under-pinning the valuation.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	Set mortality assumptions with some allowance for future increases in life expectancy. Fund's Actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding. The Administering Authority encourages any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill health retirements following each individual decision. Employer ill health retirement experience is monitored.
A company admitted to the Fund as an admission body may become financially unviable.	A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover for the financial risks involved.
Ill health retirements significantly more than anticipated.	Monitoring of each employer's ill health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill health assumption built in.

5.4 Regulatory Risks

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself. It considers all consultation papers issued by the CLG and comments where appropriate. The Administering Authority will consult employers where it considers that it is appropriate. In all circumstances where it appears that changes may impact on the Fund's solvency the Administering Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.
Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule and new 2008 scheme, tax simplification and budget changes for higher earners.	

5.5 Governance Risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.
Administering Authority not advised of an employer closing to new entrants.	The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions are expressed as monetary amounts (see Annex A, begins on page 71).
Administering Authority failing to commission the Fund's Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: ◦ Seeking a funding guarantee from another scheme employer, or external body, where-ever possible. ◦ Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. ◦ Vetting prospective employers before admission. ◦ Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

> Annex A
Employers' Contributions, Spreading and Phasing Periods

Following the 2010 valuation, the minimum employer contributions shown in the Statement to the Rates and Adjustments Certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods. This table also shows the individual adjustments under Regulation 36(4)(b) to each employers' contributions from the 'Common Contribution Rate' and is copied below.

Statement to the Rates and Adjustments Certificate

The Common Rate of Contribution payable by each employing authority under Regulation 36(4)(a) for the period 1st April 2011 to 31st March 2014 is 26% of pensionable pay.

Individual Adjustments are required under Regulation 36(4)(b) for the period 1st April 2011 to 31st March 2014 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

		As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending		
Employer Code	**Employer Name**	**31st March 2012**	**31st March 2013**	**31st March 2014**
Gloucestershire County Council and Schools Pool		**%**	**%**	**%**
1	Gloucestershire County Council	22.9	23.9	24.9
15	Mid Counties Autistic	22.9	23.9	24.9
26	Ribston Hall High School	22.9	23.9	24.9
27	Stroud High School	22.9	23.9	24.9
28	Marling School	22.9	23.9	24.9
29	Pillar and Lucy	22.9	23.9	24.9
30	Standing Conference of Principals	22.9	23.9	24.9
32	Dysons Wood Trust	22.9	23.9	24.9
33	Pathfinder Trust	22.9	23.9	24.9
36	Misc	22.9	23.9	24.9
54	Gloucester Education Achievement Zone	22.9	23.9	24.9
77	Finlay Community School	22.9	23.9	24.9
79	Oakwood Primary School	22.9	23.9	24.9
400	Coverage Care Ltd	22.9	23.9	24.9
503	Andoversford Primary School	22.9	23.9	24.9
513	Berkeley Primary School	22.9	23.9	24.9
523	BlueCoat C of E Primary School	22.9	23.9	24.9
527	British School	22.9	23.9	24.9
537	Carrant Brook Junior School	22.9	23.9	24.9
541	Charlton Kings Infants School	22.9	23.9	24.9
542	Charlton Kings Junior School	22.9	23.9	24.9
545	Christ Church Primary School	22.9	23.9	24.9
588	Glebe Infants School	22.9	23.9	24.9
605	Heron Primary School	22.9	23.9	24.9
642	Minchinhampton Parochial C of E	22.9	23.9	24.9
648	Moat Junior	22.9	23.9	24.9

continued...

Employer Code	Employer Name	As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending 31st March 2012	31st March 2013	31st March 2014
		%	%	%
669	Picklenash County Junior	22.9	23.9	24.9
672	Primrose Hill C of E School	22.9	23.9	24.9
677	Robinswood Primary School	22.9	23.9	24.9
687	St. David's	22.9	23.9	24.9
689	St. Gregory's RC School	22.9	23.9	24.9
711	Severnbanks Primary School	22.9	23.9	24.9
727	Swindon Village County Primary School	22.9	23.9	24.9
732	Tirlebrook School	22.9	23.9	24.9
744	Warden Hill Primary School	22.9	23.9	24.9
760	Cam Woodfield Junior School	22.9	23.9	24.9
801	Cheltenham Kingsmead School	22.9	23.9	24.9
803	Barnwood Park Arts College	22.9	23.9	24.9
804	Beaufort School	22.9	23.9	24.9
807	Cheltenham Bournside School	22.9	23.9	24.9
808	Chipping Campden School	22.9	23.9	24.9
810	Churchdown School	22.9	23.9	24.9
812	Cirencester Kingshill School	22.9	23.9	24.9
813	Cleeve School	22.9	23.9	24.9
815	Crypt School	22.9	23.9	24.9
816	Dene Magna Community School	22.9	23.9	24.9
819	Heywood Community School	22.9	23.9	24.9
821	Katharine Lady Berkeley's School	22.9	23.9	24.9
822	Lakers School	22.9	23.9	24.9
823	Maidenhill School	22.9	23.9	24.9
824	Newent Community School	22.9	23.9	24.9
826	Pittville School	22.9	23.9	24.9
827	Rednock School	22.9	23.9	24.9
828	St. Benedict's Catholic College	22.9	23.9	24.9
833	Sir William Romney's Community School	22.9	23.9	24.9
834	Tewkesbury School	22.9	23.9	24.9
835	Thomas Keble School	22.9	23.9	24.9
836	Whitecross School	22.9	23.9	24.9
838	Wyedean School	22.9	23.9	24.9
Town and Parish Councils Pool				
3	Tewkesbury Town Council	21.1	21.9	22.6
6	Painswick Parish Council	21.1	21.9	22.6
13	Stonehouse Parish Council	21.1	21.9	22.6
20	Lydney Town Council	21.1	21.9	22.6
21	Prestbury Parish Council	21.1	21.9	22.6

continued...

Employer Code	Employer Name	As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending 31st March 2012	31st March 2013	31st March 2014
		%	%	%
22	Cirencester Town Council	21.1	21.9	22.6
25	Fairford Town Council	21.1	21.9	22.6
34	Cinderford Town Council	21.1	21.9	22.6
38	Hardwicke Parish Council	21.1	21.9	22.6
39	Shurdington Parish Council	21.1	21.9	22.6
40	Dursley Town Council	21.1	21.9	22.6
42	Bishops Cleeve Parish Council	21.1	21.9	22.6
43	Ashchurch Parish Council	21.1	21.9	22.6
46	Charlton Kings Parish Council	21.1	21.9	22.6
48	Tetbury Town Council	21.1	21.9	22.6
49	Cam Parish Council	21.1	21.9	22.6
50	Nailsworth Town Council	21.1	21.9	22.6
51	Coleford Town Council	21.1	21.9	22.6
52	Wotton-under-Edge Town Council	21.1	21.9	22.6
53	Lechlade Town Council	21.1	21.9	22.6
55	Northleach with Eastington Town Council	21.1	21.9	22.6
58	Brockworth Parish Council	21.1	21.9	22.6
59	Cainscross Parish Council	21.1	21.9	22.6
63	Chalford Parish Council	21.1	21.9	22.6
66	Rodborough Parish Council	21.1	21.9	22.6
72	Hucclecote Parish Council	21.1	21.9	22.6
75	Leonard Stanley Parish Council	21.1	21.9	22.6
443	Newent Town Council	21.1	21.9	22.6
444	Stroud Town Council	21.1	21.9	22.6
Councils				
7	Cheltenham B.C.	14.6% plus £1,387,000	14.6% plus £1,525,000	14.6% plus £1,728,000
11	Gloucester City Council	15% plus £1,903,000	15% plus £2,000,000	15% plus £2,102,000
12	Forest of Dean D.C.	14.3% plus £837,000	14.3% plus £897,000	14.3% plus £994,000
14	Stroud D.C.	13.7% plus £994,000	13.7% plus £1,089,000	13.7% plus £1,231,000
18	Tewkesbury B.C.	14.7% plus £785,000	14.7% plus £847,000	14.7% plus £945,000
19	Cotswold D.C.	14.2% plus £766,000	14.2% plus £833,000	14.2% plus £934,000
Individual Employers				
8	Gloucestershire and Severnside Valuation Tribunal	16.9% plus £24,000	16.9% plus £25,000	16.9% plus £26,000

continued...

Employer Code	Employer Name	As Per Triennial Valuation March 2010 Minimum Contributions For The Year Ending 31st March 2012	31st March 2013	31st March 2014
		%	%	%
9	Gloucestershire Probation Trust	25.2	26.5	27.8
16	University of Gloucestershire	19.5	19.5	19.5
17	Lower Severn Drainage Board	18.9% plus £29,000	18.9% plus £34,000	18.9% plus £40,000
24	Gloucestershire Deaf Association	24.4% plus £182,000	24.4% plus £182,000	24.4% plus £36,000
31	Stroud Court Community Trust	19.4% plus £22,000	19.4% plus £23,000	19.4% plus £25,000
35	Gloucestershire Police Authority	12.8% plus £827,000	12.8% plus £988,000	12.8% plus £1,035,000
37	Gloucestershire Group Homes	18.3	18.3	18.3
41	Fosseway Housing Association Ltd	18.8% plus £708,000	18.8% plus £742,000	18.8% plus £778,000
44	Cotswold Water Park Society	0% plus £50,000	0% plus £50,000	0% plus £50,000
47	Severn Vale Housing Society	19.3% plus £253,000	19.3% plus £255,000	19.3% plus £267,000
60	Two Rivers Housing	15.5	15.5	15.5
61	Cheltenham Borough Homes Ltd.	15.6	15.6	15.6
62	Gloucestershire Primary Care Trust	20.1	20.1	20.1
64	The Order of St. John Care Trust	21.9% plus £13,000	21.9% plus £14,000	21.9% plus £14,000
65	Cotswold Conservation Board	11.7	11.7	11.7
67	Gloucester City Homes	16.1	16.1	16.1
68	Atkins	21.0	21.0	21.0
70	Brandon Trust	18.8% plus £11,000	18.8% plus £11,000	18.8% plus £12,000
71	Southern Electric Contracting (SEC)	19.7	19.7	19.7
73	Accord (Enterprise AOL)	19.2	19.2	19.2
74	Atkins (TUPE)	18.3	18.3	18.3
76	Aspire Sports & Cultural Trust	14.9	14.9	14.9
410	Cotswold Archaeological Trust Ltd	18.1% plus £1,000	18.1% plus £1,000	18.1% plus £1,000
442	Gloucestershire Airport Ltd	19.0% plus £95,000	19.0% plus £99,000	19.0% plus £104,000
900	GLOSCAT (includes Royal FoD College)	20.2	20.2	20.2
902	Stroud College of Further Education	20.2	20.2	20.2
904	Hartpury College	16.6	16.6	16.6
905	Cirencester Tertiary College	15.9	15.9	15.9

New Employers Since 31st March 2010

	Lovells Partnership	21.4	21.4	21.4

> Annex B
Responsibilities of Key Parties

The Administering Authority should:

- Collect employer and employee contributions.
- Invest surplus monies in accordance with the Regulations.
- Ensure that cash is available to meet liabilities as and when they fall due.
- Manage the valuation process in consultation with the Fund's Actuary.
- Prepare and maintain a FSS and a SIP, both after proper consultation with interested parties; and
- Monitor all aspects of the Fund's performance and funding and amend FSS/SIP.

The Individual Employer should:

- Deduct contributions from employees' pay correctly.
- Pay all contributions, including their own as determined by the Actuary, promptly by the due date.
- Exercise discretions within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- Notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund Actuary should:

- Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS.
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters; and
- Advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

Statement of Investment Principles

> Gloucestershire County Council Pension Fund

1. Introduction

The Local Government Pension Scheme (LGPS) was established in accordance with statute to provide death and retirement benefits for all eligible employees.

The County Council is the designated statutory body (Administering Authority) responsible for administering the Gloucestershire LGPS Fund on behalf of its scheduled and admitted bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out reviews and monitoring of investments and performance.

The Council have delegated the duties of the Administering Authority to the Pension Committee, whose role it is to advise the full Council on any matter relating to the proper management and maintenance of the Gloucestershire Pension Fund.

The Committee can appoint investment advisors and consultants to assist them in this role.

The Committee has delegated the day-to-day management of the Fund's investments to professional investment managers, whose activities are governed by Investment Management Agreements.

The LGPS (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, maintain and publish a written statement of the principles governing decisions about the investment of fund money. These regulations also require the statement to state the extent to which the administering authority complies with guidance given by the Secretary of State and to the extent the authority does not so comply, the reasons for not complying. This guidance consists of the six updated Myners' principles for pension fund investment, scheme governance, disclosure and consultation as detailed in the CIPFA publication "investment decision making and disclosure".

This Statement of Investment Principles was last updated in May 2012.

2. Investment Responsibilities

The Pension Committee's duties in relation to investments are:

- To set the investment policies of the Fund, including the establishment and maintenance of a strategic benchmark for asset allocation, drawing upon appropriate professional advice.
- To appoint and review the performance of all Fund Managers and associated professional service providers.
- To consider any other matter relevant to the proper operation and management of the Fund.
- To approve and keep under review the Funding Strategy Statement.
- To approve and keep under review the Statement of Investment Principles.
- To report annually to County Council.

Officers are responsible for:

- Supporting and advising the Pension Committee in all the above.
- Ensuring compliance with all relevant investment legislation.
- Liaising with Investment Managers, Custodian and Investment Advisors.

The Investment Managers are responsible for:

- The investment of the Fund's assets in compliance with the prevailing legislation, their investment management agreement and this statement.
- Tactical asset allocation around the strategic benchmarks set out in this statement.
- Stock selection within asset classes.
- The Fund's assets under their management.
- Constructive shareholder engagement and shareholder voting in matters of socially responsible investment and the promotion of good corporate governance.

- Providing monthly valuations of the Fund's assets under their management with details of all transactions during that month.

- Preparation of compliance statements with respect to this statement insofar as it relates to the investment managers' services to the Fund.

The Custodian is responsible for:

- The custody of the Fund's assets.

- Settlement of all investment transactions, collection of all income and making tax reclaims.

- Reconciliation of asset, transaction and dividend records with the investment fund managers.

The Pension Committee appointed BNY Mellon as the Fund's global custodian in July 2004.

The Investment Advisor is responsible for:

- Assisting the Pension Committee in the selection and appointment of investment fund managers and custodian.

- Assisting the Pension Committee in their regular monitoring of the investment managers' performance.

- Advising on strategic asset allocation and benchmarks.

- Advising the Pension Committee on investment and market developments, corporate governance and socially responsible investment issues.

The Pension Committee appointed an independent investment advisor in October 2003.

3. Investment Policy

The long-term investment objectives for the Fund are to:

- Maximise investment returns over the long-term within an acceptable level of risk judged by the Pension Committee to be appropriate.

- Ensure that sufficient assets are readily available to meet liabilities as they fall due.

- Aim for long-term stability in the employers' contribution rates.

- Achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

The investment style is to appoint expert investment managers with clear performance benchmarks set against specific investment indices, and place maximum accountability for performance against those benchmarks on the investment managers.

The Pension Committee has approved specialist investment mandates covering UK Equity, Global Equity, Emerging Market Equity, Global Fixed Interest and Property (as detailed in the table opposite).

The managers' fees are either an *ad valorem* fee, i.e. a percentage of the value of the funds they manage or a combination of an *ad valorem* and a performance related fee. The principle of performance related fees is based on a lower base fee element and a performance fee which is paid if they achieve or exceed their performance target.

Following an asset/liability study and a strategy review in 2011 a number of changes were made to the Fund's investment strategy and strategic asset allocation. These involved the following –

- A reduction in UK equities and an increase in global equities.

- An increase in emerging market equities.

- A change in the benchmark index used for global equities.

- A movement of part of the Fund's fixed interest portfolio into an absolute return bond strategy.

- Appointment of a property multi manager.

- Managing the emerging markets portfolio on an index tracking rather than an active basis.

The table below shows the Fund's current asset allocation compared to the previous allocation. All figures are shown as a percentage of the Fund.

These changes have resulted in the Fund's total exposure to Emerging Market Equities increasing from 3.7% to 7.0% and

Effective from:	1st Dec 2008 %	1st Dec 2011 %
UK Equities	25.0	20.0
Global Equities (including UK & excluding Emerging Markets)	15.0	17.5
Global Equities (excluding UK & Emerging Markets)	21.3	0.0
Global Equities (including UK & Emerging Markets)	0.0	23.5
Bonds	25.0	27.0
Property	10.0	7.5
Emerging Market Equities	3.7	4.0
Cash & Venture Capital	0.0	0.5
Total	100.0	100.0

Mandate	Manager	Benchmark
UK Equities	Standard Life Pension Funds	FTSE All Share
Global Equities inc UK	GMO	MSCI World Index
Global Equities inc UK & Emerging Markets	BlackRock	MSCI All Countries World Index (ACWI)
Global Fixed Interest	Western Asset	Composite UK/Overseas
Global Fixed Interest	Western Asset	3 month Sterling Libor
Property	Hermes Property Asset Management	IPD UK Pooled Property Balanced PUT Index
Property	CBRE Investors	IPD All Balanced Property Fund Index
Emerging Markets	BlackRock	MSCI Emerging Markets Index

its total exposure to UK Equities reducing from 26.4% to 23.5%.

The table above details the Fund's managers, their mandates and their relevant performance benchmarks

There are also investments with Yorkshire Fund Managers, a specialist private equity/venture capital manager, in two of their funds, as follows –

- South West Region Venture Capital Fund - supporting fast growing SME's across the South West region. £2.5m maximum commitment.
- Chandos Fund - identifies modestly priced, conservatively geared businesses which can provide medium term value growth. £3m maximum commitment.

The investment managers may, subject to the limitations of legislation, their management contract and this statement, invest in those assets to which their specialist mandates relate. This enables the Fund to:

- Receive specialist advice from the managers on the strategies each is following.
- Monitor the performance of the asset allocations agreed by the Committee as being appropriate to the Gloucestershire Fund.
- Develop performance benchmarks appropriate to the Fund's objectives.
- Monitor the performance of the managers against specific performance measures.

"Rebalancing" between asset classes is considered every quarter. Rebalancing will usually be achieved through the adjustment of the cash flow to each manager, but where absolute differences of 3% or more arise then rebalancing will be achieved by moving cash between asset classes.

The Fund continues to hold a greater proportion of its assets in equities, which are currently considered to provide the most appropriate match with the Fund's liabilities and should provide a better long-term return than fixed interest investments.

Based on assumptions used by the Fund's actuary, estimated returns for the major asset classes as at March 2010 were:

Equities	7.8% per annum
Bonds	5.0% per annum
Property	5.8% per annum

4. Performance Management

As well as overall Fund performance, the Committee considers the individual investment managers performance against their index benchmarks on a quarterly basis. In addition, the investment advisor and officers are in regular contact with investment managers over performance. This process is also assisted by the Fund's custodian and the WM Company who review and analyse Fund and manager performance.

5. Risk Management

The Fund controls risk through its strategic asset allocation policy which achieves a wide diversification of investments across a selection of managers and by monitoring the risk inherent in managers' performance. When setting individual manager's performance targets, independent advice is taken on the appropriateness of the target for that portfolio and in relation to the Fund's overall investment and funding objectives. Investment managers are also required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. This will include an appropriately diversified portfolio of holdings.

Investment managers make quarterly reports to the Pension Committee on investment performance, book and market values of investments and transaction details.

Investment manager performance against benchmark is reviewed quarterly by the Fund's custodian and the WM Company who analyse fund performance. There is also an annual review of the Fund's performance against benchmarks and other Funds.

6. Realisation of Investments

The Fund has a positive cash flow and therefore has no present requirement to realise assets in order to meet its liabilities. However, the Fund is structured so that the majority of investments held could be quickly realised if required. Investments are sold as part of normal investment management activities.

7. Socially Responsible Investments (SRI)

With regard to socially responsible investment the Committee has to take account of the following legal principles that apply to all pension schemes:

- Administering authorities are free to adopt a policy of socially responsible investment, providing that they treat the financial interests of all classes of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

- Administering authorities are not entitled to subordinate the interests of members to ethical or social demands. The financial performance of the Fund, proper diversification and prudence are paramount.

- Administering authorities may avoid certain kinds of prudent investment which they consider scheme members would regard as objectionable so long as they make equally financially advantageous and prudent investments elsewhere. They may also make "ethical" investments provided these are otherwise justifiable on investment grounds.

Where the Committee invests in a pooled fund it is not possible to require the avoidance of certain kinds of investments within that fund.

As a responsible investor, the Pension Committee supports corporate social responsibility, good practice and improved company performance amongst all companies in which the Fund invests via a segregated fund. In furtherance of these policies the Committee would wish the investment managers to be active in their constructive shareholder engagement with these companies regarding socially responsible investment issues but recognises this will not be possible where an investment manager uses quantitative methods of share selection without engaging directly with companies.

Issues that should be addressed include:

- Environmental issues.
- Employment standards.
- Human rights.
- Community involvement.

Investment managers should report such discussions/ involvement as part of their quarterly reports to the Pension Committee.

8. Corporate Governance

Corporate governance is defined as "the system by which companies are controlled and directed". Effective corporate governance ensures checks and balances in company management without restricting necessary incentives. Pension funds, as major shareholders, should promote good corporate governance as a means of ensuring good performance. The UK Steering Committee on Local Government Pensions (UKSC), Chartered Institute of Public Finance and Accountancy (CIPFA), Pension and Investment Research Consultants (PIRC) and the National Association of Pension Funds (NAPF), all advise pension funds to ensure voting rights are used to promote good corporate governance.

PIRC have established the following principles for corporate governance policy:

- Shareholders should assume the responsibility of ownership.

- Shareholders' voting rights are an asset, which need managing.

- Shareholders' voting rights should be exercised in an informed and independent manner.

- Shareholders' voting policies should reflect three main concerns:

  - To protect their rights as shareholders.

  - To ensure that corporate governance standards are consistent with protecting assets.

  - To promote corporate governance standards in order to enhance long term value.

The Pension Committee supports the principles of best practice in corporate governance and delegates authority to the investment managers to exercise these voting rights in line with NAPF or PIRC or other proxy voting guidelines which are detailed in the investment managers' Investment Management Agreement.

Investment managers should report their voting actions as part of their quarterly reports to the Pension Committee.

9. Stock Lending

The Pension Fund allows stock held within its segregated portfolios to be lent out but only to borrowers approved by the Pension Committee. The Committee have agreed a list of approved borrowers and this lending is managed on behalf of the Fund by its global custodian. The borrowers are required to provide collateral to protect the Fund's assets and the Fund receives income from this lending.

10. Cash Management

The management of Pension Fund cash balances not held by the Custodian is delegated to Gloucestershire County Council's Treasury Management team to manage in accordance with their Treasury Management Strategy, which reflects the CIPFA Code of Practice on Treasury Management in Public Services.

Pension Fund cash will be invested separately from Gloucestershire County Council monies, with the Fund receiving the actual interest earned and bearing the risk of any investment. Pension Fund investments will mirror the same criteria for counterparties, etc, as approved by Gloucestershire County Council and detailed in their Treasury Management Strategy.

In addition, no Pension Fund cash will be lent for periods exceeding 3 months. Also, a minimum of £1.5 million will be held on call and the remaining balance will be managed to reflect projected Pension Fund cash flows, daily cash requirements and the quarterly rebalancing of the Pension Fund.

The Treasury Management team will advise officers of actual Pension Fund lending activity on a monthly basis and will also advise if there is any proposed change in their Treasury Management Strategy.

11. Compliance

The Statement of Investment Principles is available on the Pension Fund pages of the County Council's website at

www.gloucestershire.gov.uk/pensionsinvestments

and is included in the Pension Fund's Annual Report which is published every November.

The Pension Committee will on a quarterly basis review:

- The investment performance of the Fund, both in total and by individual investment fund manager.
- The qualitative performance of the investment fund managers - this will include changes in ownership of the organisation, changes in personnel managing the Fund and the quality and timeliness of information from the manager.
- The need to re-balance between asset classes to maintain the strategic asset allocation at its agreed level.

The Pension Committee will review the Fund's strategic asset allocations (and associated risks), at least every three years, following the triennial valuation.

The Six Myners' Investment Principles

The Pension Committee, representing the Administering Authority, is required to state the extent to which it complies with guidance given by the Secretary of State on the following six Myners' investment principles:

Principle 1: Effective Decision Making

Administering authorities should ensure that:

- *Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and*
- *Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.*

Fund Compliance - Full

The Fund has a clear governance policy setting out the role of the Pension Committee, its officers and advisors as well as details of equal access to allowances, committee papers and training and publishes a governance compliance statement.

Account is taken wherever possible of relevant skills, experience and continuity when making appointments to the committee and the Chief Financial Officer ensures the training needs of committee members are identified, an annual training plan is prepared and training logs are maintained for members. The Committee uses the skills and knowledge framework published by CIPFA when developing future training plans and uses the CIPFA trustee toolkit.

An annual business plan is produced and considered by the committee which includes major milestones, financial estimates, key targets and a review of the level of resources needed by the Committee to carry out its functions effectively.

The Committee publishes an administration strategy which refers to the relationship and communication between the committee and scheme employers as well as its governance policy including skills and knowledge.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local taxpayers and the attitude to risk of both the Administering Authority and scheme employers and these should be clearly communicated to advisors and investment managers.

Fund Compliance - Full

The Fund's Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS) sets out its investment objectives which are agreed after consultation with the fund actuary and take account of cash flow and the fund's relatively immature liabilities and the secure nature of most employers' covenants.

The investment strategy is reviewed following the triennial valuation with advice from specialist independent advisors.

After taking advice from the Actuary the Chief Financial Officer and the Committee consider the impact of funding levels and employer contribution rates on council tax levels over time and aim to keep employer contribution rates as stable as possible.

Following discussions with the Actuary it has been decided not to establish sub funds with different investment objectives.

Fund managers are set individual performance targets and benchmarks based on advice from an independent advisor and their performance is measured and reviewed by the Committee on a quarterly basis.

These benchmarks and the Fund's asset allocation are reviewed by the Committee, with the most recent change in December 2011.

In addition an external strategic asset review takes place following the triennial actuarial valuation and at this stage the Committee will also decide whether to commission an asset liability modelling study.

When necessary, the external procurement of investment managers etc. is conducted within the EU procurement regulations and the authority's own procurement rules.

The Committee are made aware of investment management fees and other transaction related costs and appropriate actions are taken to reduce these costs where possible.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Fund Compliance – Full

The Committee in setting its investment strategy, as detailed in its SIP and FSS, has taken account of the form and structure of its liabilities following advice from the fund's actuary and believes its funding and investment policies balance the key objectives of stability of contributions, affordability for employers, transparency of process and prudence.

The Fund's overall long term investment target is expressed as a return in excess of index linked government bonds. The Committee recognises the possibility of volatility in market conditions and given the proportion of equities held by the Fund, in the short to medium term, accepts returns can fall short of the Fund's investment target.

The Fund's SIP describes the risk assessment process when considering current and future investments and all the key risks relevant to the Pension Fund are also detailed in the FSS and are maintained on a risk register. These risks are considered as part of the annual review of the FSS by the Committee and if at any other time there is a significant change in the Fund's risk profile appropriate recommendations to mitigate the risk are made to the Committee. As part of the triennial valuation the Actuary will produce a risk assessment relating to the valuation of the Fund's liabilities and assets and will analyse and advise on factors affecting its long term performance.

The Pension Fund Annual Report includes an overall risk assessment relating to the Fund's activities.

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Fund Compliance - Full

In addition to overall Fund performance, the Committee considers the individual investment managers performance against their index benchmarks on a quarterly basis. This quarterly data is verified by the Fund's global custodian and by the WM Company. When appointing a new manager the Committee takes advice from its independent investment advisor and other external advisors on the appropriate index benchmark to be used and to ensure it will support the Fund's overall investment strategy.

The Committee recognises active fund management can result in performance diverging from benchmark and therefore considers manager performance over the long term. As a minimum this is on a rolling 3 year basis but is also from inception, which for most managers is currently 5 years.

The Fund obtains regular performance reports from the WM Company comparing both its overall performance and by asset class with other Local Government Pension Funds. The Fund also receives comparative performance data from its global custodian.

The Fund's actuaries and advisors are assessed on an ongoing basis in relation to cost, quality and consistency of advice. The Committee will also include its own performance expectations on e.g. reviews of governance, achievement of training and attendance targets, in its business plan. This assessment will be included in the Fund's Annual Report.

Principle 5: Responsible Ownership

Administering Authorities should:

- *Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.*
- *Include a statement of their policy on responsible ownership in the statement of investment principles.*
- *Report periodically to scheme members on the discharge of such responsibilities.*

Fund Compliance - Full

Where the Institutional Shareholders Committee Statement of Principles (SCSP) are applicable, the Fund ensures its investment managers adopt these principles.

The Fund's policies on socially responsible investments (SRI) and corporate governance are shown in its SIP and the Fund's Annual Report contains details of how these responsibilities are discharged.

When selecting investment managers for appointment and once appointed, when discussing their subsequent performance, the Committee consider the potential for environmental, social and governance issues to add value.

The Fund delegates authority to fund managers to exercise voting rights in line with NAPF and PIRC guidelines and the managers are required to report their voting actions as part of their quarterly reports to the Committee.

Principle 6: Transparency and Reporting

Administering Authorities should:

- *Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.*
- *Provide regular communication to scheme members in the form they consider most appropriate.*

Fund Compliance - Full

The Fund publishes the following policy statements on its website **www.gloucestershire.gov.uk/pensionsinvestments** and in its Annual Report:

- Statement of Investment Principles (SIP).
- Funding Strategy Statement (FSS).
- Governance Policy Statement.
- Governance Compliance Statement.
- Communications Policy Statement.

The Communications Policy Statement contains details of the Fund's policy on: providing information about the scheme to members and employers; the format, frequency and method of distributing such information; the promotion of the scheme to prospective members and their employing authorities.

In addition to the Annual General Meeting held each November to which all scheme members and employers are invited, the Administering Authority holds Employer Forums at least twice a year and invites all scheme employers.

The SIP fully describes: the roles of members, officers, investment managers, etc.; the investment monitoring process; the asset allocation and investment returns; individual mandates; fee structures.

The Governance Compliance Statement details compliance with CLG guidance and if not fully compliant details why not and a copy of the statement is sent to CLG.

Communications Policy

The following Communications Policy Statement outlines how the Fund communicates with scheme members, their representatives and employers.

The actual information content, its format and frequency communicated during 2011/12 matches that detailed within the Policy Statement, other than the use of global e-mails sent to all staff as this has been replaced by posting information on the County Council's intranet service.

All employers are encouraged to issue new employees with a pensions starter pack based on a template provided by the Administering Authority, which provides information regarding the pension scheme and the individual's options together with links to where more detailed scheme information can be obtained.

Employers are informed of their duty to automatically admit new employees unless they specifically request not to.

> Communications Policy Statement

Various means are employed to communicate with the Fund's stakeholders. These are described in respect of each interested group as shown below:

Members of the Scheme

All pensioner members receive an annual pension's newsletter that provides a summary of the Fund's accounts for the past year and covers any matters of topical interest.

All scheme members are sent an invitation to attend the Fund's Annual General Meeting and are given the link to the County Council's website to access a copy of the Fund's annual report and accounts. They are also given details on how to request a paper copy of the annual report and accounts.

An annual Benefit Statement is sent to all active and deferred members of the Fund showing their accrued benefits up to the end of the previous financial year. At this time the opportunity is also taken to include information on current matters of interest to scheme members.

Information on the scheme and changes to it are posted on the pension pages of the County Council's website and where appropriate these are also posted onto the "news" section of the staff intranet.

The Authority continues to send payslips to pensioners every April, May and October. Payslips are also sent where there is a material change in the pension paid during a particular month.

Prospective Members of the Scheme

All employers are provided with a link to the employers' pages of the Fund's pension website, together with instructions on how to supply all prospective members of the scheme with a pensions pack. This pack informs individuals of the benefits of the scheme as well as details about where they can obtain further information.

When invited by the employing authority, pension staff visits employer premises to explain and promote membership of the scheme.

Scheme Employers

An online employer's guide to the scheme is made available to all new and prospective employers via the County Council's website.

Major employers are also consulted on the Fund's Statement of Investment Principles and Funding Strategy Statement and revisions to those documents.

An Annual General Meeting is held each November and provides the main opportunity for the Fund to explain its performance and accounts to employers and members of the Fund who attend the Annual Meeting.

The Fund's Annual Report is also placed on the pension pages of the County Council's website. This Report includes all of the Fund's policy statements covering Funding Strategy, Investment Principles, Governance and Communication. In addition, each policy statement is listed separately on the website.

Employer forums are held with the Administering Authority at least twice yearly to help improve understanding of: the pension scheme; the employers' role and ways of improving the accuracy and timeliness of scheme administration. All employers are invited to attend.

Direct dialogue takes place between the Administering Authority and employers being affected by business transfers to ensure trade unions and prospective employers understand the pension scheme.

Every three years when the triennial valuation takes place meetings are arranged with the Actuary to discuss the outcome of the valuation, contribution rates and options around phasing in any increase in contribution required.

Quarterly meetings are held with the Chief Financial Officers of District Councils where there is an opportunity for current developments and issues to be presented and discussed.

Employee Representation

The Pension Committee includes an employee representative nominated by the trade unions, as one of its members. The employee representative also represents pensioners and deferred members.

Employee representatives are involved in consultation where business transfers are proposed.

Summary of Fund Benefits, Membership and Beneficiaries

Introduction

The Gloucestershire Pension Fund is administered under the Local Government Pension Scheme (LGPS) Regulations 2008 (as amended) and is open to all eligible employees regardless of the hours worked. The scheme provides a comprehensive set of benefits for its members. This summary is provided as an illustrative guide of some of the key features of the scheme only and is not intended to give details of all the benefits provided, or the specific conditions relating to the provisions of the scheme.

Enquiries

Enquiries and more detailed information on the LGPS can be obtained by visiting the Gloucestershire County Council Pensions Website at **www.gloucestershire.gov.uk/pensions** or from the Pensions Section at Shire Hall, Gloucester, phone (01452) 426677.

Principal Features of the Scheme

- Contribution Rate - Variable (7 Band Rates) between 5.5% and 7.5% depending on level of earnings.

- Annual Pension and Lump Sum – Pension based on 1/60th of Final Years Pensionable Pay for each year of membership from 1st April 2008 PLUS ability to exchange up to ¼ of pension pot for a Lump Sum (each £1 of Pension providing £12 Lump Sum).

  Any pre 2008 membership will provide a pension based on 1/80th of Final Years Pensionable Pay for each year of membership PLUS a Lump Sum of three times the Pension.

- Normal Retirement Date ** - 65 for both men and women. Member also has the right to retire from age 60 (although benefits will normally suffer an actuarial reduction).

- Earliest Retirement Date - age 55 in cases of - Employer Consent Retirement / Redundancy / Efficiency of the Service.

- Ill Health Retirement - early payment of benefits (irrespective of age) if “permanently” incapable of continuing in employment due to medical reasons and has reduced likelihood of obtaining “gainful employment” in the future. Level of benefits based on a three tier system, depending on likelihood of being able to obtain “gainful employment”.

- Widows/Widowers & Dependants Pensions - Widow(er)s Pension and/or eligible Children’s Pensions payable in the event of a scheme member’s death.

- Partners Pensions - introduction of Partners pensions (subject to completion of a satisfactory declaration and continued eligibility).

- Lump Sum Death Grant - In the event of death in service, a lump sum death grant of three times annual pay is payable.

- Index Linking - Pensions are increased in accordance with annual review orders made under the Pension (Increase) Act 1971. With effect from April 2011, the Government changed the index used for this purpose to the Consumer Price Index (CPI), whereas previously the index used was the Retail Price Index (RPI).

- Additional Pension Benefits - In house facilities to increase potential benefits by:

  - paying additional monthly contributions to purchase additional pension in units of £250 (to a maximum of £5,000);

  - making additional voluntary contributions to Prudential’s In-house AVC arrangement to provide an additional pension benefit at retirement.

** Transitional Protections may apply in some cases

Government Reform of Public Sector Pensions – LGPS 2014

As part of the Governments undertaking to reform public sector pensions, proposals agreed between the Local Government Association (LGA) and the trade unions were announced at the end of May 2012.

Key proposals are:

- A Career Average Revalued Earnings (CARE) scheme using Consumer Price Index (CPI) as the revaluation (the current scheme is Final Salary).
- An accrual rate of 1/49th (the current scheme is 1/60th).
- Normal Retirement Age (NRA) linked to State Retirement Age (current NRA is age 65).
- 50:50 Option - allowing members to pay half contributions for half pension benefits.
- Implementation of changes from 1st April 2014.
- Full protection of all benefits accrued prior to April 2014.

More detailed information and relevant links can be found on the Pension pages of the County Council website (see web addresses on page 8).

Beneficiaries

Membership summary by type of employer

	Pensioners	Widow(er)s/ Dependants	Deferreds	Contributors
County Council (including schools)	6,191	964	9,513	11,510
District Councils	2,313	577	2,297	1,952
Colleges	736	63	1,629	1,450
Other Scheduled Bodies	564	73	790	1,264
Admitted Bodies	607	49	435	555
Total	**10,411**	**1,726**	**14,664**	**16,731**

Glossary of Terms

Accrual
An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

Actuary
An adviser on financial questions involving probabilities relating to mortality and other contingencies. Every three years the Scheme appointed actuary reviews the assets and the liabilities of the Fund and reports to the Strategic Finance Director (and Section 151 Officer) on the financial position. This is known as the triennial actuarial valuation.

Active Investment Management
A style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or by a combination of each).

Admitted Body
An organisation that chooses and is allowed by the scheme to be admitted to the LGPS using an Admission Agreement in order to provide access to the scheme for some or all of its employees.

Additional Voluntary Contributions (AVC's)
Contributions over and above a member's normal contributions which the member elects to pay in order to secure additional benefits.

Augmentation
This is when extra pension benefits can be bought for a pension scheme member. They are usually paid for by the employer or the pension scheme.

Benchmark
A target or measure against which performance is to be judged, which is commonly used to assess the investment performance of a fund or portfolio.

Bid/Offer/Mid Price
Bid - A price at which a security or a unit in a pooled fund can be sold.
Offer - A price at which a security or a unit in a pooled fund can be purchased.
Mid - The average of the current bid and offer price.

Bond
Certificate of debt issued by a Government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Consumer Price Index (CPI)
Measure of price inflation in the UK. Differs from the RPI in the particular households it represents, the range of goods and services included, and the way the index is constructed.

Deferred Retirement Benefit
A retirement benefit that a member has accrued but is not yet entitled to receive.

Derivatives
See definition on note N17, page 44.

Equities
Share in the ownership of a company, giving the holder the right to receive distributed profits and to vote at annual general meetings of the company. A term used for ordinary shares.

Exchange Traded Funds (ETFs/ET's)
A fund that tracks a selection or 'basket' of related securities within a stock market index but can be traded on an exchange like a stock or share.

Fair Value
A price deemed to accurately reflect the value of a security based on measurable valuation fundamentals. Considered to be an equitable valuation from the point of view of both buyer and seller.

FTSE
Indices maintained by the FTSE Group (an independent company originally set up by the Financial Times and the London Stock Exchange) which measures the performance of the shares listed on the London Stock Exchange.

Funding Level
The relationship at a specified date between the actuarial value of assets and the actuarial liability. Normally expressed as a funding ratio or percentage. Used as a measure of the fund's ability to meet future liabilities.

Futures Contracts
A contract which binds two parties to complete a sale or purchase at a specified future date at a price which is fixed at the time the contract is effected. Futures contracts have standard terms. Margin (deposit) payments are required, and settlement dealt via a clearing house.

Gilts
A bond issued by the UK Government and so-called because certificates used to be gilt-edged.

Global Custodian
An organisation which is responsible for the safe-keeping of assets, income collection and settlement of trades, independent of the asset management function.

Guaranteed Minimum Pension (GMP)
The minimum pension which a salary related occupational pension scheme must provide in respect of contracted out contributions paid between April 1978 and 1997, as a condition of contracting out of the state-earnings related pension scheme (SERPS).

Index Tracking
An investment process which aims to match the returns on a particular market index either by holding all the stocks in the particular index or, more commonly a mathematically calculated sample of stocks that will perform as closely as possible to the index.

Investment Management Agreement
The document agreed between an investment manager and the Fund setting out the basis upon which the manager will manage a portfolio of investments for the Fund.

Investment Strategy
The Fund's long-term distribution of assets amongst various asset classes, taking into consideration, for example, the goals of the Pension Committee and their attitude to risk and timescale.

Leverage
The use of borrowed money to over-invest a portfolio which magnifies both gains and losses. This may be achieved by derivative instruments. Also refers to the debt/equity ratio in a company's balance sheet.

Managed Fund
A pooled fund that invests across a wide range of asset classes. (See Pooled Investment Vehicle).

Market Value
The price at which an asset might reasonably be expected to be sold in an open market.

Membership
Local authority employment during which time pension contributions were made or deemed to have been made providing entitlement to benefits under the scheme.

The Myners Review
The review of issues and challenges affecting institutional investment decision making carried out by Paul Myners on behalf of the UK Government, which was published in 2001. A key recommendation was that pension fund trustees should embrace a set of principles now known as the Myners Code.

MSCI Index
Indices maintained and produced by Morgan Stanley Capital International that track equity markets throughout the world. MSCI indexes are weighted by market capitalisation and include various countries, regions and industries in both developed and emerging markets.

Notional Value
The value of a derivative's underlying assets.

Open Ended Investment Company (OEIC)
A pooled investment vehicle structured as a limited company. Investors can buy and sell shares on an on-going basis.

Options
The right but not the obligation to buy (call option) or sell (put option) a specific security at a specified price (the exercise or strike price), at or within a specified time (the expiry date). This right is obtained by payment of an amount (known as the premium) to the writer (seller) of the option, and can be exercised whatever happens to the security's market price.

Over The Counter (OTC)
Any market which does not operate through a recognised exchange.

Pensionable Earnings
The earnings on which benefits and/or contributions are calculated under the scheme rules.

Performance Measurement
Calculation of a fund's historic return on its investments.

PIRC
PIRC is an independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility.

Pooled Investment Vehicle
A fund in which a number of investors pool their assets, which are managed on a collective basis. The assets of a pooled investment vehicle are denominated in units that are revalued regularly to reflect the values of underlying assets. Vehicles include: open ended investment companies, real estate investment trusts and unit trusts.

Projected Unit Method
An accrued benefits funding method in which the actuarial liability makes allowance for projected pensionable pay. The standard contribution rate is that necessary to cover the cost of all benefits which will accrue in the control period following the valuation date by reference to pensionable pay projected to the dates on which benefits become payable.

Quoted Investments
Investments that have their prices quoted on a recognised stock exchange.

Realised Gains/ (Losses)
Profit/(losses) on investments when they are sold at more/(less) than the purchase price.

Retail Price Index (RPI)
Measure of price inflation in the UK. The RPI measures the average change from month to month in the prices of goods and services purchased by most households in the UK.

Risk
The likelihood of a return different from that expected and the possible extent of the difference. It can also indicate the volatility of different assets.

Securities
General name for stocks and shares of all types that can be traded freely on the open market.

Segregated Fund
Where the assets of a particular fund are managed independently of those of other funds under the fund manager's control.

Specialist Management
When an investment manager's mandate is restricted to a specific asset class or sector. The Pension Committee determines allocations to each asset class.

Strategic Asset Allocations
The process of dividing investments between the main asset classes to meet the Fund's risk and return objectives.

Transfer Payment
A payment made from one pension scheme to another pension scheme in lieu of benefits which have accrued to the member or members concerned, to enable the receiving pension scheme to provide alternative benefits.

Transfer Value
The amount of the transfer payment.

Unitised Insurance Policy
Investors are issued with a life policy representing title. Investors' 'holdings of units' represent a means of calculating the value of their policy. The life fund/company holds the pool of investments and is the owner of all the assets. The activities of life companies are regulated by the FSA.

Unit Trust
Unit trusts are collective funds which allow private investors to pool their money in a single fund, thus spreading risk, getting the benefit of professional fund management and reducing dealing costs. Unit trust trading is based on market forces and their net asset value - that is the value of their underlying assets divided by the number of units in issue. The activities of unit trusts are regulated by the FSA.

Universe
Term sometimes used to describe the total number of funds in a performance survey.

Unlisted Securities
Stocks and shares not available for purchase or sale through the stock market.

Unquoted Investments
Stocks that are not listed on an exchange and so have no publicly stated price.

Venture Capital
Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange. A venture capitalist raises money from investors to invest in such opportunities. These investments are typically risky but potentially very profitable.

Notes

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