



County Council

Wednesday, 7 December 2016 at 10am

Council Chamber - Shire Hall, Gloucester

Chief Executive

A G E N D A SUPPLEMENT

19	<p>GLOUCESTERSHIRE LOCAL GOVERNMENT PENSION FUND ANNUAL REPORT 2015-16 (Pages 1 - 132)</p> <p>For debate and decision.</p>
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Gloucestershire Local Government
Pension Fund



2015/16

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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 2016.

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 18 to 21), 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 statements 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 2016 can be found on pages 46 to 76. Membership of the Pension Fund continued to rise during the 2015/16 year, from just under 52,000 to 54,000. A breakdown of the Fund membership is included on page 15.

At 31st March 2016 the Fund's investments were valued at £1,703 million, which compares to a value £1,709 million at 31st March 2015. During 2015/16 the Fund achieved a -1.4 % return on its investments. This was less than the average local authority universe return of 0.2 %, as calculated by GS Performance Services (a company that monitors the performance of pension funds) and placed Gloucestershire 69th out of a universe of 88 local authority pension funds. However, over the longer term, the Gloucestershire Fund has continued to achieve above average performance compared to other local authority

pension funds. For example, the Gloucestershire Fund achieved annual returns of 7.1% over 3 years, 7.8% over 5 years and 5.7% over 10 years compared to the average annual returns of local authority funds of 6.4% over 3 years, 7.1% over 5 years and 5.6% over 10 years. Further details on the Fund's performance can be found on page 23.

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 Fund changed the benchmark used by our UK equity manager to a 2% capped version of the FTSE All Share index in order to get more benefit from the performance of small and medium sized companies within this index.

The Fund's investment strategies

are set out in the Statement of Investment Principles, which is shown on pages 115 to 121 of this report. More details on the Fund's investments and performance can be found on pages 22 to 30.

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 by the County Council or other scheduled employers of the Gloucestershire Pension Fund.

Following the Public Service Pensions Commission, chaired by Lord Hutton and consultation with employer and employee representatives, the future structure of all public sector pension schemes, including the LGPS, has been reviewed. The relevant legislation was enacted during 2013/14 and the new LGPS scheme commenced from April 2014. The terms of the new LGPS scheme only apply to new pensionable service accrued with effect from April 2014. Previously accrued pensionable service and pensions in payment prior to April 2014 are not affected. Further information on the main features of the new 2014 LGPS scheme can be found on pages 124 to 125.

The Public Service Pensions Act 2013 and LGPS regulations required LGPS Funds to set up local Pension Boards from 2015/16. Their role is to assist administering authorities in ensuring compliance with LGPS and other pension regulations. More details of the membership, meetings and work of the Gloucestershire Pension Board during 2015/16 can be found on pages 36 and 37.

In July 2015 the government announced their intention for LGPS Funds to set up investment pooling arrangements. This would involve a number of LGPS Funds with assets totalling approximately £25 billion jointly investing in the various asset classes, as chosen by each Fund, via an FCA approved organisation. The aim of this approach is to reduce investment manager fees while not adversely affecting, or even improving, individual Fund investment performance. The government also consulted on new investment regulations for the LGPS during 2015/16 to both facilitate and ensure investment pooling took place. These new investment regulations are expected to be in place by the end of 2016/17. The Gloucestershire Fund is collaborating with nine other LGPS Funds from the south west of England in setting up an investment pooling organisation called the Brunel Pension Partnership. This process is ongoing and the government are expecting LGPS Funds to begin transferring their investments into these pooling organisations from April 2018.

To ensure the Gloucestershire 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 completed valuation took place during 2013/14, based on the Fund's value at 31st March 2013, with the new employer contribution rates being effective from 1st April 2014. These rates are the minimum that Employers are required to pay for the three years

to March 2017 and can be found on pages 109 to 113. The actuarial report on the Fund can be found on pages 34 to 35. This outlines the approach taken to secure Fund solvency while keeping employer contributions stable and also gives the web link to the 2013 Fund Valuation Report which gives details of the actuarial assumptions and methods used to value liabilities.

The Actuary is in the process of carrying out the 2016/17 valuation, based on the Fund's value at 31st March 2016 and details of this valuation will be included in next year's Annual Report.

Membership of the Pension Committee is shown on page 7.

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 as well as the support from the Pension Board in assisting the administering authority to comply with the LGPS and other pension regulations.

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 Background

During the year under review, concerns have mounted about the strength of the Chinese and US economies which have been the engines of global growth over the last few years. Slowdown in developed market growth has generally led to rising fears of deflation, and the US Federal Reserve has backed away from raising interest rates.

The Japanese economy faltered as the government's stimulus programmes failed to generate growth, and the Eurozone has had meagre growth also.

In the UK, economic progress is also slow, although consumer confidence is rising and the housing market is firm. However, after the period this report covers, and at the time of writing, the country has voted to leave the EU in the referendum and this will push the UK economy into a new period of uncertainty.

Global inflation is subdued. The oil price fell sharply to less than \$30 a barrel, and although this is ultimately a positive for the global economy, it puts strains on oil-producing nations and reveals fault lines. As oil rebounds from the lows, inflation could become a concern once more.

Much of the year has been spent guessing when the Federal Reserve was going to raise US interest rates, and the move has been repeatedly deferred to much later in 2016. The US authorities are concerned the world economy

is not sufficiently robust to withstand higher rates, given high levels of debt and faltering emerging economies. Now with the uncertainty created by the Brexit vote, rate rises may be even further away.

Market Returns

Last year we reported a very strong year for asset returns and I commented that such strong returns should not be expected to continue. Therefore I am unsurprised this year to report that market returns were poor in 2015/16.

UK Gilts were up modestly by 3.2%, whereas Global Government Bond (ex-UK) rose 9.8% in sterling terms. Sterling Corporate bonds were flat.

In equities, the FTSE All Share Index in the UK was down 3.9%, and globally the FTSE World Index of developed markets was unchanged. Emerging markets fell over the period by 8.9%, an area that has been the worst sector for equity investors over the last few years.

Overall, after several years where returns have been positive, the investing environment has become much more selective, and it has been hard to find good returns. Property is one obvious exception, rising by 11.7%, sustained by what strength there has been in the UK economy, and constrained supply of property. Another area of positive returns has been technology-related shares, notably in the US where a small

list of highly successful internet-based businesses have created a great deal of growth. Returns on private equity investing have been positive.

Economic and Market Outlook

As another year passes, it is now seven years since we emerged from the great financial crisis of 2008/2009. The path to recovery has been slow, and has been built on low interest rates and quantitative easing. Such have been the powers of deflation, that over \$10 trillion of global government bonds now have negative yields. This is a hard concept to rationalise: investors paying governments to hold their money, and is hardly a sustainable state of affairs in the long term. Fundamentally there is still too much debt, and some inflation would be welcome. At some point, global macroeconomic policy may move on from the era of quantitative easing to another regime designed to move away from deflation.

It is too early to say at this point what the impact of the EU Referendum vote will be on economic activity, but it is likely to push the UK, and the world economy also, to a position of greater risk. Sterling currency depreciation will improve the UK's export performance, but Britain is not the exporting nation it once was, so this may not offset the decline, even temporarily, of inward investment until the political future clarifies.

This is likely to be a challenging period for future investment returns. Investors based in the UK, such as this pension fund, will see the Sterling value of their overseas equity assets rise as the Pound depreciates, and the UK market which is heavily weighted in multinational companies with overseas profits, is somewhat shielded. Fixed income assets on the other hand, perform well in such an environment. UK Property has already performed well, and so it is difficult to see the opportunities there, having now entered a period of uncertainty.

However, we have a very well diversified portfolio strategy, and seek to ride out periods of volatility. In the very long term, we seek to capture the excess returns that arise from investing in equities and real assets.

If shorter-term returns are low and volatility increases, then we will require our investment managers to be skilled in navigating such waters, with good tactical asset allocation and stock selection. We appoint them to manage for the long term but also seek opportunities that result from volatility.

Strategic Asset Allocation

The Pension Fund has a long term horizon and the investment priority remains long term returns rather than short term risk mitigation.

The current investment strategy seeks to achieve this by having a core allocation to equities within a strategically diversified overall

portfolio. The target allocation to equities is 65% and is broadly similar to other Local Authority pension funds.

During the year there were no major changes to asset allocation. However there was a change to the underlying UK equity mandate, managed by Standard Life Investments to one based on a customised-index, which took place in May 2015.

Steve Tyson

8th July 2016

Management and Financial Performance

Scheme Management and Advisors

Administering Authority: Gloucestershire County Council

Pension Committee at 31st March 2016

Representing Gloucestershire County Council:



Cllr. R. Theodoulou
(Chairman)



Cllr. D. Brown



Cllr. J. Gill



Cllr. C. Hay



Cllr. S. Parsons



Cllr. L. Stowe



Representing Gloucestershire District Councils:

Cllr. N. Cooper

Representing Scheme Members:

Mr. P. Clark

County Council Officers:

Mrs. J. Walker
Strategic Finance Director

Mr. G. Burrow and Mr. M. Spilsbury
Joint Head of Pension Fund

Independent Advisor:

Mr. S. Tyson, AllenbridgeEpic

Fund Actuary:

Mrs J. West, Hymans Robertson
Mr. D. Green, Hymans Robertson

Scheme Administrator:

Gloucestershire County Council

Investment Managers as at 31st March 2016:

BlackRock Advisors (UK)
CBRE Global Investment Partners (CBRE)
Grantham, Mayo, Van Otterloo & Co LLC (GMO)
Hermes Investment Management
Standard Life Investments
Western Asset Management Company
Technology Venture Partners (TVP)
(Formerly part of YFM)
Yorkshire Fund Managers Equity Partners (YFM)

AVC Provider:

Prudential Assurance Company Limited
Phoenix Life Limited

Auditor:

Grant Thornton UK LLP

Global Custodian:

BNY Mellon Asset Servicing SA/NV

Performance Measurement:

BNY Mellon Asset Servicing
GS Performance Services

Banker:

HSBC

Legal Advisor:

Gloucestershire County Council in-house legal team

Post Year-End Changes

There are no year-end changes to report.

Enquiries

For information/contact details for committee members, fund managers and advisors or for details regarding the Fund's investments and accounting activities, please contact the Finance Manager at Shire Hall, Gloucester, phone (01452) 328945.

For details of Local Government Pension Scheme benefits and administration, please contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 328866.

Complaints

In the event of a complaint members should contact the Pension Administration Manager at Shire Hall, Gloucester, phone (01452) 328866 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

> Risk Management

The Pension Fund maintains a Risk Register which is reviewed and reported to the Pension Committee for consideration every 6 months. Risks are rated on a "traffic light system" and assigned to a lead officer for monitoring and review. Controls are documented and further actions identified where necessary.

These risks associated with the Fund's administration, management and investments are included in the Funding Strategy Statement (FSS). The risks and actions to manage and reduce them are shown within the FSS on pages 98 to 102 of this report. In addition the Fund's Statement of Investment Principles (SIP) details the individual responsibilities, (including the management of risk), of the Pension Committee, Investment Managers, Council Officers, Custodian and Investment Advisor.

Internal auditors also evaluate both risk and controls for the main

areas of governance, pension administration and investment management. This includes third party risk and involves obtaining assurances from the external fund managers on their governance and administration arrangements as well as acquiring copies of their latest accounts and internal control assurance reports, AAF01/06 or ISAE 3402. The internal audit results then feed into an annual governance statement.

Other Third Party Risk

The receipt and calculation of employer pension contributions is monitored monthly. Employers are required to complete a return, which reconciles to the pension payment and verifies the calculation of both employee and employer contributions.

Other Investment Risk

The Pension Fund employs an Independent Investment Advisor to assist and advise the

Pension Committee. Investment performance is reviewed by committee every quarter. Fund managers attend committee on a regular basis and are held to account on their performance return and relative risk measures. In addition further in-depth meetings are held at manager's offices during the year. During 2015/16 Performance data was provided by the Fund's Custodian as well as by an independent specialist company, GS Performance Services. Performance is measured against both a customised fund benchmark and mandate specific benchmarks.

Page 120 of the Statement of Investment Principles contains further details of how the Fund controls risk linked to its investments. There is an additional note on the Nature and Extent of Risks Arising from Financial Instruments within the Notes to the Accounts on pages 67 to 74.

> Financial Performance

Analysis of pension contributions

The timeliness of employee and employer pension contributions which should be paid to the Pension Fund no later than 19 days after the end of the month in which they were deducted from pay is shown below.

In total 29 (24 2014/15) monthly payments were received late, of which 27 (22 2014/15) were received within the month. The remaining two (two 2014/15) payments were received 42 and 112 (2014/15 96) days late.

The option to levy interest on overdue contributions was not exercised.

Employee and Employer Contributions	Total	On Time		Late	
	£000	£000	%	£000	%
2013/14	82,000	81,600	99.6	400	0.4
2014/15	90,000	89,500	99.4	500	0.6
2015/16	97,000	96,600	99.6	400	0.4

Fund Account (inflows) and outflows

The following table shows the income and expenditure of the Pension Fund over the last three years together with an estimate for 2016/17.

Fund Account	2013/14	2014/15	2015/16	2016/17
	Actual	Actual	Actual	Budget
	£000	£000	£000	£000
Contributions	-84,895	-92,866	-98,448	-105,979
Transfers in	-4,719	-3,708	-1,131	-3,186
Bulk transfer values in	-	-2,556	-	-
Investment income	-26,785	-23,614	-24,622	-23,541
Other income	-297	-157	-139	-198
Benefits payable	68,488	71,008	71,937	73,662
Payments to and on account of leavers	3,850	3,712	2,365	3,309
Bulk transfer values out	9,200	29,012	1,078	-
Administration and Oversight & Governance expenses	1,316	1,340	1,477	1,814
Investment management expenses	6,074	5,753	6,186	5,766
Profit, loss and change in market value	-93,887	-190,503	47,868	-78,841
Net increase (-) / decrease in the Fund	-121,655	-202,579	6,571	-127,194

The following table compares the actual income and expenditure of the Pension Fund for 2015/16 against budget.

Fund Account	2015/16		
	Actual	Budget	Variance
	£000	£000	£000
Contributions	-98,448	-85,465	-12,983
Transfers in	-1,131	-4,223	3,092
Bulk transfer values in	-	-	-
Investment income	-24,622	-20,443	-4,179
Other income	-139	-243	104
Benefits payable	71,937	73,168	-1,231
Payments to and on account of leavers	2,365	3,738	-1,373
Bulk transfer values out	1,078	-	1,078
Administration and Oversight & Governance expenses	1,477	1,495	-18
Investment management expenses	6,186	5,526	660
Profit (-), loss and change in market value	47,868	-143,706	191,574
Net increase (-) / decrease in the Fund	6,571	-170,153	176,724

Contributions

This represents the employer and employee contributions.

Bulk Transfers Out

In 2013/14 an employer was merged with another establishment and its assets and liabilities transferred to their Pension Fund.

In 14/15, due to national policy changes, all Probation Trusts across the country transferred their pension assets and liabilities into the Greater Manchester Pension Fund (GMPF). The Pension Fund paid a bulk transfer value of £29.01m to cover the liabilities that transferred over.

In 15/16 the Valuation Tribunal Service (VTS) consolidated its Pension Funds into one Fund administered by LPFA. The pension Fund paid a bulk transfer value of £1m to cover the liabilities that transferred over.

Further information on these transfers can be found in Accounting Note 28.

Profit, loss and change in market value

Profit, loss and change in market value is the total of realised and unrealised profits and losses of the Fund's investments.

Profits and losses realised on sales of investments during the year totalled a net profit of £14.3m (£13.0m in 2013/14, £21.0m in 14/15).

The change in the market value of investments held at the 31st March 2016 on the previous year totalled -£62.1m (£80.9m in 2013/14, £169.5m in 2014/15). During 2015/16 the Fund achieved a performance figure of -1.4% compared to 14.4% in 2014/15 and 8.9% in 2013/14.

Cash flow

For 2016/17 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 and a forecast for the following year are shown opposite:

	2016/17 Forecast	2015/16 Actual	2014/15 Actual	2013/14 Actual Re-stated
	£000	£000	£000	£000
Net cash inflow	43,739	44,783	15,117	30,483

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. In 2015/16 there were extra-ordinary net payments out of £1.1m (£26.5m 2014/15) relating to transfers of staff to another pension fund.

Operational expenses

The following tables show budgeted and actual figures of the three constituent parts that make up the operating expenses of the Pension Fund.

	2013/14 Actual £000	2014/15 Budget £000	2014/15 Actual £000	2015/16 Budget £000	2015/16 Actual £000	2016/17 Budget £000
Administrative costs						
Staff costs	449	656	500	692	551	769
Premises	42	42	42	42	46	49
IT	154	191	164	173	186	192
Supplies and services	181	173	172	183	174	220
Other central costs	32	52	55	51	41	59
Cost of democracy	-	-	-	-	-	-
Other	-	-	-	-	4	-
	858	1,114	933	1,141	1,002	1,289
Oversight & governance costs						
Staff costs	107	138	131	142	140	181
External audit fees	20	24	21	24	24	25
Actuarial fees	260	95	187	117	199	213
Pension Committee/Board	1	-	1	1	1	3
Performance monitoring service	38	18	38	19	37	39
Investment consultancy	23	20	20	20	20	21
Other professional fees	9	29	9	31	54	44
	458	324	407	354	475	526
Investment management expenses						
Management fees	3,752	4,206	4,733	4,594	4,952	4,913
Performance fees	1,915	734	598	836	463	775
Transaction costs	345	-	350	-	695	-
Custody fees	62	84	72	96	76	78
	6,074	5,024	5,753	5,526	6,186	5,766

Actual actuarial fees within Oversight & Governance contain actuarial expenses of £110,000 (2014/15 £135,000) which arose as a result of employer requests and was therefore recharged back

to them. Net actuarial fees for 2015/16 were £89,000 (2014/15 £52,000).

The increases in the staffing budgets in Administration and

Oversight & Governance between 2015/16 and 2016/17 are as a result of a job evaluation review and the re-grading of a number of officers.

Financial Summary

	2015/16	2014/15	2013/14 re-stated**	2012/13	2011/12
	£m	£m	£m	£m	£m
Contributions and investment income *	124.2	122.7	116.4	107.5	112.4
Realised profit/(loss)	14.3	21.0	13.0	13.3	101.5
Less benefits and other expenses *	(82.9)	(110.6)	(88.6)	(74.6)	(74.0)
Annual surplus/(shortfall)	55.6	33.1	40.8	46.2	139.9
Increase/(decrease) in market value of investments	(62.2)	169.5	80.9	133.4	(92.1)
Increase/(decrease) in Fund during year	(6.6)	202.6	121.7	179.6	47.8
Market Value of net assets at 31st March	1,702.5	1,709.1	1,506.5	1,384.8	1,205.2

* Excludes recoverable expenditure

** The accounting treatment of expenses has changed, as per guidance received from the Chartered Institute of Public Finance and Accountancy (CIPFA), figures for 2013/14 have been re-stated to enable a meaningful comparison between 2013/14 and 2014/15.

Analysis of pension overpayments

	2014/15 £	2015/16 £
Pension overpayments b/fwd	7,680	23,498
Pension overpayments in the current year	38,644	29,851
Overpayment recovered	(21,904)	(24,137)
Overpayments written off	(922)	(141)
Pension overpayments c/fwd	23,498	29,071

Gloucestershire Pension Fund participates in the National Fraud Initiative (NFI) which is a biennial data matching exercise administered by the Cabinet Office.

Pension data was submitted through the web portal in October 2014 and in November 2015 and data match reports produced matching:-

- Active pensioners with Department of Works and Pensions (DWP) deceased

records, to identify cases where we might be continuing to pay someone who has died;

- Pensioners with payroll records for public sector bodies to identify cases where pensions should be abated; and

- Pensioners receiving an enhanced injury pension with individuals receiving relevant state benefits to identify cases where they have failed to declare relevant state benefits that may remove

or reduce entitlement to the enhanced pension.

Match reports were reviewed and additional information sought as necessary. The reports identified 65 pensioners who had died where pensions had not been informed of their death, in 34 of these cases the pension had already been suspended. Invoices were raised to recover overpayments. No cases of fraud were identified.

> Administrative Management Performance

Key administration performance indicators

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 five years.

Activity	Target	2015/16	2014/15	2013/14	2012/13	2011/12
Annual Benefit Statements sent by statutory deadline	100%	0%** see note below	0%** see note below	100%	100%	100%
Provide retirement estimates within 10 working days						
Total completed		693	646	531	655	754
Completed on time		228	505	428	594	685
Achievement	80%	32.9%	78.2%	80.6%	90.7%	90.9%
Pay retirement grants within 10 working days						
Total completed		650	707	745	739	889
Completed on time		151	634	721	716	844
Achievement	90%	23.2%	89.7%	96.8%	96.9%	94.9%
Pay death gratuities within 3 working days						
Total completed		55	40	57	65	45
Completed on time		6	39	54	58	37
Achievement	85%	10.9%	97.5%	94.7%	89.2%	82.2%

** Annual Benefit Statement – Statutory deadline was 31/08/2015 (30/09/2014 in 2014/15). 100% of Annual Benefit Statements were sent out during November 2015 (December 2014 2014/15).

While the actual achievement against current performance indicators was positive in 2014/15 it has significantly worsened in 2015/16.

This reflects additional workloads falling to the Administering Authority during the year, for example;

- o significant additional support and chasing of employers for required information following the introduction of the CARE pension scheme

- o continued review and re-development of processes, systems and communication materials as a result of the introduction of the CARE pension scheme

- o increased levels of support and information required from scheme members and employers alike

- o introduction of a further two Firefighters' pension schemes (*there are now four Firefighter Pension Schemes*)

Results from employer satisfaction survey

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 and when contacting the Pensions Section, the results of which are on the opposite page.

% of employers completing the survey who agreed with the following statements:

	2015/16 %	2014/15 %	2013/14 %	2012/13 %	2011/12 %
The forums had raised their understanding of current pension issues	100	83	83	88	100
Employers who felt that what they had learned at the Forum and from the Pensions Office would help them in their role as a pension fund employer	89	88	78	94	100
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	93	95	72	100	94

Complaints received

Type of complaint	2015/16	2014/15
System error	-	-
Staff error	-	1
Staff attitude	-	-
Total	-	1
Total as % of workload	0.0%	0.0%

> Financial Indicators

Scheme Administration Costs

The Pension Fund subscribes to the annual CIPFA Benchmarking Survey. The draft survey results for 2015/16 shows that our administration costs per member were £12.89 compared to the average cost of £18.42 per member of all the Funds within the survey. This places the Fund in the lowest cost quartile.

Cost per member	2015/16 £	2014/15 £	2013/14 £	2012/13 £	2011/12 £
Fund cost	12.89	13.45	13.08	14.40	14.68
Group average	18.42	19.17	20.75	20.87	21.54
Difference	(5.53)	(5.72)	(7.67)	(6.47)	(6.86)

Investment Management Costs

	2015/16 £	2014/15 £	2013/14 £	2012/13 £	2011/12 £
Cost per member	*114.62	111.07*	111.82	67.36	75.04

* Pension Fund expenses have been accounted for in accordance with the CIPFA guidance, Accounting for Local Government Pension Scheme Management Costs. In accordance with this guidance, from 2014/15 transaction costs previously included within the purchase cost/proceeds of investment purchases and sales have been added to Investment Management Costs with a corresponding offset against Profit on Disposal of Investments.

The management fees disclosed on the previous page include all investment management fees directly incurred by the Fund i.e. including those charged on pooled fund investments which tend to be deducted from the market value of the investments rather than

invoiced to the Fund. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

From 2014/15 a third category of expense, Oversight & Governance, has been added and some costs previously included within Administration Costs and Investment Management Costs now come under this category.

Oversight and Governance Costs

	2015/16 £	2014/15 £
Cost per member	8.80	7.86

Key Staffing Indicators

The table below shows the number of staff over the last five years in the Pensions Administration Team working exclusively on local government pension scheme benefits. This table shows a trend towards an increase in the number of fund members each member of staff looks after.

	2015/16	2014/15	2013/14	2012/13	2011/12
Number of full time equivalent Pension Fund staff	10.8	10.6	9.8	9.8	9.9
Total fund membership	53,968	51,794	50,419	47,712	46,214
Number of fund members to one member of administration staff	4,997	4,886	5,145	4,869	4,668

> Membership Summary

	2015/16	% diff	2014/15	% diff	2013/14	% diff	2012/13	% diff	2011/12
Contributors	18,630	+2.70	18,141	+1.14	17,936	+6.27	16,877	+0.87	16,731
Pensioners	14,207	+3.56	13,719	+2.03	13,446	+5.15	12,788	+5.36	12,137
Deferred pensioners	18,149	+5.51	17,201	+5.48	16,307	+6.31	15,339	+4.60	14,664
	50,986	+3.92	49,061	+2.88	47,689	+5.97	45,004	+3.38	43,532
Undecided leavers	2,982	+9.11	2,733	+0.11	2,730	+0.81	2,708	+0.97	2,682
	53,968	+4.20	51,794	+2.73	50,419	+5.67	47,712	+3.24	46,214

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

Undecided leavers are those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due.

The following gives an age profile of fund members.

Gender	Category Age	Active	Deferred	Pensioner	Widow(er)/ Dependant
F	under 15	0	0	0	18
M	under 15	0	0	0	12
F	15 to 19	90	10	0	18
M	15 to 19	49	11	0	31
F	20 to 24	534	289	0	28
M	20 to 24	297	186	0	16
F	25 to 29	784	838	0	2
M	25 to 29	352	385	0	2
F	30 to 34	1,015	1,162	1	0
M	30 to 34	313	464	0	0
F	35 to 39	1,465	1,353	1	3
M	35 to 39	343	451	0	1
F	40 to 44	2,087	1,766	4	3
M	40 to 44	359	470	2	7
F	45 to 49	2,947	2,621	16	12
M	45 to 49	513	595	4	14
F	50 to 54	2,778	2,847	29	19
M	50 to 54	533	711	19	22
F	55 to 59	1,989	2,283	299	41
M	55 to 59	532	654	136	55
F	60 to 64	953	752	1,795	70
M	60 to 64	373	187	757	62
F	65 to 69	201	79	2445	117
M	65 to 69	91	21	1,230	69
F	70 to 74	17	4	1,467	152
M	70 to 74	15	10	939	93
F	75 to 79	0	0	920	201
M	75 to 79	0	0	610	86
F	80 to 84	0	0	487	223
M	80 to 84	0	0	382	61
F	85 to 89	0	0	285	216
M	85 to 89	0	0	227	49
F	90 to 94	0	0	119	143
M	90 to 94	0	0	70	9
F	95 to 99	0	0	29	35
M	95 to 99	0	0	20	2
F	100 to 104	0	0	5	9
M	100 to 104	0	0	4	0
F	105 to 109	0	0	0	2
M	105 to 109	0	0	1	0
F	110 to 114	0	0	0	1
Total Members	50,986	18,630	18,149	12,303	1,904

> 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). For the period covered by this report the Local Government Pension Scheme Regulations 2013 were in operation. The LGPS is a statutory funded scheme and was on a final salary basis until the 31st March 2014 when it went to a C.A.R.E. scheme (career average revalued earnings) and the benefits are defined and guaranteed by law. Any changes to the legislation of the scheme are governed by CLG – See page 124 to 125 for benefit changes since 1st April 2014.

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, staff from Strategic Finance are 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 (Pensions and Investment Research Consultants) proxy voting guidelines. Details of the Fund's investment managers and their mandates are detailed on page 23 of this report. A list of participating

employer bodies within the Fund is shown on pages 18 to 21.

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 2015 are detailed below:

Pensionable Pay	Employee Contribution Rate %
Up to £13,600	5.5
£13,601 to £21,200	5.8
£21,201 to £34,400	6.5
£34,401 to £43,500	6.8
£43,501 to £60,700	8.5
£60,701 to £86,000	9.9
£86,001 to £101,200	10.5
£101,201 to £151,800	11.4
More than £151,801	12.5

These same rates will apply to the 2016/17 financial year.

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 2013, were announced in March 2014 and set the employers' contribution rates payable in each of the three years commencing 1st April 2014. The next actuarial valuation is due as at 31st March 2016, which will prescribe the employer rates from 1st April 2017.

Employer Contributions as a % of pay	31st March 2013	31st March 2010	31st March 2007
(a) Future Service Funding Rate	19.7%	15.5%	14.6%
(b) Past Service Adjustment	13.2%	10.3%	7.7%
Total Common Contribution Rate	32.9%	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 34 to 35.

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 124 to 125 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. The Rates &

Adjustment Certificate showing each individual employer's contribution rate, as agreed with the Scheme Actuary, for the period 1st April 2014 to 31st March 2017 may be found in the Funding Strategy Statement on pages 109 to 113.

2015/2016 Contributions	Employer Contributions	Employee Contributions	Total
Administering Authority			
Gloucestershire County Council*	36,367,359	7,477,870	43,845,229
Scheduled Bodies			
Cheltenham Borough Council	3,624,549	412,854	4,037,403
Cotswold District Council	2,459,269	476,327	2,935,596
Forest of Dean District Council	1,966,422	269,243	2,235,665
Gloucester City Council	3,573,281	393,909	3,967,190
Stroud District Council	3,027,632	590,597	3,618,229
Tewkesbury Borough Council	2,024,581	325,247	2,349,828
Police & Crime Commissioner for Gloucestershire	3,822,139	1,250,213	5,072,352
Parish and Town Councils (pooled)	434,198	106,793	540,991
Cirencester College	372,824	101,119	473,943
Gloucestershire College	1,956,793	453,661	2,410,454
Hartpury College	901,479	285,378	1,186,857
University of Gloucestershire	3,292,870	1,051,306	4,344,176
Cheltenham Borough Homes	835,917	300,046	1,135,963
Cotswolds Conservation Board	83,601	27,175	110,776
Farmors Sport Centre Ltd	10,854	2,278	13,132
Gloucestershire & Severnside Valuation Tribunal	4,999	1,471	6,470
Lower Severn Drainage Board	138,028	31,747	169,775
Sir William Romney's Leisure	7,615	1,534	9,149
Academies			
Abbey View CCT	11,597	3,626	15,223
All Saints	169,464	43,510	212,974
Balcarras	215,389	58,600	273,989
Beaufort	262,771	58,539	321,310
Bishops Cleeve Primary	146,446	28,635	175,081
Blockley Primary	32,386	7,152	39,538
Bourton on the Water	65,217	14,442	79,659
Brockworth Primary	64,067	16,323	80,390

* including schools

continued...

2015/2016 Contributions	Employer Contributions	Employee Contributions	Total
Academies (continued)			
Charlton Kings Infants	67,372	15,050	82,422
Charlton Kings Junior	66,886	13,173	80,059
Cheltenham Bournside	285,591	64,883	350,474
Chipping Campden	184,173	45,432	229,605
Chosen Hill	222,320	50,526	272,846
Christ Church C of E Primary	68,035	12,965	81,000
Churchdown Secondary	402,948	65,081	468,029
Churchdown Village Infants	72,163	16,828	88,991
Cirencester Deer Park	240,723	64,758	305,481
Cirencester Kingshill	139,568	41,793	181,361
Cleeve School	222,232	59,647	281,879
The Cotswold School	256,687	60,674	317,361
The Crypt School	108,611	31,333	139,944
Dene Magna	233,559	46,749	280,308
Diocese of Gloucester Academies Trust	40,372	13,434	53,806
Dursley Primary	61,432	13,058	74,490
Farmors Academy	136,740	36,274	173,014
Field Court C of E Infant School	93,027	18,771	111,798
Field Court C of E Junior School	62,663	11,256	73,919
Forest High School	126,970	24,822	151,792
Forest View Primary	81,480	16,333	97,813
Gloucester Academy	270,680	74,419	345,099
Gotherington Primary	28,826	4,971	33,797
Green Field Academy	12,388	2,523	14,911
Gretton Primary	19,318	4,288	23,606
Hardwicke Primary School	99,980	19,929	119,909
High School for Girls	127,796	32,261	160,057
Highnam C of E Primary	27,393	6,807	34,200
Katherine Lady Berkeley's School	273,748	57,983	331,731
Longney C of E Primary Academy	10,095	2,109	12,204
Marling School	120,799	31,157	151,956
Millbrook Academy	190,172	44,547	234,719
Minchinhampton Academy	59,226	14,090	73,316
Mitton Manor Primary	39,366	8,940	48,306
Newent Community School	212,175	49,862	262,037
North Cerney C of E Primary Academy	7,273	1,507	8,780
Offas Mead Primary	37,652	6,639	44,291
Pate's Grammar School	184,112	48,131	232,243
Peak Academy	64,430	14,510	78,940
Primrose Hill Academy	55,045	11,178	66,223
Redmarley C of E Primary	7,883	1,599	9,482
Ribston Hall	132,164	34,726	166,890
Robinswood Primary	210,038	52,395	262,433
Rosary Catholic Primary School	37,589	8,855	46,444
Rowanfield Junior	54,177	15,675	69,852
Severn Banks Primary	81,683	15,900	97,583
Severn Vale	212,419	60,701	273,120
Severn View Primary	27,451	5,256	32,707
Sir Thomas Rich's	137,042	28,270	165,312

continued...

2015/2016 Contributions	Employer Contributions	Employee Contributions	Total
Academies (continued)			
Sir William Romney's School	121,058	25,765	146,823
Springbank Primary	62,189	18,632	80,821
St David's Primary	48,836	12,223	61,059
St Dominic's Catholic Primary School	20,006	4,566	24,572
St John's C of E Primary	70,818	13,050	83,868
St Mary's Catholic Primary School	49,315	12,890	62,205
St Peter's High School	328,497	77,012	405,509
Staunton and Corse C of E Primary	16,753	3,686	20,439
Stone with Woodford C of E Primary	19,309	3,712	23,021
Stroud High School	144,745	39,163	183,908
Tewkesbury School	294,517	71,006	365,523
The Dean Academy	191,755	40,109	231,864
The Ridge Academy	62,898	17,748	80,646
Thomas Keble	159,865	37,411	197,276
Tredworth Infants Academy	69,740	15,790	85,530
Whiteshill Primary	9,150	1,863	11,013
Winchcombe Abbey	47,033	10,777	57,810
Winchcombe School	129,413	28,170	157,583
Wyedean School	237,844	55,533	293,377
	37,502,601	8,182,899	45,685,500

Admitted Bodies

Amey	252,628	77,330	329,958
APCOA	41,407	10,788	52,195
Aspire Sports and Cultural Trust	123,165	52,901	176,066
Barnardo's - Forest of Dean	33,782	9,252	43,034
Barnardo's - South Glos.	91,469	28,139	119,608
Barnardo's - Tewkesbury	59,262	15,923	75,185
Brandon Trust	52,156	6,233	58,389
Carers Glos. Parent Partnership	9,414	2,942	12,356
Carers Glos. Advice & Support	4,590	1,060	5,650
Cheltenham Leisure & Culture	289,516	95,658	385,174
Civica (FODDC)	81,074	21,274	102,348
Civica (Glos.)	181,908	52,334	234,242
Civica (Glos. IT)	12,651	4,397	17,048
Cotswold Archaeology	178,047	48,705	226,752
Enterprise (AOL)	183,056	57,526	240,582
Fosseway Housing Association (Bromford Group)	903,049	42,942	945,991
Gardners Lane & Oakwood Federation	231,751	80,549	312,300
Gloucester City Homes	609,846	191,966	801,812
Gloucestershire Airport	244,722	35,476	280,198
Gloucestershire Group Homes	99,487	22,524	122,011
Hill Valley & Vale Ltd	126,298	29,997	156,295
INTO University Partnerships	6,952	2,006	8,958
Gloucestershire Care Services NHS Trust	130,381	24,412	154,793
Kiddywinks	758	246	1,004
Lovells	341,859	18,756	360,615
The Orders of St John Care Trust	245,173	29,008	274,181

continued...

2015/2016 Contributions	Employer Contributions	Employee Contributions	Total
Admitted Bodies (continued)			
Prospects Youth Service	687,956	219,117	907,073
SSE	4,649	1,486	6,135
Severnvale Housing Association	544,746	32,594	577,340
Sport & Leisure Management	106,775	38,487	145,262
Stroud Court Community Trust	94,375	21,852	116,227
Tinies UK	58,863	13,945	72,808
Two Rivers Housing	241,668	94,557	336,225
UBICO Ltd (Cheltenham)	455,419	123,739	579,158
UBICO Ltd (Cotswolds)	15,095	4,211	19,306
UBICO LTD (FODDC)	26,552	6,109	32,661
UBICO LTD (Tewkesbury))	243,638	64,427	308,065
Wealdon Leisure	77,270	17,734	95,004
4Children (Cotswolds)	117,754	9,567	127,321
4Children (North Glos.)	77,193	20,698	97,891
	7,286,354	1,630,867	8,917,221
Total contributions	81,156,314	17,291,636	**98,447,950

* including schools

** includes ill health and early retirement contributions totalling £1.2m.

Some of the employers will include accruals for contributions due but not received as at 31st March 2016

> Benchmarking Report

The Fund's investment performance is benchmarked on an annual basis against other local authority pension funds subscribing to GS Performance Services Universe of 88 local authority pension funds. The Fund was 69th in 2015/16. Further details are given on pages 23 to 25 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 ten 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 pages 14 and 15 of this report.

Investment Policy and Performance Report

Investment Powers and Duties

The powers and duties concerning the investment of Fund monies, for the period covered by this report, are set out in the Local Government Pension Scheme Management and Investment of Funds Regulations 2009 (as amended). 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 30% 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 2015/16 the Committee comprised of six County Councillors, one District representative and a union 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 37 to 40.

The Committee determines the overall investment strategy for the Fund after receiving advice from its officers, independent advisor and appropriate external investment consultants. The investment

strategy developed by the Pension Committee is detailed in the Statement of Investment Principles on pages 115 to 121 of this report. This includes details of the Fund's agreed strategic asset allocation to the various investment markets.

The Fund's policy in respect of Socially Responsible Investment issues may be found on page 118 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. In place at the year-end were six specialist investment managers, Standard Life Investments, BlackRock, Western Asset Management, GMO, Hermes Investment Management and CBRE who each manage portfolios within specific asset categories of the Fund's investments.

The Pension Fund also invests in two private equity/venture capital funds run by Technology Venture Partners. As at the year-end date details of the Fund's 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 Committee adopted a fund-specific benchmark commencing April 2005, and details of the Fund benchmark currently being used is shown on page 24. 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's Investment Managers are:	Mandate	Bid Market Value 31st March 2016 £m
Standard Life Investments	UK Equities	318.7
	Global Multi Asset Absolute Return Fund	75.7
BlackRock	Global Equities Including Emerging Markets	422.5
	Emerging Markets	63.9
Western Asset Management	Global Fixed Interest	292.7
	Global Multi Strategy Fixed Interest	77.6
GMO	Global Equities Including Emerging Markets	301.6
Hermes Investment Management	UK Property Unit Trusts	92.6
CBRE	Global Property	41.9
YFM Group	Private Equity	2.2
Technology Venture Partners	Private Equity	3.0

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.

Fund Performance

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

To 31st March 2016 the Fund realised the opposite returns: >

	Fund % p.a.	Benchmark % p.a.
1 year	-1.4	0.0
3 years	7.1	6.5
10 years	5.7	5.9

For general market background information the following shows rates of return achieved on representative market indices over the 12 months to 31st March 2016:

- North America equities provided the best performance of the major equity asset categories, returning 3.2%. Other areas had a negative performance.
- UK equities returned -3.8%.

- Emerging equities, Pacific equities, Japan equities and European equities (exc. UK) returned -7.8%, -6.7%, -3.7% and -2.8% respectively.

- UK bonds returned 2.9% and UK Index linked bonds returned 2.1%.
- Overseas bonds were the best performers of the major fixed interest categories with a return of 4.2%.

- Private Equity performed the best in Alternatives with a return of 14.2% followed by Property with a return of 10.5%

- The UK Retail Price Index increased by 1.6% and the UK Consumer Price Index increased by 0.5%.

Local Authority Universe

For 2015/16, 88 local authority funds were included directly in the GS Performance Services Universe. The aggregate market value of these funds was £207.4 billion. The average investment return achieved by Local Authority Pension Funds within the Universe for 2015/16 was 0.2% (including property assets), placing Gloucestershire 69th out of the 88 funds.

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

The annualised total Fund return of the Gloucestershire Fund

compared to other local authority returns placed the Gloucestershire Fund 36th out of 83 and 38th out of 75 over the three and ten year periods respectively.

Annualised returns over:	Average Local Authority Fund %
1 year	0.2
3 years	6.4
10 years	5.6

Investment Performance

31st March 2016 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	2.9	-3.9	4.8	3.7
Emerging Market Equities	-8.2	-9.2	-2.1	-2.8
Global Equities	-3.3	-0.8	8.9	8.0
UK Bonds	0.9	2.2	5.3	5.7
Overseas Bonds	-0.6	2.1	2.0	5.6
UK Index-Linked	1.9	1.8	6.9	5.6
Global Multi Sector Bonds	-2.5	2.1	1.0	5.7
Global Absolute Return	-3.2	2.1	4.2	5.7
Property	12.2	10.9	14.8	13.2
Total Fund Return	-1.4	0.0	7.1	6.5

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 are shown on page 23 and the 10 year local authority universe placing is shown above. Performance returns by fund manager are shown on page 25.

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

Investment performance by fund manager against benchmarks as at 31st March 2016, 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	-3.4	-3.9	4.3	3.7	6.5	6.5
Standard Life	Multi Asset Global Absolute Return	Composite UK/Overseas**	-3.2	2.1	4.2	5.7	5.4	6.7
BlackRock	Global Equity Inc. Emerging Markets*	MSCI All Country World Index	-3.1	-1.2	9.6	7.5	8.9	8.2
BlackRock	Emerging Markets	MSCI Emerging Market Index	-8.2	-9.2	-2.1	-2.8	2.7	2.1
Western Asset	Global Fixed Interest	Composite UK/Overseas	1.3	2.1	5.8	5.7	6.6	6.9
Western Asset	Global Multi Strategy Fixed Interest	Composite UK/Overseas**	-2.5	2.1	1.0	5.7	3.1	8.0
Hermes Investment	UK Property	IPD UK PPF Balanced PUT	13.3	11.0	15.7	13.3	6.8	4.7
CBRE	Global Property	IPD All Balanced Property Funds Index	9.5	10.8	13.0	13.1	11.0	9.2
GMO	Global Equity Inc. Emerging Markets	MSCI World Index	-2.7	-0.3	9.2	8.8	11.7	12.1

* 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.

** These mandates are monitored against the benchmark of the investment (WAMCO – Global Fixed Interest) from where the original funding was taken.

Asset Allocation – Planned compared to actual

	Planned asset allocation with effect from 1st December 2012 %	Actual asset allocation as at 31st March 2015 %	Actual asset allocation as at 31st March 2016 %
UK Equity	20.0	19.2	18.8
Emerging Markets	4.0	3.4	3.8
Global Equity	17.5	18.3	17.8
Global Equity Including Emerging Markets	23.5	25.7	24.9
Total Equity	65.0	66.6	65.3
Global Fixed Interest (including Index Linked Securities) & Global Multi Strategy Fixed Interest	22.0	21.1	21.8
UK and Global Property	7.5	7.0	7.9
Multi Asset Global Absolute Return	5.0	4.6	4.4
Cash & Venture Capital	0.5	0.7	0.6
	100.0	100.0	100.0

Significant changes during the year:

Planned Strategic Asset Allocation – No changes.

Asset Allocations

Snapshot of the Fund's actual investment exposure in the worlds' markets as at 31st March 2016 and 31st March 2015 expressed as a percentage of the Fund:

Total Fund	Gloucestershire Fund	
	31st March 2016 %	31st March 2015 %
UK Equities	20.9	21.4
North American Equities	22.3	22.0
European Equities	7.8	9.2
Far East Equities	5.6	4.6
Emerging Markets	8.0	8.8
Fixed Interest	21.4	20.8
Property	7.8	7.0
Global Multi Asset	4.5	4.6
Private Equity	0.3	0.3
Cash	1.4	1.3
	100.0	100.0

< As at 31st March 2016 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.

Voting

The Fund 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 and PIRC or other proxy voting guidelines on our behalf. The investment managers are required to report their voting actions as part of their quarterly reports to the Pension Committee.

The voting activity of the Pension Fund during the financial year for directly held investments is summarised in the following table.

Where voting activity took place	Number of meetings	Number of resolutions			
		In total	Voted for	Voted against	Abstained
UK, Channel Islands, Germany and Spain	95	1,756	1,725	10	21

Stewardship Code

Stewardship aims to promote the long term success of companies. Effective stewardship benefits companies, investors and the economy as a whole.

The UK Stewardship Code sets out seven principles of effective stewardship by investors and assists institutional investors better to exercise their stewardship responsibilities. These are set out in the following section.

Institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when, and how they will escalate their activities as a method

of protecting and enhancing shareholder value.

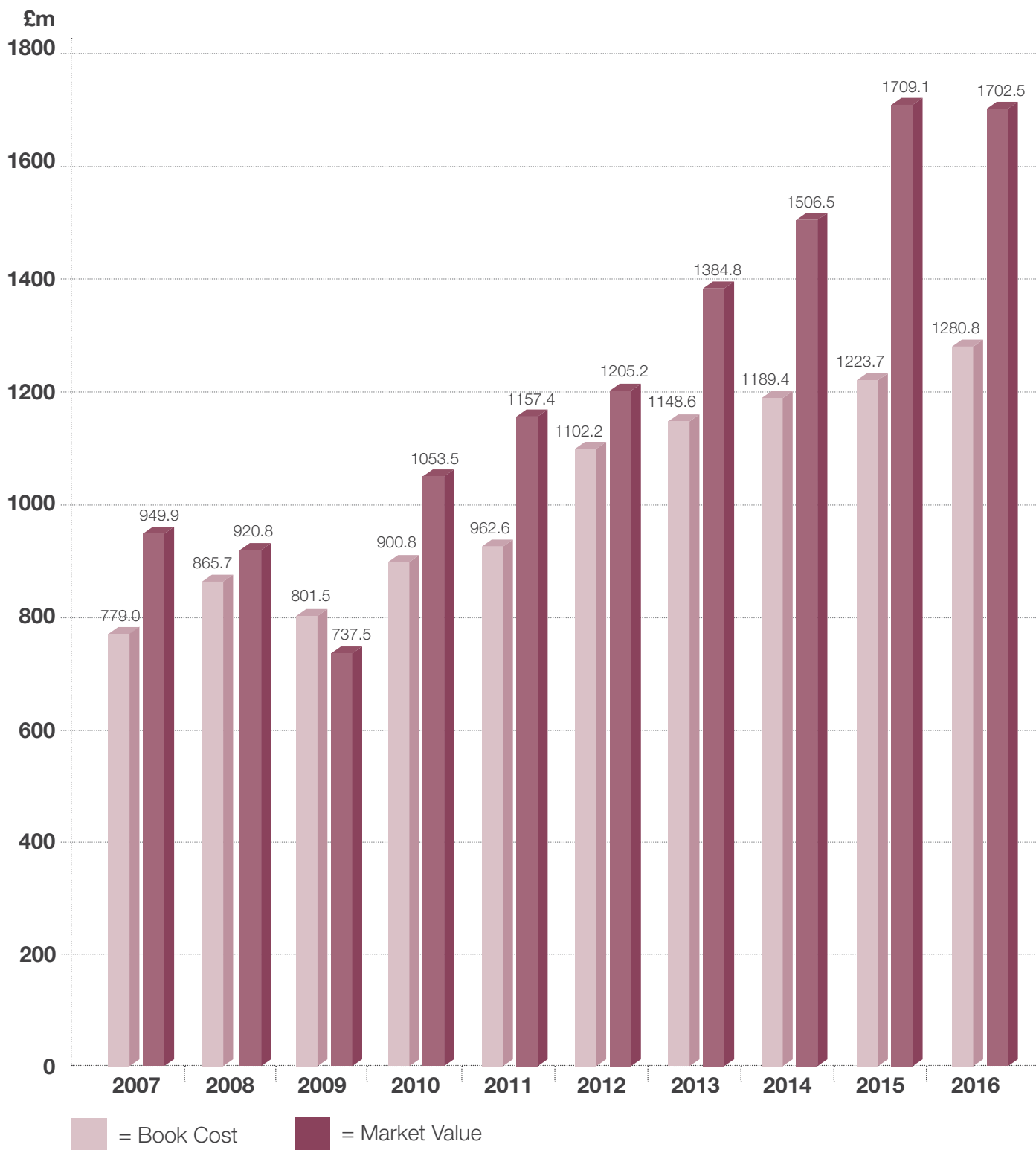
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

Details of the Fund's managers and whether they are signatories to the UK Stewardship Code are set out below.

Manager	Signatory to UK Stewardship Code	Notes
BlackRock Advisors (UK)	Yes	
CBRE Global Collective Investors	Yes	Although not relevant to the type of investment CBRE undertakes. CBRE is fully supportive of the Code and applies the stewardship principles to its dealings.
GMO	No	GMO has clearly articulated proxy voting policies which are integral to their investment process and which they believe capture the broader themes included in the Code.
Hermes Real Estate Investment Management	Yes	Hermes has signed up to the Code. However whilst the Code itself is focused on equities, Hermes applies similar stewardship principles to all asset classes, where appropriate, including real estate.
Standard Life Investments	Yes	
Western Asset Management	No	Not relevant to the type of investment undertaken

Value of Fund

The Fund's investments were valued at £1,702.5m at 31st March 2016, a decrease of £6.6m 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 2016

31st March 2015 Re-stated £000	Geographical Analysis		31st March 2016 £000	%
751,280	United Kingdom		759,591	44.6
441,375	North America		456,387	26.8
184,896	Europe		159,409	9.4
75,676	Far East & Australia		92,125	5.4
175,714	Emerging Markets		157,428	9.2
80,133	Global		77,563	4.6
1,709,074			1,702,503	100.0

31st March 2015 £000	Sector Analysis		31st March 2016 £000	%
326,170	Equities	UK	318,085	18.7
806,836		Overseas*	787,906	46.3
156,993	Fixed Interest	UK	158,406	9.3
94,569		Overseas*	101,352	6.0
89,044	Index-Linked	UK	92,190	5.4
14,638		Overseas	11,965	0.7
107,701	Property Funds	UK	120,429	7.1
11,759		Overseas	12,542	0.7
78,772	Multi Asset	Global	75,700	4.4
22,954	Cash, Net Current Assets & Other Balances		24,717	1.4
-362	Derivatives		-789	0.0
1,709,074			1,702,503	100.0

* Pooled funds within these categories may incorporate some UK assets

Main Holdings as at 31st March 2016

	Market Value £m	Fund %		Market Value £m	Fund %
United Kingdom					
Hermes Property Unit Trust	92.6	5.4	Treasury 4.25% 2039	9.7	0.6
Treasury 4.25% 2040	28.3	1.7	Treasury 1.25% 2055	9.6	0.6
Treasury 1.875% 2022	14.8	0.9	Vodafone Group	8.9	0.5
Treasury 3.75% 2021	14.5	0.8	Treasury 0.375% 2062	8.8	0.5
Treasury 1.25% 2027	13.6	0.8	National Grid	8.6	0.5
Treasury 2% 2035	13.0	0.8	Treasury 1.25% 2032	8.3	0.5
BT Group	10.9	0.6	Lloyds Banking Group	8.3	0.5
Treasury 1.125% 2037	10.9	0.6	Howden Joinery Group	7.8	0.5
Prudential	10.8	0.6	Bellway	7.5	0.4
DS Smith	10.7	0.6	Imperial Brands	7.4	0.4
Overseas					
BlackRock Global Equity Fund	422.4	24.8	BlackRock Emerging Markets Index Fund	63.9	3.8
GMO World Equity Allocation Investment Fund	301.6	17.7	US Treasury 1.375% 2044	9.1	0.5
Legg Mason Global Funds – WA GMS	77.6	4.6	Global Alpha Fund	8.8	0.5
Standard Life Global Absolute Return Strategies	75.7	4.4	Bundesrepublik Deutschland 3.25% 2042	6.5	0.4
Cash Instruments					
Standard Life AAA Call Account	4.2	0.2	BNY Mellon US Dollar Liquidity Fund	1.4	0.1

Implementation and application of the Funding Strategy Statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is in essence a summary of the Fund's approach to funding its liabilities. The FSS was reviewed as part of the Triennial Fund Valuation process and employers consulted prior to the current FSS being finalised. The full version of the FSS can be found on pages 84 to 114.

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 methods which the Administering Authority may permit in order to improve the stability of employer contributions. These include, where circumstances permit, capping of employer contribution rate changes within a pre-determined range ("stabilisation"), the use of extended deficit recovery periods, the phasing in of contribution rises or reductions, the pooling of contributions amongst employers with similar characteristics and the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case. Section

3.3 of the FSS on page 89 gives a summary of how the main funding policies differ for different types of employer.

New eligible admitted bodies, those employers who do not have an automatic right to join the Pension Fund, are only admitted into the Fund if they have a guarantor to cover any pension obligations which are not met. They may also be required to have an indemnity bond or security in place to cover any potential risks and these are reviewed annually. Admitted bodies do not have the same freedoms as scheduled bodies in how they fund their liabilities and these are set out again in Section 3.3 of the FSS on page 89.

Scheme Administration Report

Administration Arrangements

The Pensions Administration team is responsible for the scheme member and pensioner administration of the Fund. Members of the Pensions Finance team provide support to the Pension Committee including the production of management information and reports. In addition employers are responsible for ensuring that member and employer contributions are deducted at the correct rate and member data is sent to the Pensions Administration team. To enable assurances to be obtained as to the effective and efficient operation of these functions the Fund's administration and investment performance is benchmarked on an annual basis against other local authority pension funds subscribing to the CIPFA benchmarking service and the GS Performance Services' Universe of 88 local authority pension funds respectively. Internal controls are also in place to support the reliability and integrity of financial information and the Fund is subject to internal and external audit.

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, March 2010 and March 2013.
- Annual reports from 2004/05 to the present.

- Business Plan
- Funding Strategy Statements
- A range of guides for scheme members in "booklet" form covering 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.

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, as detailed below, although many of the complaints are resolved during the first stage.

Stage 1

- In the first instance you should write to the person nominated by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission

about which you are complaining (or such longer period as the nominated person considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The nominated person will consider your complaint and notify you of his or her decision.

Stage 2

- If you are dissatisfied with that person's decision, (or their failure to make a decision) you may apply to the Fund's administering authority to have it reconsidered.

The Pensions Section can tell you who your employer's nominated person is and supply you with a more detailed leaflet on the Internal Disputes Resolution Procedure and relevant time limits together with a form to fill in or you can ask your employer.

The Pensions Advisory Service (TPAS)

TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pension query they may have or any difficulty which they cannot resolve with the scheme administrator. TPAS can be contacted on 0845 601 2923.

Pensions Ombudsman

In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute.

The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the scheme or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate Court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The

Pensions Ombudsman can be contacted at 0207 630 2200.

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) 328888.

Details of scheme member appeals during 2015/2016 are as follows:

There have been no appeals against the County Council, as Administering Authority, during 2015/2016.

Executive Summary on the Last Triennial Valuation

An actuarial valuation of the Fund was carried out as at 31st March 2013. The results are briefly summarised below.

Funding Position

The table right summarises the financial position of the Fund at 31st March 2013 in respect of benefits earned by members up to this date.

The increase in deficit reflects the changes in market conditions since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Past Service Position	31st March 2010	31st March 2013
	£m	£m
Past Service Liabilities	1,498	1,976
Market Value of Assets	1,054	1,385
Surplus / (Deficit)	(444)	(591)
Funding Level	70.4%	70.1%

Contribution Rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	31st March 2010	31st March 2013
	% of pay	% of pay
Employer future service rate (incl. expenses)	15.4	19.7
Past service adjustment (20 year spread)	10.3	13.2
Total employer (common) contribution rate (incl. expenses)	25.8	32.9
Employee contribution rate	6.6	6.1
Expenses	0.6	0.5

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate, shown on the previous page, is a theoretical figure – an average across the whole Fund based on all the individual employer rates, calculated using the actuary's assumptions, but without allowing for any agreed adjustments to individual employer rates as a result of stabilisation, phasing of increases or other adjustments. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each

employer from 1st April 2014 to 31st March 2017 are shown in the Rates and Adjustment Certificate in Appendix G on pages 109 to 114.

The next triennial valuation will take place as at 31st March 2016. This will set the minimum contributions to be paid by each employer from 1st April 2017 to 31st March 2020.

Result of Interim valuation and monitoring

An interim monitoring report showed a funding level of 72.7 % as at 30th June 2015.

The Fund continues to set life expectancy assumptions using ClubVita, which is a specialised longevity company and provides life expectancy assumptions based on annual monitoring of the Fund's own membership. In addition employers' ill health and early

retirement experience is monitored and extra contributions obtained where necessary. In 2015/16 extra contributions of £0.8m (£1.2m 2014/15) were collected from employers in connection with early retirements and £0.4m (£0.2m 2014/15) in connection with ill-health retirements.

Actuarial Report on Fund

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

Description of Funding Policy

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

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

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the market-derived 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 demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still approximately a two thirds chance that the Fund will return to full funding over 20 years.

Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31st March 2013. This valuation revealed that the Fund's assets, which at 31st March 2013 were valued at £1,385 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £591 million.

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

Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated 27th March 2014.

Method

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

Assumptions

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

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

Financial assumptions	31st March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6	2.1
Pay increases	3.8	1.3
Price inflation/Pension increases	2.5	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.5 years	24.6 years
Future Pensioners*	24.4 years	27.0 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Gloucestershire County Council, the Administering Authority to the Fund and also available online at www.gloucestershire.gov.uk/pensionsinvestments

Experience Over the Period Since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

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

Douglas Green FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
29th April 2016

Pension Board

The Gloucestershire Local Government Pension Scheme (LGPS) Pension Board

All Public Sector Pension schemes were required under the Public Service Pensions Act 2013 to set up a Pension Board with effect from 2015/16 to assist the administering authorities of their Pension scheme in ensuring compliance with LGPS and other pension regulations.

The County Council, as administering authority of the Gloucestershire LGPS agreed the terms of reference of the Pension Board in February 2015. These terms of reference are included within the Fund's Governance Policy document on pages 40 to 45 of this Annual Report.

Employers, scheme members and the relevant unions were invited to be considered to become members of the Pension Board and the following were appointed.

Employer representatives

Cllr Nigel Moor (Gloucestershire County Council)

Kate Walton (University of Gloucestershire)

Scheme member representatives

Owen Shaw

Jon Topping

Taking account of the relevant LGPS regulations and guidance, the Gloucestershire LGPS decided to also appoint an independent non voting chair of the Pension Board. An independent chair of the Pension Board can not have any involvement (eg, through membership or employer links) with the local pension scheme they would be chairing but having good experience and knowledge of the LGPS would be advantageous and would assist the other Board members in their role. To comply with these requirements the Gloucestershire LGPS invited the Head of Pension Fund at the Oxfordshire LGPS, Sean Collins, to become chair of the Gloucestershire Pension Board.

The Pension Board had an initial training session in July 2015 which was followed by their first meeting. Members of the Pension Board are also invited to attend joint training and update sessions with members of the Pension Committee and are also sent all agenda papers for the Pension Committee meetings, which they can attend as observers. The minutes of the Pension Board are reported to the next Pension Committee and a member of the Board can give a verbal update to the Committee on these minutes.

The Board met twice during the financial year 2015/16 as well as a third meeting in April 2016 and the areas they have focussed on include: the Pension Fund's Risk Register, Key Performance

Indicators, the Fund's Business Plan, scheme costs and the development of the Government's requirement for LGPS Funds to combine their investments in pools of around £25 billion via one FCA regulated company which is responsible for selecting the fund managers but with the asset allocation decisions remaining with individual Funds.

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 40 to 45 of this report.

Membership of the Pension Committee showing voting rights, attendance at meetings and training received are shown in the matrix opposite. Training days shown includes attendance at 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.

Meetings were held on 15th May 2015, 14th August 2015, 13th November 2015, 27th November 2015 (Annual Meeting), 29th January 2016 and 12th February 2016.

Pension Board

Membership of the Pension Board showing attendance at meetings and training received are shown in the matrix opposite.

Meetings were held on 13th July 2015 and 23rd October 2015.

The Fund has adopted the CIPFA Knowledge & Skills Framework to help assess and action the training needs of both Committee Members and Pension Fund Members. The Strategic Finance Director is responsible for ensuring training requirements are implemented.

Member	Voting Rights	Meetings Attended	Training Received Number of Days	
			During 2015/16	From 2013/14 to 2015/16
Cllr. R. Theodoulou	Yes	6	3	6
Cllr. D. Brown	Yes	5	1	6
Cllr. N. Cooper	Yes	6	1	3
Cllr. J. Gill	Yes	5	1	5
Cllr. C. Hay	Yes	5	0	5
Cllr. S. Parsons	Yes	5	3	5
Cllr. L. Stowe	Yes	4	3	4
P. Clark* (Scheme Member Rep.)	No	4	1	1

*Peter Clark joined the Committee in August 2015, hence was not a member for the first two meetings during 2015/16.

Member	Meetings Attended	Training Received Number of Days
S. Collins	2	2
Cllr. N. Moor	2	2
O. Shaw	2	1
J. Topping	2	2
K. Walton	2	2

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, which was agreed by the Pension Committee in

May 2015, 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 40) 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: <ul style="list-style-type: none"> i. employing authorities (including non-scheme employers, e.g. admitted bodies); ii. scheme members (including deferred and pensioner scheme members); iii. where appropriate, independent professional observers; and iv. expert advisors (on an ad-hoc basis). 	<p>PARTIAL - not all employing authorities are represented</p> <p>FULL - see Governance Policy Statement</p> <p>FULL - see Governance Policy Statement</p> <p>FULL - see Governance Policy Statement</p>	<p>Concerns over logistics and potential size of Committee but will keep under review.</p> <p>Employers are able to attend Committee as observers and submit written questions. Also, Employer Forums, which are open to all employers, are held at least twice a year.</p>
	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 scheme employers.

2. This statement addresses the best practice principles identified in the statutory guidance issued and is in accordance with regulation 55 of the Local Government Pension Scheme (LGPS) Regulations 2013.

3. The County Council's Compliance Statement which identifies the level of compliance against these best practice principles is shown as an appendix to this policy statement.

The Governance Policy Statement was reviewed during 2015/16 and was updated to include details in relation to the Local Pension Board.

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:

- o the frequency of any committee /sub-committee meetings;
- o the terms of reference, structure and operational procedures of the delegation;
- o whether the committee/sub-committee includes representatives of

- employing authorities (including non-scheme employers)

- scheme members

o and, if there are such representatives, whether they have voting rights.

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

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).

A copy of the Terms of Reference for the Fund's local pension board is included on pages 43 to 45.

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 Finance and Change.

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.
- To consider advice and recommendations from the Pension Board on areas that may improve the governance of the Pension Fund (the remit of the Pension Board is detailed in its Terms of Reference).
- To consider the Pension Board's proposed work plan for the forthcoming financial year.

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.

- Ensuring appropriate Pension Fund governance arrangements are in place in accordance with the LGPS regulations and other regulatory requirements.
- Holding an annual 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 officers within the County Council and the Fund's independent advisor.

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 Finance and Change, 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 independent 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 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 Pensions Committee have equal access to committee papers, documents and advice.

Principle H – Scope

18. The terms of reference of the Pensions Committee (as detailed in paragraph 7, on page 41 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 by both the Fund's external auditor, Grant Thornton, 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 meeting which is open to all fund members and employers.

Terms of Reference for the Pension Board of the Gloucestershire Local Government Pension Fund

1. Role of the Pension Board

1.1 The role of the local Pension Board as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to –

- Assist Gloucestershire County Council as Scheme Manager; –
 - to secure compliance with the Local Government Pension Scheme (LGPS) Regulations and any other legislation relating to the governance and administration of the LGPS
 - to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator
 - in such other matters as the LGPS regulations may specify
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

1.2 In addition the LGPS (Amendment) (Governance) Regulations 2015 expect the Pension Board to assist the Scheme Manager to secure the effective and efficient governance and administration of the LGPS for the Gloucestershire Local Government Pension Fund.

1.3 The Board shall provide an annual report to the Pension Committee and then to a full meeting of Gloucestershire County Council. The report will include information on the business conducted by the Pension Board with any risks or concerns identified and mitigation steps proposed. The report will also be published on the Pension Fund's website. Any concerns requiring

reporting outside the annual process should be raised with the Pensions Committee.

1.4 The Pension Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

1.5 The Pension Board will also help ensure that the Gloucestershire Local Government Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

1.6 The cost of running the Pension Board will be met from the Pension Fund.

2. Appointment of Members of the Pension Board

2.1 The Pension Board shall consist of 5 members and be constituted as follows:

a) The Chairman
The Chair of the Pension Board, who can demonstrate their knowledge and understanding of the Local Government Pension Scheme will be appointed by the Scheme Manager following a selection process to be determined by the Constitution Committee members. The Chair of the Pension Board cannot be a Gloucestershire County Councillor.

b) Two employer representatives who can demonstrate their capacity to represent other scheme employers, and their knowledge and understanding of the Local Government Pension

Scheme. To be appointed by the Scheme Manager following a selection process to be determined by the Constitution Committee members.

c) Two scheme member representatives who can demonstrate, their capacity to represent other scheme members, and their knowledge and understanding of the Local Government Pension Scheme. To be appointed by the Scheme Manager following a selection process to be determined by the Constitution Committee members.

One of the employer or member representatives should be a County Councillor appointed annually at a meeting of Full Council.

3. Length of Term and Removal

3.1 The Chairman, each employer representative, and scheme member representative so appointed shall serve initially for a 4 year term, which may be extended for further 4 year terms subject to re-nomination and re-selection.

3.2 Board members can be removed on grounds of non attendance, breach of code of conduct and non participation in training.

3.3 Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least **one** of the scheduled meetings each financial year. In the event of a Board member failing to do this, or other persistent non-attendance then the tenure of that member should be reviewed by the other Board members in liaison with the Constitution Committee members.

3.4 Other than by ceasing to

be eligible, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all of the other members in attendance at the Board Meeting where this is being considered. The removal of the Chairman also requires the consent of the Scheme Manager.

4. Quorum

The Board shall have a formal quorum of 3 to include one employer representative and one member representative.

Because of the specialist nature of their work, no substitution is permitted.

5. Code of Conduct and Conflicts of Interest

The principles included in the County Council's Member Code of Conduct applies to all members of the Local Pension Board. Likewise, all other relevant County Council policies shall apply to members of the Pension Board.

As a condition of appointment, Board members shall be required to enter into a confidentiality agreement with the County Council.

6. Knowledge and Skills

A member of the Pension Board will be conversant with –

- o The legislation and associated guidance of the Local Government Pension Scheme (LGPS).
- o Any document recording policy about the administration of the LGPS which is for the time being adopted by the Gloucestershire Local Government Pension Fund.

A member of the Pension Board must have knowledge and

understanding of –

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

7. Board Meetings and Publication of Board Information

7.1 The Board shall meet no less than twice per annum. If there is a need for an additional meeting this will be determined by the Chair of the Board.

7.2 The agenda and supporting papers shall be distributed to members of the board 5 clear working days prior to each meeting.

7.3 Pension Board papers, agendas and minutes of meetings will be published on the Gloucestershire Local Government Pension Fund website subject to the Rules on Access to Information and the Data Protection Act 1998.

8. Remit of the Board

The Board shall:

- i. Ensure the Pension Fund's strategy and policy documents are in place and have been maintained in accordance with the LGPS Regulations. These documents are the communications policy statement, funding strategy statement, governance compliance statement, pensions administration strategy, Pension Fund annual report and accounts and statement of investment principles.
- ii. Ensure the Pension Fund's internal Risk Register is in place and reviewed at least annually.
- iii. Review the Pension Fund's

performance in complying with the requirements of the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS.

iv. Review the Pension Fund's performance in complying with the requirements of the Pension Regulator.

v. Provide advice and make recommendations when required, to the Pensions Committee, on areas that may improve the governance of the Pension Fund.

vi. Each January, submit a proposed work plan for the forthcoming financial year, to the Pensions Committee.

vii. To carry out any other activities relating to the efficient governance and administration of the Pension Fund, which the Pensions Committee may request the Pension Board to undertake.

9. Voting Rights and Decision Making

9.1 Only members of the Pension Board who are employer or member representatives will have an individual voting right but it is expected the Pension Board will as far as possible reach a consensus.

9.2 A majority of Board members, with a voting right and present at a meeting, will be required to agree any decision of the Board, including any referrals back to the Pensions Committee.

10. Accountability

The Pension Board will be collectively and individually accountable to the Scheme Manager.

Definitions

The undernoted terms shall have the following meaning when used in this document:

- “Pension Board” or “Board”** Means the local Pension Board for Gloucestershire County Council as Administering Authority for the Gloucestershire Local Government (LGPS) Pension Fund as required under the Public Service Pensions Act 2013
- “Scheme Manager”** Means Gloucestershire County Council as Administering Authority of the Gloucestershire Local Government (LGPS) Pension Fund
- “LGPS”** The Local Government Pension Scheme as constituted by the Local Government Pension Scheme Regulations 2013, the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
- “Scheme”** Means the Local Government Pension Scheme as defined under “LGPS”

Fund Account and Net Assets Statement

> Statement of Accounts 2015/16

Statement of Responsibilities and Foreword to Accounts

The audited accounts and notes following on pages 48 to 76, 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/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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)
16th September 2016

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

We have audited the Pension Fund financial statements of Gloucestershire County Council (the "Authority") for the year ended 31st March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of The 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 Authority's Statement of Accounts, which includes the

Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the Pension Fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Pension Fund 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 Pension 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 Pension Fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited Pension Fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Pension Fund Financial Statements

In our opinion the Pension Fund financial statements present a true and fair view of the financial transactions of the Pension Fund during the year ended 31st March 2016 and of the amount and disposition at that date of the Fund's assets and liabilities as at 31st March 2016 and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on Other Matters

In our opinion, the other information published together with the audited Pension Fund financial statements in the Authority's Statement of Accounts is consistent with the audited Pension Fund financial statements.

**Elizabeth Cave
for and on behalf of
Grant Thornton UK LLP
Appointed Auditor**

**Hartwell House
55 – 61 Victoria Street
Bristol BS1 6FT**

19th September 2016

Fund Account for the year ended 31st March 2016

2014/15		2015/16		Note
		£000	£000	
	Contributions			
-76,113	employer contributions	-81,156		N20
-16,753	members' contributions	-17,292		N20
-92,866			-98,448	N7
	Transfers in from other pension funds			
-3,708	individual transfers in from other schemes	-1,131		
-2,556	group transfers in from other schemes	-		
-6,264			-1,131	
	Other income			
-157	recoveries for services provided		-139	N22
	Benefits			
60,335	pensions	62,087		N31
8,918	commutation of pensions and lump sum retirement benefits	8,506		
1,755	lump sum death benefits	1,344		
71,008			71,937	N7
	Payments to and on account of leavers			
102	refunds of contributions	115		
31	state scheme premiums	50		
3,579	individual transfers out to other schemes	2,200		
29,012	group transfers out to other schemes	1,078		N29
32,724			3,443	
4,445	Net (addition)/withdrawal from dealings with scheme members		-24,338	
7,093	Management expenses		7,663	N22
	Returns on investments			
-23,655	investment income	-24,595		N15
41	taxes on income	-27		N3 & N15
-190,503	Profit(-) and losses on disposal of investments and changes in market value of investments	47,868		N4
-214,117	Net returns on investments		23,246	
-202,579	Net increase (-) / decrease in the net assets available for benefits during the year		6,571	
1,506,495	Opening net assets of the scheme		1,709,074	
1,709,074	Closing net assets of the scheme		1,702,503	

Net Asset Statement as at 31st March 2016

2014/15		2015/16	
£000		£000	Note
Investment assets			
173,518	Fixed interest securities	176,726	
312,365	Equities	312,866	
103,682	Index-linked securities	104,155	
978,743	Pooled investment vehicles	951,620	
113,586	Property unit trusts	127,990	N10
587	Derivative contracts	138	N2 & N17
4,587	Other investments - Venture Capital/Private Equity	5,219	N10
6,876	Cash held on behalf of the investment managers	9,198	
5,439	Other investment balances	7,254	
1,699,383		1,695,166	N14
Investment liabilities			
-949	Derivative contracts	-927	N2 & N17
-1,436	Other investment balances	-1,789	
-2,385		-2,716	N14
Long term assets			
338	Contributions due from employers	288	
2,472	Other long term assets (debtors)	2,472	
2,810		2,760	N14 & N24
Current assets			
3,076	Contributions due from employers	3,773	
581	Other current assets	286	
1,236	Money due re. transfer of staff to another pension scheme	618	
6,413	Cash balances	4,321	N2, N23 & N27
11,306		8,998	N14 & N24
Current liabilities			
-5	Unpaid benefits	-10	
-1,975	Other current liabilities	-1,695	
-60	Receipts in advance	-	
-2,040		-1,705	N14 & N25
1,709,074	Net assets of the scheme available to fund benefits at the period end	1,702,503	N4, 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 N26.

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

> Notes to the Accounts 2015/16

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 18 to 21.

The Local Government Pension Scheme is a statutory funded defined benefit pension scheme. Previously the Fund was “contracted out” of the state scheme but from the 1st April 2016 onwards all members have been contracted back into the state scheme in addition to being in the Pension Fund. From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is increased annually in line with the Consumer Prices Index.

The scheme is voluntary and made available to all (*) employees except fire fighters, police 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 2016 was 18,630 (2015 18,141). The Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

A full analysis of membership, funding and benefits can be found in the Pension Fund’s Annual Report. The Fund exists to provide pensions and certain other benefits to former employees. 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. The Pension Board was set up with effect from the 1st April 2015 to assist the Pensions Committee in securing compliance with the relevant laws and Regulations and to help the Pension Committee ensure the effective and efficient governance and administration of the Fund.

N2 Accounting Policies

Basis of Preparation

The Statement of Accounts summarises the Funds’ transactions for the 2015/16 financial year and its position at year end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the Fund and reports on the net assets available to pay pensions and benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial value of promised retirement benefits, valued on an International

Accounting Standard (IAS19) basis, is disclosed at Note 26 of these accounts. 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. Individual transfer values are accounted for when they are paid or received. Bulk transfer values are accrued when the value has been determined.

Management Expenses

Pension Fund expenses have been accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs. Consequently Administrative Expenses and Investment Management Expenses have been amalgamated under Management Expenses. A more detailed breakdown of management expenses can be found in Note N22.

Investment Management 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:

* There are restrictions with some casual staff

- Standard Life Investments - UK Equities
- Hermes - Property Unit Trusts

Hermes deducts its fees from a combination of assets held and income distributions. GMO and Yorkshire Fund Managers deduct their fees from the value of the assets under their management. However in all these cases fees have been calculated and included within Investment Management Expenses.

Acquisition and Transaction Costs of Investments

Acquisition costs of investments (e.g. stamp duty) and transaction costs previously included within the purchase cost/proceeds of investment purchases and sales have now been added to Investment Management Expenses with a corresponding offset against Profit on Disposal of Investments. In addition to the transaction costs disclosed, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. The amounts of indirect costs are not separately provided to the Fund. A more detailed breakdown of management expenses can be found in Note N22.

Administration Expenses

All administrative expenses are accounted for on an accrual basis. All staff costs associated with administration is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Further information on administrative expenses can be found in Note N22.

Oversight & Governance Expenses

All Oversight and Governance expenses are accounted for on an accrual basis. All staff costs

associated with Oversight and Governance is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of investment advice from external consultants is included in Oversight & Governance. Further information on Oversight and Governance expenses can be found in Note N22.

Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend. Any amount not received by the end of the reporting period is recognised as a current financial asset. Investment income arising from the underlying investments of Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicle and reflected in the unit price.

Cash

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

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 2016. 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. Private Equity is valued using the latest financial statements published by the respective fund managers and in accordance with the International Private Equity and Venture Capital Guidelines.

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.

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

2015/16 Asset Class	Market value at 31st March 2015	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value, new money and accruals	Market value at 31st March 2016
	£000	£000	£000	£000	£000
Fixed Interest	173,518	41,808	-32,017	-6,583	176,726
Equities	312,365	115,559	-92,476	-22,582	312,866
Index Linked	103,682	4,002	-2,447	-1,082	104,155
Derivatives	-362	725	-1,705	553	-789
Pooled Investments	978,743	17,256	-10,619	-33,760	951,620
Property Unit Trusts	113,586	5,551	-1,232	10,085	127,990
Private Equity	4,587	135	-	497	5,219
	1,686,119	185,036	-140,496	-52,872	1,677,787

In addition to the investments there was £24,716k (£22,955k 2014/15) in cash and accruals. Cash movements, currency adjustments and other end of year settlements totalled £5,004k (£6,196k 2014/15). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was £47.9m (-£190.5m 2014/15).

2014/15 Asset Class	Market value at 31st March 2014	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value, new money and accruals	Market value at 31st March 2015
	£000	£000	£000	£000	£000
Fixed Interest	150,399	38,750	-32,542	16,911	173,518
Equities	316,478	39,878	-44,212	221	312,365
Index Linked	78,543	15,373	-5,030	14,796	103,682
Derivatives	156	201	-498	-221	-362
Pooled Investments	842,755	19,448	-24,507	141,047	978,743
Property Unit Trusts	90,919	11,111	-603	12,159	113,586
Private Equity	4,934	259	-	-606	4,587
	1,484,184	125,020	-107,392	184,307	1,686,119

In addition to the investments there was £22,955k (£22,311k 2013/14) in cash and accruals. Cash movements, currency adjustments and other end of year settlements totalled £6,196k (£2,244k 2013/14). As a result the total profit (-) and losses on disposal of investments and changes in

market value of investments was -£190.5m (-£93.9m 2013/14).

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 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.

N5 Management of Fund Assets

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

	2014/15		2015/16	
	£000	%	£000	%
Western Asset Management Company	359,868	21.1	370,280	21.7
BlackRock	495,689	29.0	486,382	28.6
CBRE	37,728	2.2	41,928	2.5
GMO	311,184	18.2	301,562	17.7
Standard Life Investments	405,851	23.7	394,396	23.2
Hermes Investment Management Property Unit Trust	82,073	4.8	92,629	5.4
Technology Venture Partners	2,833	0.2	3,056	0.2
Yorkshire Fund Managers (YFM)	1,754	0.1	2,163	0.1
Total - External Managers	1,696,980	99.3	1,692,396	99.4
In-house cash and accruals	12,075	0.7	10,053	0.6
Cash instruments with Custodian	19	0.0	54	0.0
	1,709,074	100.0	1,702,503	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 Regulations, 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 2013 and established the minimum contribution payments for the three years until 31st March 2017. The next valuation will take place as at March 2016.

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

- The results of the 2013 valuation showed that the total common contribution rate was 32.9% (25.8% 2010 valuation) for the three years to 31st March 2017. Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report and the Funding Strategy Statement on

the Fund's website. 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

2013 triennial valuation date was £1,385m (£1,054m March 2010) and represented 70.1% (70.4% March 2010) 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	
	2010	2013
Rate of return on investments (Discount Rate)	6.1% pa	4.6% pa
Rate of general pay increases*	4.8% pa**	3.8% pa
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	3.3% pa	2.5% pa

* Plus an allowance is also made for promotional pay increases.

** 1% pa for 2010/11 and 2011/12, reverting to 4.8% pa thereafter.

- The full actuarial valuation reports for 2007, 2010 and 2013 are published on the County Council's website and can be viewed using the following web address: www.gloucestershire.gov.uk/pensionsinvestments

- See note N26 for details of the Actuarial Present Value of Promised Retirement Benefits.

N7 Analysis of Contributions Receivable and Benefits Payable

	2014/15		2015/16	
	Contributions receivable £000	Benefits payable £000	Contributions receivable £000	Benefits payable £000
Gloucestershire County Council (Administering Authority)	39,624	39,057	43,845	40,112
Scheduled Bodies (144 15/16) (141 14/15)* (Bodies admitted by right)	45,308	28,613	45,686	28,732
Admitted Bodies (40 15/16) (35 14/15)* (Bodies admitted by agreement)	7,934	3,338	8,917	3,093
	92,866	71,008	98,448	71,937

Scheduled Bodies now include 78 (75 14/15) schools who have converted to academy status.

* These numbers relate to active employers with active members.

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 pages 115 to 121. This statement is also available on the website at the following address www.gloucestershire.gov.uk/pensionsinvestments

N9 Related Party Transactions

Gloucestershire County Council, as Administering Authority for the Fund, incurred the following costs in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund.

	2014/15 £000	2015/16 £000
Administrative expenses	1,412	1,553

Part of the Pension Fund's cash holdings are invested on the money markets by the Treasury Management team of Gloucestershire County Council, see notes N2, N23 and N27

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 of £10,813 (£10,813 2014/15) and employers' pension contributions of £2,801 (£2,801 2014/15).

The Director: Strategic Finance is a member of the Fund as a contributing Gloucestershire County Council employee. This does not impact on her role as Finance Director and S151 officer, which is clearly defined.

Mr. P. Clark, the Scheme Member Representative, is a non-voting member of the Pension Committee. Mr. Clark is a contributing member of the Pension Fund and this does not impact on his Pension Committee role.

Five members of the Pension Committee, excluding the District Council Representative, are also District Council members and these are detailed below:

Member	District Council
Cllr. D. Brown	Gloucester City Council
Cllr. C. Hay	Cheltenham Borough Council
Cllr. S. Parsons	Cotswold District Council
Cllr. L. Stowe	Cotswold District Council
Cllr. R. Theodoulou	Cotswold District Council

In addition Councillor L. Stowe is Cotswold District Council's nominated shareholder for Ubico Limited, Councillor C. Hay sits on the Boards of Cheltenham Borough Homes and Cheltenham Leisure & Culture Trust and Councillor N. Cooper is a governor of Archway School. Ubico Limited, Cheltenham Borough Homes, Cheltenham Leisure & Culture Trust and Archway School are employers in the Fund.

The Pension Board was created on the 1st April 2015. Three members of the Board, Mr. Owen, Ms. Walton and Mr. Topping are members of the Fund as contributing employees. This does not impact on their roles as members of the Pension Board given the nature of the Board's functions.

Transactions between employers and the Fund are disclosed in note N7.

N10 Contingent Liabilities and Contractual Commitments

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

	Total Commitment £000	Outstanding liability 2014/15 £000	Outstanding liability 2015/16 £000
Chandos Fund	3,000	286	151
CBRE	30,000	591	151
	33,000	877	302

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 £38,504 (14/15 £38,504) has been recorded for possible additional contributions from ex members of staff, during 2016/2017 and future years.

N12 Unquoted Holdings

The following holdings are unquoted:

Pooled investment vehicles	2014/15 £000	2015/16 £000
UK equity unitised insurance policy	9,218	-
Global equity managed funds	311,184	301,562
Overseas equity unitised insurance policies	437,153	422,424
UK limited liability partnerships	5,874	4,981
Overseas limited liability partnerships	4,607	4,517
Global multi asset unitised insurance policy	78,772	75,700
	846,808	809,184
Property unit trusts		
UK property unit trust	19,755	22,820
Overseas property unit trust	11,759	12,541
	31,514	35,361
	878,322	844,545

N13 Stocklending

The Pension Funds' custodian has been authorised to release stock to third parties under a stock lending arrangement. At 31st March 2016 the value of stock out on loan was £19.6m (2014/15 £4.8m) of which £14.2m (£4.8m) was in UK equities, £4.9m (£0) in UK and Overseas Government stock and £0.5m (£0) in UK Corporate Bonds. Collateral of £20.7m (£5.1m) equal to 106% (106%) of stock out on loan was held in the form of UK, Austrian Sovereign bonds, G10 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			2014/15 £000	2015/16 £000	Note
Fixed interest securities					
UK	- Public Sector	- Quoted	63,141	63,664	
	- Other	- Quoted	93,852	94,743	
Overseas	- Public Sector	- Quoted	13,678	11,490	
	- Other	- Quoted	2,847	6,829	
			173,518	176,726	
Equities					
UK		- Quoted	312,365	312,866	
Index-linked securities					
UK	- Public Sector	- Quoted	89,044	92,190	
Overseas	- Public Sector	- Quoted	14,638	11,965	
			103,682	104,155	
Pooled investment vehicles					
Unit Trusts					
Overseas	- Equities	- managed from outside the UK	- Quoted	58,499	63,921
Unitised Insurance Policies					
UK	- Equities		- Unquoted	9,218	-
Overseas	- Equities	- managed from outside the UK	- Unquoted*	437,153	422,424
Global	- Multi Asset	- managed from within the UK	- Unquoted	78,772	75,700
Other Managed Funds					
O.E.I.C.'s	- Overseas Fixed Interest	- managed from outside the UK	- Quoted*	73,436	78,515
	- Global Equities	- managed from outside the UK	- Unquoted*	311,184	301,562
Limited Liability Partnerships					
	- UK Property	- managed from within the UK	- Unquoted	5,874	4,981
	- Overseas Fixed Interest	- managed from outside the UK	- Unquoted	4,607	4,517
			978,743	951,620	
Property Unit Trusts					
UK	- managed from within the UK		- Quoted	82,072	92,629
	- managed from within the UK		- Unquoted	2,595	2,349
	- managed from outside the UK		- Unquoted	17,160	20,471
Overseas	- managed from outside the UK		- Unquoted	11,759	12,541
			113,586	127,990	N10
Derivative Contracts					
Futures	- UK		27	-	
	- Overseas		-	29	
Forward Foreign Exchange Contracts			560	109	
			587	138	N17
Other Investments					
Venture Capital/Private Equity - UK			4,587	5,219	N10
Cash (Managers)					
Cash instruments	- UK		4,261	4,943	
	- Overseas		1,441	1,532	
Cash Deposits	- UK		377	2,336	
	- Overseas		797	387	
			6,876	9,198	
Other Investment Balances					
Debtors					
Outstanding settlement of investment transactions			1,092	2,979	
Accrued dividend income and tax reclaims due on dividend income			4,347	4,275	
			5,439	7,254	
Total Financial Assets			1,699,383	1,695,166	

* These overseas pooled funds may incorporate some UK assets.

Financial Liabilities	2014/15 £000	2015/16 £000	Note
Derivative Contracts			
Futures – UK	-	-58	
– Overseas	-73	-	
Forward Foreign Exchange Contracts	-876	-869	
	-949	-927	N17
Other Investment Balances			
Creditors			
Outstanding settlement of investment transactions	-1,436	-1,789	
Total Financial Liabilities	-2,385	-2,716	
Long Term Assets			
Contributions due from employers	338	288	
Money due re. transfer of staff to another pension scheme	2,472	2,472	
	2,810	2,760	N24
Current Assets			
Contributions due from employers	3,076	3,773	
Other current assets (debtors)	581	286	
Money due re. transfer of staff to another pension scheme	1,236	618	
Cash balances	6,413	4,321	N23
	11,306	8,998	N24
Current Liabilities			
Unpaid benefits	-5	-10	
Other liabilities (creditors)	-1,975	-1,695	
Receipts in advance	-60	-	
	-2,040	-1,705	N25
	1,709,074	1,702,503	

N15 Investment Income

Investment income arises from the following investment categories:

	2014/15 £000	2015/16 £000
Fixed interest	6,537	6,853
Equities	11,105	10,582
Index-linked	1,264	1,825
Pooled investment vehicles	4,631	5,192
Interest on cash deposits	93	72
Private equity	-	-
Other income from stocklending, underwriting and class actions	25	71
	23,655	24,595
Withholding tax	-41	27
	23,614	24,622

N16 Separately Invested Additional Voluntary Contributions (AVC's)

Gloucestershire County Council LGPS provides additional voluntary contribution (AVC) schemes for its members, 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 Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

	Prudential		Phoenix Life		Total Investments	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
	£000	£000	£000	£000	£000	£000
Value of investments at 1st April	7,416	7,526	115	95	7,531	7,621
Prior year adjustments	2	-	-	-	2	-
Contributions received in year*	661	602	-	-	661	602
Death in service premiums paid by members	-6	-6	-	-	-6	-6
Sales of investments	-946	-1,288	-21	-35	-967	-1,323
Changes in value of investments	400	393	-	-	400	393
Present value of investments	7,527	7,227	94	60	7,621	7,287

* Contributions paid by members in the Prudential scheme during 2015/16 totalled £602,166 (2014/15 £661,109) which included additional death in service premiums totalling £6,151 (2014/15 £6,417).

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 or losses 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.

The investment strategy of the property manager with overseas holdings is to place forward currency trades with the intention of

hedging foreign currency exposure to ensure the portfolio is not impacted by currency fluctuations. The hedges are achieved by placing foreign exchange forward contracts with the Fund's custodian.

In the table opposite 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 2016.

Derivative Contract Analysis

	Contract type*	2014/15 Notional Value £000	2015/16 Notional Value £000	Expiration	2014/15 Market Value £000	2015/16 Market Value £000
Investment Assets						
Futures						
UK - Fixed Interest						
UK Long Gilt Future	ET	2,415	-	Less than 3 months	27	-
UK Futures		2,415	-		27	-
Overseas - Fixed Interest						
US Treasury Bond Future	ET	-	-3,663	Less than 3 months	-	29
Overseas Futures		-	-3,663		-	29
Total Futures		2,415	-3,663		27	29
Forward foreign exchange contracts	OTC	21,631	9,157	Less than 6 months	560	109
Total Derivative Assets		24,046	5,494		587	138
Investment Liabilities						
Futures						
UK - Fixed Interest						
UK Futures	ET	-	20,850	Less than 3 months	-	-58
Overseas - Fixed Interest		-	20,850		-	-58
Overseas - Fixed Interest						
US Treasury Bond Future	ET	3,753	-	Less than 3 months	-73	-
Overseas Futures		3,753	-		-73	-
Total Futures		3,753	20,850		-73	-58
Forward foreign exchange contracts	OTC	32,462	43,167	Less than 6 months	-876	-869
Total Derivative Liabilities		36,215	64,017		-949	-927
Net Futures					-362	-789

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

The total Futures' initial margin for 2015/16 was £0.4m (£0.0m 2014/15) and the total variation margin was £0.4m (£0.2m 2014/15). 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 2016 is given below:-

Open Forward Currency Contracts at 31st March 2016

Settlement	Currency bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Liability Value £000
Up to six months	GBP	3,458	USD	4,905	47	
Up to six months	USD	4,160	JPY	462,151	30	
Up to three months	GBP	881	USD	1,240	18	
Up to three months	BRL	5,559	USD	1,558	6	
Up to six months	GBP	330	HKD	3,631	4	
Up to six months	GBP	278	JPY	44,421	3	
Up to six months	GBP	230	CNY	2,144	1	
Up to six months	GBP	4,430	SEK	54,170		-225
Up to six months	GBP	8,334	EUR	10,745		-194
Up to three months	USD	1,342	BRL	5,559		-157
Up to six months	GBP	10,940	USD	15,933		-144
Up to six months	GBP	7,687	USD	11,097		-33
Up to six months	GBP	2,727	EUR	3,471		-31
Up to six months	GBP	4,694	USD	6,786		-27
Up to six months	GBP	966	EUR	1,240		-18
Up to six months	GBP	236	MYR	1,391		-13
Up to six months	GBP	569	AUD	1,086		-10
Up to six months	GBP	193	NZD	415		-7
Up to six months	GBP	401	SGD	787		-5
Up to six months	USD	1,519	BRL	5,559		-5
					109	-869
Net forward currency contracts at 31st March 2016						-760
Prior year comparative						
Open forward currency contracts at 31st March 2015					560	-876
Net forward currency contracts at 31st March 2015						-316

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

At 31st March 2016 the Pension Fund held three, (2014/15, two) 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	2014/15		2015/16	
	£000	%	£000	%
* BlackRock Global Equity Fund	437,153	25.6	422,424	24.8
* GMO World Equity Allocation Investment Fund	311,184	18.2	301,562	17.7
* Hermes Property Unit Trust	-	-	92,629	5.4
	748,337	43.8	816,615	47.9

* Indicates assets which are in excess of 5% of both net assets and their asset class for 2015/16

*BlackRock investments are Unitheld 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	2014/15		2015/16	
	£000	%	£000	%
Fixed interest securities				
Treasury 4.25% 2040	21,942	12.6	28,275	15.5
Treasury 3.75% 2021	14,479	8.3	14,470	7.9
Treasury 4.25% 2039	9,725	5.6	9,680	5.3
Equities				
Royal Dutch Shell 'B' Shares	18,476	5.9	**	**
HSBC Holdings	18,174	5.8	**	**
Index-linked securities				
United Kingdom IL 1.875% 2022	14,932	14.4	14,809	14.2
United Kingdom IL 1.25% 2027	13,681	13.2	13,580	13.0
Treasury IL Variable Rate 2035	13,109	12.6	13,002	12.5
United Kingdom IL 1.125% 2037	10,873	10.5	10,891	10.5
Treasury IL 1.25% 2055	9,390	9.1	9,560	9.2
US Treasury IL 1.375% 2044	9,132	8.8	9,105	8.7
United Kingdom IL 0.375% 2062	5,831	5.6	8,776	8.4
United Kingdom IL 1.25% 2032	8,339	8.0	8,287	8.0
Treasury IL 0.75% 2047	5,202	5.0	5,225	5.0
Pooled investment vehicles				
* BlackRock Global Equity Fund	437,153	44.7	422,424	44.6
* GMO World Equity Allocation Investment Fund	311,184	31.8	301,562	31.9
Legg Mason Global Funds - WA GMS	72,587	7.4	77,569	8.2
Standard Life Global Absolute Return Strategies Fund	78,772	8.0	75,700	8.0
BlackRock Emerging Markets Index Fund	58,499	6.0	63,921	6.8
Property unit trusts				
* Hermes Property Unit Trust	82,072	72.3	92,629	72.4
Global Alpha Fund	8,671	7.6	8,771	6.9
Derivative contracts - assets				
UK Long Gilt Future (LIF) Exp Jun 15	27	100.0	-	-
US Treasury Bond Future (CBT) Exp Jun 16	-	-	18	61.1
US Ultra Bond (CBT) Exp Jun 16	-	-	11	38.9
Derivative contracts - liabilities				
US Treasury Bond Future (CBT) Exp Jun 15	-73	100.0	-	-
UK Long Gilt Future (LIF) Exp Jun 16	-	-	-58	100.0
Other investments - Venture Capital/Private Equity				
South West Venture Fund	2,833	61.8	3,056	58.6
Chandos Fund	1,754	38.2	2,163	41.4

** Investment held is now below 5% of asset class.

N19 Agency Services

The Pension Fund pays discretionary pension awards to former employees on behalf of some Pension Fund employers. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed opposite.

	2014/15 £000	2015/16 £000
Discretionary Payments	1,174	1,102

N20 Contributions Breakdown

The employers' monthly contributions are based on a percentage of pensionable pay. Deficit funding payments are either based on a percentage of pensionable pay or paid as a lump sum. Both monthly contributions and deficit funding payments have been identified opposite. 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.

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 2016 £0.04m (2014/15 £0.1m) was due to the Pension Fund for early retirements, which have been accrued.

Excess ill health retirement costs are invoiced for as they arise and funding level payments are made by an employer voluntarily.

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

Contributions Breakdown	2014/15 £000	2015/16 £000
From Employers:		
Normal	41,158	42,830
Augmentation	-	-
Deficit Funding	32,228	37,080
Other	2,727	1,246
	76,113	81,156
From Members:		
Normal	16,379	16,967
Additional Voluntary	374	325
	16,753	17,292

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.

N21 Custody of Investments

The accounts for the year ended 31st March 2016 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 custody by BNY Mellon Asset Servicing SA/NV on behalf of the Pension

Fund, are ring-fenced from the assets of the Bank and segregated within its books as belonging to Gloucestershire County Council's Pension Fund.

N22 Management Expenses

Pension Fund expenses have been accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

Transaction costs of £694,532 (£350,127 2014/15) previously included within the purchase cost/proceeds of investment purchases and sales have now been added to Investment Management Expenses with a corresponding offset against Profit on Disposal of Investments.

The increase in Administration Expenses is largely due to the set up costs of a data capture system for enhancing actuarial information and the increase in Oversight

& Governance is mainly due to Pooling costs resulting from the Government's recent initiative and Fund data modelling.

Within Oversight and Governance costs there were actuarial expenses of £109,830 (£134,997 2014/15) 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.

The management fees disclosed opposite include all investment management fees directly incurred by the Fund. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments.

Transaction costs have increased as a result of repositioning the UK Equities mandate against a new (capped) benchmark during June 2015.

	2014/15 £000	2015/16 £000
Investment management expenses *	5,753	6,186
Administration expenses	933	1,002
Oversight & governance	407	475
	7,093	7,663

* Please see a more detailed breakdown of the investment management expenses below.

Investment management expenses*	2014/15 £000	2015/16 £000
Fund value based management fees		
- invoiced	2,865	2,982
- deducted from investment	1,868	1,970
	4,733	4,952
Performance fee		
- invoiced	244	117
- deducted from investment	354	346
	598	463
	5,331	5,415
Transaction costs	350	695
Custody costs	72	76
	5,753	6,186

N23 Cash

From the 1st April 2010 the Pension Fund has had its own bank account. At 31st March 2016 cash of £4.3m (made up of £4.5m on loan and £0.2m overdrawn) (£6.4m 2014/15) was invested through the County Council's short-term investment procedures. During the year the average investment balance was £2.3m (£4.4m 2014/15) earning interest of £36.6k (£20k 2014/15).

N24 Current & Long Term Assets

Current Assets	2014/15 £000	2015/16 £000
Contributions due - Employees	572	761
Contributions due - Employers	2,504	3,012
Sundry debtors	581	286
Money due re. transfer of staff to another pension scheme	1,236	618
	4,893	4,677
Cash balances	6,413	4,321
	11,306	8,998

	2014/15 £000	2015/16 £000
Analysis of debtors		
Current assets		
Central government bodies	1,311	955
Other local authorities	1,399	1,199
NHS bodies	16	14
Public corporations and trading funds	-	-
Academies	405	938
Bodies external to general government	1,762	1,571
	4,893	4,677
Long term assets		
Central government bodies	2,472	2,472
Other entities and individuals	338	288
	2,810	2,760

One central government body has transferred to another pension fund and the resulting bulk transfer value due is being paid over a number of years. The total amount was credited to the Pension Fund and an accrual has been made for the outstanding amount. The accrual will be rolled forward each year and adjusted for payments made. A

payment of £618,000 is due to the Pension Fund within the next twelve months.

It had been agreed that an employer who left the Fund 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. A payment of £50,000 is due to the Pension Fund within the next twelve months.

N25 Current Liabilities

	2014/15 £000	2015/16 £000
Benefits payable	-5	-10
Sundry creditors	-1,975	-1,695
Receipts in advance	-60	-
	-2,040	-1,705
Analysis of creditors		
Central government bodies	-690	-649
Other local authorities	-178	-64
Academies	-	-
Bodies external to general government	-1,172	-992
	-2,040	-1,705

N26 Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation (See Note N6), the fund's 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 2013.

Balance Sheet

Year ended	31st March 2015 £m	31st March 2016 £m
Present Value of Promised Retirement Benefits	2,748	2,569

Net Assets Available for Benefits

Year ended	31st March 2015 £m	31st March 2016 £m
Net Assets	1,709	1,703

The assumptions used are suitable for IAS19 purposes as required by the Code of Practice; these differ from those used for the triennial valuation. It is estimated that the impact of the change of assumptions to 31st March 2016 is to decrease the actuarial present value by £252m (14/15 increase of £364m).

Significant Actuarial Assumptions Used

Financial assumption:

Year ended	31st March 2015 % pa	31st March 2016 % pa
Inflation/Pension Increase Rate	2.4	2.2
Salary Increase Rate	3.8	3.7
Discount Rate	3.2	3.5

Longevity assumption:

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions the average future life expectancies at age 65 are summarised below:

	Males Years	Females Years
Current Pensioners	22.5	24.6
Future Pensioners**	24.4	27.0

** Future pensioners are assumed to be aged 45 at the most recent formal valuation as at 31st March 2013.

Commutation assumption:

An allowance is included for future retirements to elect to take 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax free cash for post-April 2008 service.

Sensitivity Analysis:

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

N27 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

Change in assumptions for the year ended 31st March 2016	Approximate % increase to liabilities	Approximate monetary amount
	%	£m
0.5% decrease in discount rate	10	270
1 year increase in member life expectancy	3	77
0.5% increase in salary increase rate	3	87
0.5% increase in pensions increase rate	7	178

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 acts 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 2016. 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 2016 by the amounts shown below:

As at 31st March 2016	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	169,897	6.9	181,636	158,157
UK Index Linked Gilts	92,190	10.0	101,437	82,943
UK Equities	312,866	10.1	344,465	281,266
Overseas Bonds	101,827	6.0	107,997	95,656
Multi National Equities	863,606	9.8	947,894	779,318
UK Property	120,429	2.0	122,898	117,961
Overseas Property	12,541	14.6	14,375	10,708
Venture Capital/Private Equity	5,219	14.5	5,973	4,465
	1,678,575		1,826,675	1,530,474

Total Gloucestershire Fund	1,678,575	7.1%	1,796,915	1,560,236
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As at 31st March 2015	Value £000	Volatility of return %	Value on Increase £000	Value on Decrease £000
UK Bonds	170,671	6.8	182,277	159,066
UK Index Linked Gilts	89,045	10.4	98,305	79,784
UK Equities	321,583	10.7	355,992	287,174
Overseas Bonds	95,528	5.1	100,400	90,656
Multi National Equities	885,608	9.0	965,313	805,903
UK Property	107,701	2.7	110,609	104,793
Overseas Property	11,759	14.7	13,488	10,030
Venture Capital/Private Equity	4,587	14.3	5,243	3,931
	1,686,482		1,831,627	1,541,337

Total Gloucestershire Fund	1,686,482	6.5%	1,796,103	1,576,861
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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 2016 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 3.05% (2014/15 3.4%) and moved between a high of 4.4% (4.6% 2014/15) and a low

of 2% (2% 2014/15). As at the end of March 2016 this yield was 2.2% (2.2% 2014/15). Given the high degree of uncertainty over the future economic situation, 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 2016 £000	Change in the year in the net assets available to pay benefits	
		+100BPS	-100BPS
		£000	£000
Bond Portfolio - Fixed Interest Securities excluding cash	362,380	-43,491	43,491

Asset Type	Carrying amount as at 31st March 2015 £000	Change in the year in the net assets available to pay benefits	
		+100BPS	-100BPS
		£000	£000
Bond Portfolio - Fixed Interest Securities excluding cash	355,601	-46,138	46,138

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, global property manager and the global multi asset 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 Fund's performance measurement service, the likely volatility associated with foreign

exchange rate movements is considered to be 6.3% (as measured by one standard deviation).

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

A 6.3% 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:

2015/16 Currency exposure - Asset Type	Asset value as at 31st March 2016	Change to net assets available to pay benefits	
	£000	£000	£000
		+6.3%	-6.3%
Global Fixed Interest	432	460	405
UK Equities	449	477	421
Global Equities	688,006	731,350	644,662
Emerging Market Equities	64,144	68,185	60,103
Global Multi Asset	-	-	-
	753,031	800,472	705,591

Following further discussions with the Global Multi Asset Manager it has become apparent that this Fund's currency risk is actively hedged and it is now considered more appropriate to exclude this holding from the table below. Therefore we have re-stated the 2014/15 table to enable comparisons.

2014/15 Currency exposure - Asset Type Re-stated	Asset value as at 31st March 2015	Change to net assets available to pay benefits	
	£000	£000	£000
		+5.6%	-5.6%
Global Fixed Interest	2,283	2,412	2,155
UK Equities	739	781	698
Global Equities	721,333	761,934	680,731
Emerging Market Equities	58,499	61,791	55,206
Global Multi Asset	-	-	-
	782,854	826,918	738,790

2014/15 Currency exposure - Asset Type	Asset value as at 31st March 2015	Change to net assets available to pay benefits	
	£000	£000	£000
		+5.6%	-5.6%
Global Fixed Interest	2,283	2,411	2,155
UK Equities	739	780	698
Global Equities	721,333	761,728	680,938
Emerging Market Equities	58,499	61,775	55,223
Global Multi Asset	78,772	83,183	74,361
	861,626	909,877	813,375

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).

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 2016 is set out opposite.

Credit Analysis 31st March 2016	AAA £000	AA £000	A £000	BBB £000	BB £000	B £000	Unrated £000
UK Gilts	62,670	-	-	-	-	-	-
UK Index Linked	92,596	-	-	-	-	-	-
Overseas Govt Bonds	11,592	-	-	-	-	-	-
Overseas Inflation-linked	10,819	-	-	-	-	-	-
Corporate Bonds	-	2,597	43,519	27,500	8,158	-	1,682
Asset Backed	1,100	1,373	5,459	11,638	1,739	-	-
Emerging Markets	-	-	495	-	1,806	-	-
Mortgages	-	1,057	-	-	-	-	-
Supra/Sov/Local Govts	3,136	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	1,432	-	-	262	-	-	2,433
	183,345	5,027	49,473	39,400	11,703	-	4,115
% of Fixed Interest Portfolio	62.6	1.7	16.9	13.4	4.0	-	1.4

Credit Analysis 31st March 2015	AAA £000	AA £000	A £000	BBB £000	BB £000	B £000	Unrated £000
UK Gilts	63,475	-	-	-	-	-	-
UK Index Linked	89,296	-	-	-	-	-	-
Overseas Govt Bonds	12,229	-	-	-	-	-	-
Overseas Inflation-linked	13,548	-	-	-	-	-	-
Corporate Bonds	-	3,419	36,006	24,390	9,076	-	1,815
Asset Backed	1,779	1,448	6,186	12,748	-	-	-
Emerging Markets	-	-	1,797	2,237	-	-	-
Mortgages	1,105	-	-	-	-	-	-
Supra/Sov/Local Govts	4,669	-	-	-	-	-	-
Cash/Cash Equivalents/ Currency Forwards	-	-	-	-	-	-	2,182
	186,101	4,867	43,989	39,375	9,076	-	3,997
% of Fixed Interest Portfolio	64.8	1.7	15.3	13.6	3.2	-	1.4

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 2016 is shown below:

Account Name	Balances as at 31st March 2015		Balances as at 31st March 2016	
	Rating*	£000	Rating*	£000
** Standard Life Sterling Liquidity Fund	AAAmmf	3,837	AAAmmf	1,542
**Federated Short Term Sterling Prime Fund	AAAmmf	2,019	AAAmmf	2,725
HSBC Instant Access	A-1+/AA-	531	A1+/AA-	195
HSBC Current Account	A-1+/AA-	25	A1+/AA-	45
Total		6,412		4,507

* Ratings quoted are all Standard and Poors as at 31st March 2016 and 2015 with the exception of Federated Prime, which is Fitch rated as at 31st March 2016.

** Renamed

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. Refinancing risk within the Bond portfolio is mitigated through credit and liquidity analysis of all investments and diversification by issuer and maturity. The CBRE property fund managed on behalf of the Pension Fund is not leveraged or subject to refinancing risk. However, the underlying investments within this portfolio are leveraged and so may be subject to refinancing risk. This risk is mitigated by covenants written into the Fund documentation. There are no other financial instruments that have 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 investment assets (by class) measured at fair value according to the fair value hierarchy, as held by the Fund's custodian, at 31st March 2016.

2015/16 Type of Asset	Level 1 £000	Level 2 £000	Level 3 £000
UK Equities	312,866	-	-
Global Equities	300,054	1,508	-
Emerging Market Equities	63,920	-	-
Fixed Interest	-	162,866	-
Index Linked Securities	-	92,190	-
Overseas Fixed Interest	180	96,684	-
Overseas Indexed Linked	9,105	2,860	-
Unitised Insurance Policy	422,424	75,700	-
Property	-	24,239	108,732
Private Equity	-	-	5,219
Cash & Cash Equivalents	6,475	-	-
Total	1,115,024	456,047	113,951

2014/15 Type of Asset	Level 1 £000	Level 2 £000	Level 3 £000
UK Equities	312,365	-	-
Global Equities	309,628	1,556	-
Emerging Market Equities	58,499	-	-
Fixed Interest	156,993	-	-
Index Linked Securities	89,045	-	-
Overseas Fixed Interest	89,916	4,607	-
Overseas Indexed Linked	14,638	-	-
Unitised Insurance Policy	446,370	78,772	-
Property	-	101,494	17,966
Private Equity	-	-	4,587
Cash & Cash Equivalents	5,702	-	-
Total	1,483,156	186,429	22,553

N28 Financial Instrument Disclosure

2015/16	Designated as fair value through P & L £000	Loans & Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Fixed interest securities	280,881	-	-
Equities	312,866	-	-
Pooled investments	1,079,610	-	-
Private equity	5,219	-	-
Derivative contracts	138	-	-
Cash	-	13,519	-
Other investment balances	-	7,254	-
Debtors	-	7,437	-
	1,678,714	28,210	-
Financial liabilities			
Derivative contracts	-927	-	-
Other investment balances	-	-1,789	-
Creditors	-	-	-1,705
Borrowings	-	-	-
	-927	-1,789	-1,705
Total	1,677,787	26,421	-1,705

2014/15	Designated as fair value through P & L £000	Loans & Receivables £000	Financial liabilities at amortised cost £000
Financial assets			
Fixed interest securities	277,200	-	-
Equities	312,365	-	-
Pooled investments	1,092,329	-	-
Private equity	4,587	-	-
Derivative contracts	587	-	-
Cash	-	13,289	-
Other investment balances	-	5,439	-
Debtors	-	7,703	-
	1,687,068	26,431	-
Financial liabilities			
Derivative contracts	-949	-	-
Other investment balances	-	-1,436	-
Creditors	-	-	-2,040
Borrowings	-	-	-
	-949	-1,436	-2,040
Total	1,686,119	24,995	-2,040

N29 Transfers in and out of the Pension Fund

Transfers to other pension funds

The Pension Fund received notification that all Valuation Tribunals across the country would be transferring their pension assets and liabilities into the London Pensions Fund Authority (LPFA). This involved transferring the Gloucestershire & Severnside Valuation Tribunals' records, pensioners and members to LPFA together with £1.1m representing the Valuation Tribunal's share of the Pension Fund assets.

N30 Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 requires consideration of the impact of Standards that have been issued but not yet adopted. This is to enable users to evaluate the risk of these new Standards on the Pension Fund's current financial position.

The Pension Fund has yet to adopt the amendment to International Accounting Standard (IAS) 1 Presentation of Financial Statements (Disclosure Initiative). IAS 1 sets out the overall requirements for financial statements and will change the format of the Pension Fund Account and Net Assets Statement. Although this amendment to the standard was effective for accounting periods

beginning on or after 1st January 2016, its adoption was deferred by the CIPFA/LASSAC Local Authority Accounting Code Board until the 2016/17 Code.

It is anticipated that this Standard will not have a material impact on the accounts when it is applied prospectively from 1st April 2016.

N31 Taxation where lifetime or annual allowances are exceeded

Where a member's benefit entitlement exceeds the United Kingdom Inland Revenue tax limits (Lifetime Allowance or the Annual Allowance), the member is liable for taxation. This tax can be settled by the member or has to be settled by the Pension Fund on behalf of the member in exchange for a reduction in benefit entitlement. The Pension Fund has paid tax of £50k on behalf of members in 2015/16 which will be recovered from their future pension payments. An accrual has not been made for the recovery of this tax element on the grounds of materiality and the very long term nature of its recovery.

N32 Events after the reporting date

Following the EU Referendum and the decision to leave the EU, stock markets and currency exchanges experienced significant fluctuations whilst the implications of this decision was being assimilated. As investments are valued at fair value and the benefit only realised upon sale, any change is considered a non-adjusting event.

Pensions Administration Strategy

Introduction & Purpose

It is recognised by the Secretary of State that for the administration of the Local Government Pension Scheme (LGPS) to be improved and costs reduced, Employers and Administering Authorities must co-operate closely and provide sufficient resource to ensure that their statutory obligations are met. The purpose of this Administration Strategy is therefore to recognise those responsibilities and to set out the time scales within which tasks should be completed. This will subsequently improve the flow of information between Employers and Gloucestershire Pension Fund (as Administering Authority), ensuring that those obligations are met, and ultimately that costs are kept to a minimum and that scheme members receive accurate and timely payment/ notification of their entitlements. The Administering Authority has assigned responsibility for the management and administration of the Gloucestershire Pension Fund to the Pension Committee.

1. The Regulations

1.1 The Pension Administration Strategy is concerned with ensuring that Gloucestershire Pension Fund runs smoothly for its member's employer organisations and Gloucestershire Pension Fund.

1.2 The Pension Administration Strategy is made in accordance with Regulation 59 of the Local Government Pension Scheme Regulations 2013 which states, amongst other things that:

59.(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ('its pension administration strategy') and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are:

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ('its Scheme employers');

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:

i) the setting of performance targets

ii) the making of agreements about levels of performance and associated matters, or

iii) such other means as the administering authority considers appropriate

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its

Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with:

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority, after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

1.3 The Pension Administration Strategy is published to Gloucestershire Pension Fund's Scheme employers and to the Secretary of State.

2. The Strategy

2.1 Procedures for liaison and communication with Scheme employers

2.1.1 The employer will nominate a person to act as the 'employer representative' and Gloucestershire Pension Fund's primary contact. The employer will notify Gloucestershire Pension Fund who that person is and ensure that changes of nominated person are notified to Gloucestershire Pension Fund immediately.

2.1.2 Gloucestershire Pension Fund employs a multi-channel approach to liaison and communication with Scheme employers to ensure that employer needs are constantly and consistently met.

2.1.3 Channels include:

- The ' Gloucestershire Pension Fund Employers Website', that gives access to:
 - information about Gloucestershire Pension Fund and the Local Government Pension Scheme
 - administration forms to download, print and use as needed
 - contact information for key Gloucestershire Pension Fund representatives who can inform and liaise with employers on the scheme and its application to individual cases
- Gloucestershire Pension Fund issues information by e-mail to the

nominated contact for pensions at each organisation.

- Employer representatives can distribute pension information as appropriate to relevant staff within their organisation with a view to ensuring the smooth operation of the scheme within their organisation. The employer representative should always be mindful of the confidentiality of some correspondence.
- Employer update seminars are held twice yearly (usually during January and June) covering scheme development issues and providing the opportunity for Employers to field any questions/ queries.

2.2 Levels of performance

2.2.1 Gloucestershire Pension Fund and Scheme employers must have regard to the current version of the Pension Administration Strategy when carrying out their functions.

Levels of performance for Scheme employers and the administering authority

2.2.2 The employer must supply notifications (or approved alternatives) to Gloucestershire Pension Fund as follows:

- i. New starters (FORM: Employer pension starter notification): within 5 weeks of the employee joining.
- ii. Change in member's details (FORM: LGPS con-change): within 5 weeks of the event.
- iii. Early leavers (FORM: leaver1):

within 5 weeks of the employee leaving.

iv. Retirement Notifications (FORM: leaver1) and all other required documents must be received by Gloucestershire Pension Fund on or before 5 working days after the last day of employment.

v. Death in active membership (FORM: leaver1): within 5 working days of the death of the member.

2.2.3 Great care must be taken to avoid breaking The Occupational Pension Schemes (Disclosure of Information) Regulations 2013. For example, where a retirement takes place before normal pension age, leaver1 form must be received by Gloucestershire Pension Fund no later than one month after the date of retirement. Where a retirement takes place on or after normal pension age, Gloucestershire Pension Fund must receive leaver1 form no later than 10 working days after the date of retirement. The above timeframes within 2.2.2 are therefore to allow us to ensure compliance with the Disclosure Regulations in relation to all scheme member matters.

2.2.4 Each employer in the fund will provide Gloucestershire Pension Fund with a monthly statement reconciling to the total contributions paid. The format of this statement is stipulated by Gloucestershire Pension Fund and contains information as detailed in the LGPS Regulations 2013. It also provides assistance to the employer by validating the calculations. A separate

spreadsheet is available for employees utilising the 50/50 scheme and both can be obtained from the 'Gloucestershire Pension Fund Employers Web Site'. The deadline for receipt of these statements is no later than the 10th day of the month following the month in which contributions have been deducted.

2.2.5 Employers will provide Gloucestershire Pension Fund with a year-end data return as at 31st March each year in an approved format no later than *31st May of that year. The return must be balanced by the employer against the employee and employer contribution payments made for that financial year.

*Please note that in the year of the Triennial Valuation, this date may need to be brought forward. Any such change will be notified in advance to your nominated person.

2.2.6 The scheme employer is responsible for ensuring that employee and employer contributions are deducted at the correct rate and on the correct pensionable pay. This includes contributions due on leave of absence with reduced or no pay, maternity leave contributions, contributions relating to the 50/50 option and any other contributions due to the Gloucestershire Pension Fund or requested by the Gloucestershire Pension Fund.

2.2.7 The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for publishing its policy in respect of the key discretions as required by the regulations to its employees.

2.2.8 Gloucestershire Pension Fund is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits

under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

2.2.9 Any over payment of benefits resulting from inaccurate information supplied by the employer shall be recovered from the employer.

Similarly, where Gloucestershire Pension Fund are required to revise their calculations due to incorrect notification of information by the employer, Gloucestershire Pension Fund reserves the right to pass on the administrative costs of processing that revision.

2.2.10 In the event of Gloucestershire Pension Fund incurring costs or being fined by e.g. The Pensions Regulator, as a result of an employer's action or inaction (e.g. the failure to notify a retirement within the time limits described above), this charge will be passed on to the relevant employer.

2.2.11 Under the Data Protection Act 1998, the employer will protect from improper disclosure any information about a member contained (where applicable) on any item sent from Gloucestershire Pension Fund. It will also only use information supplied or made available by Gloucestershire Pension Fund for the operation of the Local Government Pension Scheme.

Levels of performance for Gloucestershire Pension Fund

2.2.12 Gloucestershire Pension Fund will make available/ issue forms, newsletters, booklets and such other materials as are necessary for the administration of the Scheme.

2.2.13 Gloucestershire Pension Fund will support employers in

running the Local Government Pension Scheme by:

i. providing information, interpretation and assistance on the scheme and its administration.

ii. distributing regular technical information

2.2.14 Working co-operatively with employers, Gloucestershire Pension Fund aims to:

i. in relation to retirements; pay retirement grants within 10 working days of receipt of all the relevant required paperwork

ii. in relation to deaths in service; pay the death gratuity within 3 working days of receipt of all the relevant required paperwork

iii. provide employer requested estimates within 15 working days of request from employer

iv. send Annual Benefit Statements (ABS's) to scheme members in accordance with the specified timeframes within the LGPS Regulations following the relevant end of financial year, (subject to timely receipt of all required notifications under 2.2.2. and a balanced year-end return as stated in 2.2.5)

2.2.15 Gloucestershire Pension Fund will produce benefit illustrations for members each year where the employer has submitted useable and accurate year-end financial data.

2.2.16 Gloucestershire Pension Fund will supply any information to employers necessary to ensure the smooth running of the pension fund.

2.2.17 Gloucestershire Pension Fund will work with employers to ensure that retirement is as smooth a process as possible for the member and employer.

2.2.18 Under the Data Protection Act 1998, Gloucestershire Pension Fund will protect from improper disclosure any information held about a member. Information held will be used by Gloucestershire Pension Fund for the operation of the Local Government Pension Scheme.

2.2.19 Gloucestershire Pension Fund is responsible for exercising the discretionary powers given to it by the regulations. Gloucestershire Pension Fund is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.

2.2.20 Gloucestershire Pension Fund aims to provide a service to members that meet the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 2013.

2.2.21 The Gloucestershire Pension Fund will contact all scheme employers throughout the financial year, depending on their year end reporting date, to establish requirements for an annual pension liability report produced by the Fund's actuary. These reports are required under the relevant International Accounting Standards (IAS) or Financial Reporting Standards (FRS) for inclusion in the employer's Annual Report & Accounts. For those wishing to commission such a report, the Gloucestershire Pension Fund will provide all the necessary documentation as provided by the Fund's actuary. Employers who fail to meet the advised deadlines of this exercise may incur a further actuarial charge due to the nature of the bulk discount fee obtained by the Fund.

2.2.22 Where employers who are admitted bodies to the Fund are required to hold an indemnity

bond, the Gloucestershire Pension Fund will request, from the Fund's actuary, revised bond valuations in accordance with the employer's Admission Agreement. Indemnity bonds are normally reviewed annually and the standard renewal date is 1st April. Where an employer is required to obtain a new or revised bond they will be given a minimum of 20 working days notice by the Gloucestershire Pension Fund.

2.3 Payments by Scheme employers to Gloucestershire Pension Fund

2.3.1 Scheme employers will make all payments required under the Local Government Pension Scheme, and any related legislation, promptly to Gloucestershire Pension Fund and/or its Additional Voluntary Contribution providers (Prudential / Phoenix Life) as appropriate.

o Payment Dates

Contributions can be paid over at any time but the latest date is the 14th of the month immediately following the month in which deductions were made. For example contributions deducted in April must be received by Gloucestershire Pension Fund by 14th May at the latest. Where the 14th falls on a weekend or Bank Holiday, the due date becomes the last working day prior to the 14th.

Similarly, the employer will pay any Additional Voluntary Contributions to the relevant AVC Provider within the same timeframe.

o Late Payment

Under the Pensions Act 1995, the Pensions Regulator may be notified if contributions are not received in accordance with the regulators code of practice, as described above.

o Payment Method

Apart from Additional Voluntary Contributions, all other Contributions and other payments (e.g. transfers and invoice payments) should be paid to the Gloucestershire Pension Fund's bank account, by Direct Debit or BACS.

o Remittance Advices

Employers must submit a remittance advice with each payment. Employers who are paying contributions must provide the statement as detailed in paragraph 2.2.4 above.

2.4 Additional costs incurred as a result of Scheme employer's level of performance

2.4.1 Gloucestershire Pension Fund will charge the scheme employer an administrative fee, for chasing any overdue/outstanding documentation or overdue payment, of £6 excluding VAT in relation to each item, each time it is chased.

Payments paid into Gloucestershire County Council's bank account rather than the Pension Fund's bank account will be subject to an administration fee of £6 excluding VAT. Any other additional charges imposed by the Bank to transfer these payments will also be passed on to the employer.

In addition, where additional costs have been incurred by Gloucestershire Pension Fund because of the Scheme employer's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that Scheme employer. Costs will be based on a time and materials basis.

2.4.2 Gloucestershire Pension Fund will give written notice to the

Scheme employer stating -

- i. the reasons for the additional cost incurred;
- ii. that the Scheme employer should pay the additional costs attributable to that authority's level of performance;
- iii. the basis on which the specified amount is calculated; and
- iv. the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Additional costs incurred will be collated and invoiced each 6 months.

2.4.3 Any disagreement regarding the amount of additional cost being recovered, which cannot be resolved between the employer and Gloucestershire Pension Fund, will be decided by the Secretary of State who will have regard to -

- I. the provisions of the Pension Administration Strategy that are relevant to the case; and
- II. the extent to which Gloucestershire Pension Fund and the Scheme employer have complied with those provisions in carrying out their functions under these Regulations.

2.5 Interest on late payments

2.5.1 In accordance with the LGPS Regulations, interest will be charged on any amount overdue from a Scheme employer by more than one month.

2.5.2 Interest will be calculated at one percentage point above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

3. Review of the Pension Administration Strategy

3.1 The Pension Administration Strategy will be kept under review by the Gloucestershire Pension Fund's Pension Committee.

3.2 The Pension Committee's relationship with Scheme employers including details on communication, governance, skills and knowledge, etc, is contained within the following documents: Communications Policy; Governance Policy; Governance Compliance Statement. All these documents are available on Gloucestershire Pension Fund's website **www.gloucestershire.gov.uk/pensionsinvestments**

3.3 Employers may make suggestions to improve the Pension Administration Strategy for consideration by Gloucestershire Pension Fund at any time.

3.4 Gloucestershire Pension Fund will revise the Pension Administration Strategy after consulting with Scheme employers and any other persons considered appropriate following a material change in any policy covered in the strategy. When the Gloucestershire Pension Fund publishes its Strategy or a revised Strategy it will send a copy to each of its Scheme employers and to the Secretary of State.

3.5 Employers are welcome to discuss any aspect of the Pension Administration Strategy with Gloucestershire Pension Fund at any time. Employers are welcome to visit Gloucestershire Pension Fund at any time, subject to notice.

3.6 The Gloucestershire Pension Fund Annual Report will give details of the extent to which the Administering Authority and employers have achieved the

levels of performance as detailed in the Administration Strategy as well as such other matters from the Administration Strategy it considers important.

4. Employer contribution rates and administration costs

4.1 Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

4.2 Gloucestershire Pension Fund has an actuarial valuation undertaken every three years by the Fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate minimum contribution rate for each employer to be applied for the subsequent three years.

4.3 The cost of running Gloucestershire Pension Fund is charged directly to the Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

4.4 If an employer wishes Gloucestershire Pension Fund to carry out any employer specific work, Gloucestershire Pension Fund reserves the right to make a reasonable charge to cover the administration involved, where appropriate. Gloucestershire Pension Fund would always discuss such matters with the employer before any work commenced.

Pensions Administration Strategy Report

Levels of performance expected from the employing authorities and the Pension Fund are detailed in Section 2.2 of the Pensions Administration Strategy. Performance against some of those targets is shown below. The Fund monitors the timeliness of data submissions and the payment of pension contributions by the employer and has the power to seek compensation from employers in respect of any service standard breaches. During 2015/16 the option to levy interest on overdue contributions was not exercised. Charges of £7,116 were levied against employers not meeting the expected level of performance.

	2015/16 %	2014/15 %
Pension contributions paid on or before the due date	99.6	99.4
Employers providing the Pension Fund with a copy of their discretions policy document (153 out of 195)	78.5	75.8
Provision of named pensions contacts for the employer	100.0	100.0

Activity	Target	2015/16	2014/15	2013/14	2012/13	2011/12
Annual Benefit Statements sent by statutory deadline	100%	0%** see note below	0%** see note below	100%	100%	100%
Provide retirement estimates within 10 working days						
Total completed		693	646	531	655	754
Completed on time		228	505	428	594	685
Achievement	80%	32.9%	78.2%	80.6%	90.7%	90.9%
Pay retirement grants within 10 working days						
Total completed		650	707	745	739	889
Completed on time		151	634	721	716	844
Achievement	90%	23.2%	89.7%	96.8%	96.9%	94.9%
Pay death gratuities within 3 working days						
Total completed		55	40	57	65	45
Completed on time		6	39	54	58	37
Achievement	85%	10.9%	97.5%	94.7%	89.2%	82.2%

** Annual Benefit Statement – Statutory deadline was 31/08/2015 (30/09/2014 in 2014/15). 100% of Annual Benefit Statements were sent out during November 2015 (December 2014 2014/15).

While the actual achievement against current performance indicators was positive in 2014/15 it has significantly worsened in 2015/16.

This reflects additional workloads falling to the Administering Authority during the year, for example;

- significant additional support and chasing of employers for required information following the introduction of the CARE pension scheme

- continued review and re-development of processes, systems and communication materials as a result of the introduction of the CARE pension scheme

- increased levels of support and information required from scheme members and employers alike

- introduction of a further two Firefighters' pension schemes (*there are now four Firefighter Pension Schemes*).

Funding Strategy Statement

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

1. Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Gloucestershire County Council Pension 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. It is effective from 1st April 2014.

1.2 What is the Gloucestershire County Council Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Gloucestershire County Council Pension Fund, in effect the LGPS for the Gloucestershire County Council area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the

Fund’s assets grow over time with investment income and capital growth;

- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

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

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund’s Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding

enough money so that your benefits are always paid in full;

- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members' / dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this

will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the

Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Finance Manager in the first instance at e-mail address peninv@gloucestershire.gov.uk or on telephone number 01452 328945.

2. Basic funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "*deficit recovery period*").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to

- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31st March 2013 can be found in the formal valuation report dated 27th March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. The Fund Actuary will take account of the higher rate at subsequent valuations as this will directly impact on the asset share of an employer.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers

in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion over whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in this FSS are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware

that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer’s ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their

dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers’ services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund’s need for maintaining prudent funding levels, and the employers’ need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any

guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund may permit greater smoothing of contributions (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come, and that lower levels of contributions now may mean higher contributions in the future.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3. Calculating contributions for individual Employers

3.1 General comments

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 methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above

methods will often be paying, for a time, contributions less than the theoretical contribution rate (as calculated by the method set out in Section 2.1). Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
	Local Authorities, Police & Lower Severn Drainage Board	Other Scheduled Bodies	Open to new entrants	Closed to new entrants	(all)
Sub-type					
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to “gilts cessation basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)			Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach for open contracts and Attained Age approach for closed contracts (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)	3 years - Note (e)	3 years - Note (e)	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				Particularly reviewed in last 3 years of contract
New employer	n/a	n/a - but see note (g) for Academies	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and/or
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) 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 from the employer

when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and 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 or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be 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.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of Employer	Employers with precept (tax raising) powers
Max contribution increase per annum	1% to 2.5% *
Max contribution decrease per annum	1% to 2.5% *

* the percentage increase applied to these employers will be determined by the Administering Authority in discussion with the actuary and will depend on an employer's individual circumstances including deficit levels, funding position, cash flow and maturity.

The stabilisation criteria and limits will be reviewed at the 31st March 2016 valuation, to take effect from 1st April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1st April 2014 for the 2013 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 where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor and the Administering Authority.

Note (d) (Deficit Recovery Payments)

Deficit recovery payments will be set as a monetary amount for most employers in the Fund. However, for employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will sometimes be set as a percentage of salaries.

The Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or

- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

For employers contributing at less than the future service rate calculated at the 2013 valuation, the employer should pay at least the future service rate in 2014/15.

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

The Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

The Fund's policies on academies may change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1st October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. The Administering Authority requires all the Pension Fund liabilities of the Transferee Admission Body to be guaranteed by the letting Scheduled Body.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers or a government department, guaranteeing their liabilities and also providing a form of security as above if requested.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for

the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks.

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next.

It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn’t pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- 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 an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For a Transferee Admission Body, the cessation valuation will be carried out on an ongoing basis. This is the same basis that would have been used to award assets on joining the Fund but updated for current market conditions. Therefore the Transferee Admission Body is responsible for any deficit which may arise on all of the members' service including service prior to the contract start date. Once the cessation deficit is paid the Employer will be fully funded on an ongoing basis at the date of calculation. However, the Awarding Authority retains responsibility for any deficit that may arise in the future or any deficit that can't be met by the Transferee Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) 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", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, 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. Under this agreement the Fund

would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

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

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

LEA Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

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

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits 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). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

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.

3.7 Ill health early retirement costs

Employers in the Fund have an 'ill health allowance' determined by the Fund's Actuary. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement 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.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the lesser of the amount of that year's insurance premium and the employer's ill health allowance and

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy will cease.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a

cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers;
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however the Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

4. Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement

to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

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

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher

returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst a stabilisation mechanism is to remain in place until 2017 for eligible employers, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings, and also to employers via e-mail, Employers Forums and its Annual Meeting.

> Appendix A

Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) 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.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

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

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in autumn 2013 for comment;
- b) Comments were requested within 6 weeks;
- c) There was an Employers meeting on 29th November 2013 at which questions regarding the FSS could be addressed;
- d) Following the end of the consultation period the FSS was updated where required and then published, in April 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <http://www.gloucestershire.gov.uk/extra/pensions/investments>
- A copy sent by e-mail to each participating employer in the Fund;

- A copy sent to employee/pensioner representatives;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pension Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all

issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes

an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.gloucestershire.gov.uk/pensionsinvestments

> Appendix B Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;

- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- liaise regularly with the Administering Authority to ensure correct data and records are held in respect of employees' benefits;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and 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 its circumstances, prospects or membership.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of

Fund assets, in line with the SIP;

- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the

Administering Authority on efficient processes and working methods in managing the Fund;

- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

> Appendix C Key risks and controls

C1 Types of risk

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

- investments/financial;
- funding/demographic;
- administration/regulatory; and
- governance.

C2 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.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>

C2 Financial risks (continued)

Risk	Summary of Control Mechanisms
Increasing Pension Fund deficit.	<p>Actuarial review via Triennial Valuation and regular update reports.</p> <p>Regular consideration by Pension Committee on manager performance relative to funding assumptions, funding position and funding strategy</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in index-linked bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate.	<p>An explicit stabilisation mechanism has been agreed for eligible employers as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</p> <p>Obtain information on financial strength of individual employers. Discuss with employers their ability to absorb rises in their level of contribution.</p> <p>Where appropriate mitigate impact through deficit spreading and phasing in of contribution rises, with appropriate security from employers and further analysis by the Fund's actuary.</p>
Orphaned employers give rise to added costs for the Fund.	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Funding/Demographic risks

Risk	Summary of Control Mechanisms
<p>Pensioners living longer, thus increasing cost to Fund.</p>	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p> <p>The Fund also sets life expectancy assumptions using ClubVita, which is a specialised longevity company and provides life expectancy assumptions based on the profile of the Fund's own membership.</p> <p>Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</p>
<p>Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees leading to the possibility of there not being sufficient liquid funds available to pay liabilities as they fall due.</p>	<p>Continue to monitor at each valuation, seeking monetary amounts rather than % of pay. Between valuations regularly monitor level of active members on both a total Fund basis and by individual employer. Regularly monitor how cash flow positive the Fund is. Regularly review investment strategy.</p>
<p>A company admitted to the Fund as an admission body may become financially unviable.</p>	<p>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.</p>
<p>Deteriorating patterns of early retirements.</p>	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
<p>Reductions in payroll causing insufficient deficit recovery payments.</p>	<p>Require employers to pay sums due for deficit recovery contributions as a fixed monetary amount rather than being expressed as a % of pay.</p>
<p>Ill-health retirements significantly more than anticipated.</p>	<p>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.</p>
<p>Effect on the Fund's investment strategy and employer contributions if large numbers of active members are outsourced on a "closed" (to new entrants) basis.</p>	<p>Take advice from the Fund actuary on the likely impact this will have on Fund investment out performance assumptions and employer contributions. Monitor levels of outsourcings on a "closed" basis and advise employers of implications so these are taken into account when they consider the business case for an outsourcing. Regularly review investment strategy and strategic asset allocation.</p>

C4 Administration/Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Failure to collect and account for contributions from employers and employees on time.	Regular monthly monitoring and reconciliation of Fund contributions received, including a detailed analysis of individual employer contributions and employee contributions by pay banding. Robust debt management processes are in place to recover any late payments
Loss of funds through fraud or misappropriation.	Procedures and processes are in place and applied in relation to e.g.: checking for “ghost” scheme members; multiple levels of authorisation for claims and fund payments plus secondary checking of lump sum payments. Procedures are documented and staff are trained and managed in carrying these out. The Fund’s internal auditors carry out regular reviews.

C5 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) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the Rates and Adjustments Certificate to increase an employer’s contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies’ memberships are monitored and, if active membership decreases, steps will be taken.</p>

C5 Governance risks (continued)

Risk	Summary of Control Mechanisms
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> ◦ Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3). ◦ 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 Fund from various risks. ◦ Requiring new Community Admission Bodies to have a guarantor. ◦ Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). ◦ Monitoring funding levels more closely as approaching cessation and reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
<p>Failure to comply with the Myners' Investment Principles.</p>	<p>Compliance as detailed in the Statement of Investment Principles is kept under regular review.</p>
<p>Lack of relevant expertise, knowledge and skills at officer and member level in relation to administering the LGPS.</p>	<p>Training needs assessments for the Administering Authority are carried out and an annual training plan produced. The Fund subscribes to the CIPFA Knowledge and Skills Framework for the LGPS and makes this information available to all members of the Pension Committee and relevant officers. Appropriately qualified external advisers and consultants are used as appropriate.</p>
<p>Failure to hold personal data securely and keep pension records up-to-date and accurate.</p>	<p>Personal data and scanned documents relating to scheme members are maintained in an online system via individual password access for those that need to maintain and access this information. Procedures for maintaining pension records are documented and the process is monitored and managed within the Pensions Administration team. Procedures are regularly reviewed by the Fund's internal auditors.</p>

> Appendix D

The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

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 of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

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; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the *Common Contribution Rate*

for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

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 past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

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 and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e. only considering the cost of the next year’s benefit accrual and contribution income. 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 over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers’ contributions, the “Attained Age” funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund’s actuary is required to report on the “solvency” of the whole Fund in a valuation which

1. See LGPS (Administration) Regulations 36(5).

2. See LGPS (Administration) Regulations 36(7).

should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

‘Solvency’ is defined to be the ratio of the market value of the employer’s asset share to the value placed on accrued benefits on the Fund actuary’s chosen assumptions. This quantity is known as a funding level.

For the value of the employer’s asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer’s current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer’s valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of benefits that have accrued;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- 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 each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy.

D5 How is each employer’s asset share calculated?

The Administering Authority does not account for each employer’s assets separately. Instead, the Fund’s actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying

assumptions, for example, individual membership transfers occur with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers. The split is calculated using an actuarial technique known as “analysis of surplus”.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- 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.

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 it considers that the Fund actuary’s approach addresses the risks of employer cross-subsidisation to an acceptable degree.

The Administering Authority intends to move to a unitised approach of monitoring assets from 1 April 2014.

> Appendix E

Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the “ongoing basis”, which applies to most

employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31st March 2013 and setting contribution rates effective from 1st April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that

used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than the retail price index (RPI), has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31st March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference

between RPI and CPI. At this valuation, we used a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund.

These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the CMI 2010 model with peaked improvements and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add

around 1 year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

> Appendix F Glossary

Actuarial assumptions/basis

The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.

Administering Authority

The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".

Admission Bodies

Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).

Common contribution rate

The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.

Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.

Deficit

The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit repair/recovery period

The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.

Designating Employer

Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.

Discount rate

The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day allowing for future expected investment return. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.

Employer

An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.

Funding level

The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate

The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative

expenses. This is calculated using a chosen set of **actuarial assumptions**.

Future working lifetime

The average remaining working lifetime of the contributing members, with an allowance in line with the Fund's demographic assumptions, for those members to leave employment prior to retirement.

Gilt

A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

Liabilities

The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Past service adjustment

The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).

Profile

The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs. their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Scheduled Bodies

Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc.,

other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Solvency

In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for tax-raising employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Theoretical contribution rate

The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31st March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

> Appendix G

Rates and Adjustments Certificate

Following the 2013 valuation, the minimum employer contributions shown in the Statement to the Rates and Adjustments Certificate attached to the 2013 valuation report are based on the deficit recovery periods and phasing periods. An explanation of the "common contribution rate" is given within the Executive Summary on the Last Triennial Valuation on page 33 and also in the glossary on page 107.

Statement to the Rates and Adjustments Certificate

The Common Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1st April 2014 to 31st March 2017 is 32.9% of pensionable pay.

Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1st April 2014 to 31st March 2017 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

The contributions shown include expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

Employer Code	Employer Name	As Per Triennial Valuation March 2013 Minimum Contributions For The Year Ending		
		31st March 2015	31st March 2016	31st March 2017
Gloucestershire County Council and Schools Pool		%	%	%
1	Gloucestershire County Council	15.6% plus £14,035,000	15.6% plus £15,892,000	15.6% plus £17,749,000
77	Finlay Community School	25.9	26.9	27.9
79	Oakwood Primary School	25.9	26.9	27.9
86	Berry Hill Primary	25.9	26.9	27.9
87	Grange Primary	25.9	26.9	27.9
88	Harewood Junior School	25.9	26.9	27.9
93	Gardners Lane School	25.9	26.9	27.9
134	Coopers Edge School	25.9	26.9	27.9
503	Andoversford Primary School	25.9	26.9	27.9
513	Berkeley Primary School	25.9	26.9	27.9
523	BlueCoat C of E Primary School	25.9	26.9	27.9
527	British School	25.9	26.9	27.9
537	Carrant Brook Junior School	25.9	26.9	27.9
588	Glebe Infants School	25.9	26.9	27.9
605	Heron Primary School	25.9	26.9	27.9
642	Minchinhampton Parochial C of E	25.9	26.9	27.9
669	Picklenash County Junior	25.9	26.9	27.9
672	Primrose Hill C of E School	25.9	26.9	27.9
689	St. Gregory's R.C. School	25.9	26.9	27.9
727	Swindon Village County Primary School	25.9	26.9	27.9
732	Tirlebrook School	25.9	26.9	27.9
744	Warden Hill Primary School	25.9	26.9	27.9

continued...

**As Per Triennial Valuation March 2013
Minimum Contributions For The Year Ending**

Employer Code	Employer Name	31st March 2015	31st March 2016	31st March 2017
		%	%	%
760	Cam Woodfield Junior School	25.9	26.9	27.9
803	Barnwood Park Arts College	25.9	26.9	27.9
804	Beaufort School	25.9	26.9	27.9
822	Lakers School	25.9	26.9	27.9
823	Maidenhill School	25.9	26.9	27.9
826	Pittville School	25.9	26.9	27.9
827	Rednock School	25.9	26.9	27.9

Town and Parish Councils Pool

3	Tewkesbury Town Council	23.9	25.2	26.5
6	Painswick Parish Council	23.9	25.2	26.5
13	Stonehouse Parish Council	23.9	25.2	26.5
20	Lydney Town Council	23.9	25.2	26.5
21	Prestbury Parish Council	23.9	25.2	26.5
22	Cirencester Town Council	23.9	25.2	26.5
25	Fairford Town Council	23.9	25.2	26.5
34	Cinderford Town Council	23.9	25.2	26.5
38	Hardwicke Parish Council	23.9	25.2	26.5
39	Shurdington Parish Council	23.9	25.2	26.5
40	Dursley Town Council	23.9	25.2	26.5
42	Bishops Cleeve Parish Council	23.9	25.2	26.5
43	Ashchurch Parish Council	23.9	25.2	26.5
46	Charlton Kings Parish Council	23.9	25.2	26.5
48	Tetbury Town Council	23.9	25.2	26.5
49	Cam Parish Council	23.9	25.2	26.5
50	Nailsworth Town Council	23.9	25.2	26.5
51	Coleford Town Council	23.9	25.2	26.5
52	Wotton-under-Edge Town Council	23.9	25.2	26.5
53	Lechlade Town Council	23.9	25.2	26.5
55	Northleach with Eastington Town Council	23.9	25.2	26.5
58	Brockworth Parish Council	23.9	25.2	26.5
59	Cainscross Parish Council	23.9	25.2	26.5
63	Chalford Parish Council	23.9	25.2	26.5
66	Rodborough Parish Council	23.9	25.2	26.5
72	Hucclecote Parish Council	23.9	25.2	26.5
75	Leonard Stanley Parish Council	23.9	25.2	26.5
80	Berkeley Town Council	23.9	25.2	26.5
443	Newent Town Council	23.9	25.2	26.5
444	Stroud Town Council	23.9	25.2	26.5
168	Kings Stanley Parish Council	23.9	25.2	26.5

continued...

As Per Triennial Valuation March 2013
Minimum Contributions For The Year Ending

Employer Code	Employer Name	31st March 2015	31st March 2016	31st March 2017
		%	%	%
Councils				
11	Gloucester City Council	15% plus £2,357,000	15% plus £2,612,000	15% plus £2,867,000
7	Cheltenham B.C.	14.6% plus £2,134,000	14.6% plus £2,540,000	14.6% plus £2,946,000
12	Forest of Dean D.C.	14.3% plus £1,188,000	14.3% plus £1,382,000	14.3% plus £1,576,000
14	Stroud D.C.	13.7% plus £1,515,000	13.7% plus £1,799,000	13.7% plus £2,083,000
18	Tewkesbury B.C.	14.7% plus £1,141,000	14.7% plus £1,337,000	14.7% plus £1,533,000
19	Cotswold D.C.	14.2% plus £1,136,000	14.2% plus £1,338,000	14.2% plus £1,540,000
Individual Employers				
8	Gloucestershire and Severnside Valuation Tribunal*	22.1% plus £30,000	22.1% plus £30,000	
9	Gloucestershire Probation Trust*	30.5		
16	University of Gloucestershire	15.3% plus £1,091,000	15.3% plus £1,091,000	15.3% plus £1,091,000
17	Lower Severn Drainage Board	18.9% plus £52,000	18.9% plus £64,000	18.9% plus £76,000
24	Gloucestershire Deaf Association**	£10,000		
31	Stroud Court Community Trust	23.2% plus £28,000	23.2% plus £28,000	23.2% plus £28,000
35	Police & Crime Commissioner for Gloucestershire	12.8% plus £1,223,000	12.8% plus £1,411,000	12.8% plus £1,599,000
37	Gloucestershire Group Homes	25.2% plus £21,000	25.2% plus £21,000	25.2% plus £21,000
41	Fosseway Housing (Bromford Group)	18.8% plus £778,000	18.8% plus £778,000	18.8% plus £778,000
44	Cotswold Water Park Trust	0% plus £12,000	0% plus £26,000	0% plus £50,000
47	Severn Vale Housing Society	23.9% plus £440,000	23.9% plus £440,000	23.9% plus £440,000
60	Two Rivers Housing	18.1% plus £17,000	18.1% plus £17,000	18.1% plus £17,000
61	Cheltenham Borough Homes Ltd.	18.9% plus £51,000	18.9% plus £51,000	18.9% plus £51,000
62	Gloucestershire Care Services NHS Trust	25.4	25.4	25.4
64	The Order of St. John Care Trust	27.8% plus £111,000	27.8% plus £111,000	27.8% plus £111,000
65	Cotswold Conservation Board	19.5% plus £5,000	19.5% plus £5,000	19.5% plus £5,000
67	Gloucester City Homes***	18.4% plus £80,000	18.4% plus £80,000	18.4% plus £80,000

continued...

**As Per Triennial Valuation March 2013
Minimum Contributions For The Year Ending**

Employer Code	Employer Name	31st March 2015	31st March 2016	31st March 2017
		%	%	%
70	Brandon Trust****	22.8% plus £28,000	22.8% plus £28,000	22.8% plus £28,000
71	SSE Contracting	19.7	19.7	19.7
73	Enterprise (AOL)	19.7	19.7	19.7
76	Aspire Sports & Cultural Trust	14.9	14.9	14.9
81	Lovell Partnerships	24.8% plus £46,000	24.8	24.8
84	Gloucester Academy	23.4	25.1	26.9
85	Sir Thomas Rich's	27.7	28.5	29.2
94	The Cotswold School	24.7	26.6	28.4
95	Pate's Grammar School	24.3	26.0	27.6
96	Balcarras School	22.4	24.2	26.1
97	Chosen Hill School	23.9	26.1	28.2
98	Cirencester Deer Park	22.3	24.8	27.3
99	The Crypt School	20.3	22.2	24.0
100	High School for Girls	22.2	24.7	27.2
101	Robinswood Primary	22.9	25.4	27.9
102	Cheltenham Bournside	24.6	27.1	29.6
103	Cleeve School	20.3	22.6	24.8
104	Ribston Hall	22.9	25.3	27.8
105	Winchcombe Secondary	26.1	28.3	30.5
106	Stroud High School	22.4	24.0	25.5
107	Charlton Kings Infants	23.8	26.3	28.8
108	Charlton Kings Junior	27.8	30.3	32.8
109	Chipping Campden	22.5	25.0	27.5
110	Cirencester Kingshill	19.8	21.1	22.5
111	Katharine Lady Berkeley's	29.4	30.3	31.2
112	Marling School	22.1	23.9	25.7
113	Sir William Romney's	26.9	29.1	31.2
114	Thomas Keble	23.1	25.4	27.7
115	Springbank Primary Academy	18.7	20.6	22.4
116	Bishops Cleeve Primary	23.4	24.2	25.1
117	Churchdown Village Infants	22.7	23.8	24.8
118	Farmor's School	22.1	24.0	26.0
119	Gotherington Primary	30.9	33.4	35.9
120	Highnam C of E	23.7	24.7	25.6
121	Redmarley C of E	26.8	28.6	30.3
122	Rowanfield Junior	19.5	21.1	22.8
123	St. Mary's Catholic Primary	21.1	22.3	23.6
124	St. Peter's High School & Sixth Form	25.3	27.1	28.9
125	Staunton & Corse Primary	24.8	26.9	29.1
126	Severn Vale Academy	19.4	21.9	24.4

continued...

**As Per Triennial Valuation March 2013
Minimum Contributions For The Year Ending**

Employer Code	Employer Name	31st March 2015	31st March 2016	31st March 2017
		%	%	%
127	All Saints Academy	23.3	23.8	24.4
128	Dene Magna	28.7	31.1	33.5
129	Field Court Infants	27.1	28.2	29.4
130	Field Court Junior	31.6	33.3	34.9
131	St. Dominics Catholic Primary	23.5	26.0	28.5
132	The Rosary Catholic Primary	22.5	25.0	27.5
133	Wyedean School	24.6	26.6	28.5
135	Churchdown Secondary	29.1	31.4	33.8
136	Civica (Glos)	21.6	21.6	21.6
137	Millbrook Academy	25.5	25.5	25.5
138	Tewkesbury Academy	26.0	27.2	28.4
139	Gretton Primary	26.1	26.2	26.4
140	Ubico (Cheltenham Waste)	23.1	23.1	23.1
141	Ubico (Cotswold Waste)	22.5	22.5	22.5
142	Brockworth Primary School	23.6	23.6	23.6
143	Forest E-ACT Academy	29.1	29.1	29.1
144	Greenfield Academy	26.8	28.4	29.9
145	Newent Community School Academy	26.9	26.9	26.9
146	Offas Mead Primary	30.8	31.1	31.5
147	Peak Academy	26.9	27.0	27.0
148	Severn View Primary Academy	28.3	29.3	30.2
149	St. John's C of E (Coleford)	32.1	32.1	32.1
150	The Ridge School	20.6	20.7	20.7
151	Christ Church C of E Primary (Cheltenham)	30.3	31.3	32.3
152	The Dean Academy	28.9	29.3	29.8
153	Civica (FoDDC)	22.7	22.7	22.7
154	Severnbanks Primary School	30.6	30.6	30.6
155	St. David's Primary School	23.6	23.6	23.6
156	Forest View Primary	29.6	29.9	30.2
157	Bourton on the Water Primary Academy	27.3	27.3	27.3
410	Cotswold Archaeological Trust Ltd	22.5% plus £29,000	22.5% plus £29,000	22.5% plus £29,000
442	Gloucestershire Airport Ltd	21.7% plus £148,000	21.7% plus £148,000	21.7% plus £148,000
900	Gloucestershire College	18.8% plus £598,000	18.8% plus £621,000	18.8% plus £645,000
904	Hartpury College	20.2	20.2	20.2
905	Cirencester Tertiary College	21.8	21.8	21.8

*Gloucester Probation Trust transferred out of the Fund during 2014/15 and Gloucestershire and Severnside Valuation Tribunal transferred out of the Fund during 2015/16.

**Payments for Gloucestershire Deaf Association were set out in a separate legal agreement and were required in addition to the payments set out in the Rates and Adjustments Certificate.

***Gloucester City Homes changed its status and in March 2015 a new rate was calculated.

****Brandon Trust entered into a new contract and a new rate has been calculated for 2016/17.

Further comments

Contributions expressed as a percentage should be paid into Gloucestershire County Council Pension Fund ("the Fund") at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentation using methods and factors issued by me from time to time.

Further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

Ill health liability insurance

Note that, if an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the administering authority, then their Minimum Total Contribution Rate may be reduced by the minimum of their insurance premium and ill health budget, for the period the insurance is in place.

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 at August 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 below).

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 bond (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.

There was also a strategic asset review in August 2012 which moved part of the Fund’s bond (fixed interest) portfolio into a pooled multi asset (absolute return) fund.

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

Effective from:	1st Dec 2008 %	1st Dec 2011 %	1st Dec 2012 %
UK Equities	25.0	20.0	20.0
Global Equities (including UK & excluding Emerging Markets)	15.0	17.5	17.5
Global Equities (excluding UK & Emerging Markets)	21.3	0.0	0.0
Global Equities (including UK & Emerging Markets)	0.0	23.5	23.5
Pooled Multi Asset	0.0	0.0	5.0
Bonds (Fixed Interest)	25.0	27.0	22.0
Property	10.0	7.5	7.5
Emerging Market Equities	3.7	4.0	4.0
Cash & Venture Capital	0.0	0.5	0.5
Total	100.0	100.0	100.0

These changes have resulted in the Fund's total exposure to Emerging Market equities increasing from 3.7% to 7.0%, its total exposure to bonds reducing from 27.0% to 22.0% and its total exposure to UK Equities reducing from 26.4% to 23.5%.

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

Mandate	Manager	Benchmark
UK Equities	Standard Life	FTSE All Share
Global Equities inc UK	GMO	MSCI World Index
Global Equities inc UK & Emerging Markets	BlackRock	MSCI All Countries World Index (ACWI)
Pooled Multi Asset	Standard Life	6 month Sterling Libor + 5%
Global Fixed Interest	Western Asset	Composite UK/Overseas
Global Fixed Interest	Western Asset	3 month Sterling Libor + 2%
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

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 GS Performance Services 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 GS Performance Services 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:

- o 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.
- o 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.
- o 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:

- o Environmental issues.

- o Employment standards.
- o Human rights.
- o 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:

- o Shareholders should assume the responsibility of ownership.
- o Shareholders' voting rights are an asset, which need managing.
- o Shareholders' voting rights should be exercised in an informed and independent manner.
- o 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 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:

Response to Myners' 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 GS Performance Services. 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 GS Performance Services 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 and was reviewed in August 2015.

All employers are instructed to issue new employees with a pensions starter pack 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, where relevant, unless they specifically request not to.

HR and Payroll Guides to the 2014 Scheme are provided by the Local Government Association on the National LGPS 2014 Regulations & Guidance website. A link to this information is provided on the Employer page of the Fund's website together with an administration guide to the 2008 Scheme.

During 2015/16 the Pension Fund communicated with scheme members, their representatives and employers as set out in the policy statement below.

> 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

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

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, Communication and Administration. In addition,

each policy statement is listed separately on the website.

All pensioner members receive a pension newsletter each May that covers matters of interest.

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. The October pensioner pay slips include an invitation to the Funds Annual Meeting and details on how to access the annual report and accounts.

Pay slips are also sent where there is a material change in the pension paid during a particular month.

All active scheme members are sent an invitation to attend the Fund's Annual Meeting, via their employer 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.

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, Pensions staff visit employers premises to explain and promote membership of the scheme.

Scheme Employers

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

Employers are also consulted on revisions to the Funds strategy and policy documents - the Statement of Investment Principles, the Governance Policy and Compliance Statements, the Administration Strategy, the Communication Policy and the Funding Strategy Statement.

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. Minutes of the meetings and copies of any presentations are sent to all employers, including those unable to attend.

Copies of all relevant communications received centrally (i.e. from DCLG, Treasury, HMRC, LGA, etc.) are circulated to employers to ensure they are kept informed. These documents are often discussed in detail at the Employers Forums. In addition, communications relating to operational requirements and changes are circulated to employers where required.

Direct dialogue takes place between the administering authority and employers being affected by business transfers to ensure trades 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 e.g. 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 trades 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.

Pension Board

The Gloucestershire Pension Board meets at least twice a year and includes two employer representatives and two employee representatives. Members of the public are able to attend as observers.

Summary of Fund Benefits, Membership and Beneficiaries

Introduction

The Gloucestershire Pension Fund is administered under the Local Government Pension Scheme (LGPS) Regulations. As part of the Governments reform of public sector pensions, a new LGPS was introduced from 1st April 2014. The principal change to the scheme was the move from benefits being calculated on a “final salary” basis, to benefits being calculated on a Career Average Revalued Earnings (C.A.R.E.) basis. Benefits accrued prior to 1st April 2014 continue to be protected on a “final salary” basis.

The scheme is open to all eligible employees regardless of the hours worked and continues to provide a comprehensive set of benefits for its members. Shown overleaf is a summary of the key features of the scheme in force from 1st April 2014. This summary is only provided as an illustrative guide of some of the key features of the scheme 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) 328888.

Local Government Pension Scheme (LGPS) Regulations 2013 (as amended) –

Principal Features of the Scheme in Force from 1st April 2014

- Employee Contribution Rate – Variable (9 Band Rates) between 5.5% and 12.5% depending on level of earnings.
- Annual Pension and Lump Sum – C.A.R.E. Pension based on 1/49th of pensionable pay attributable to each year of membership (index linked by C.P.I.) from 1st April 2014 PLUS option to exchange up to ¼ of pension pot for a lump sum (each £1 of pension providing £12 lump sum).
- Any pre 1st April 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.
- Any membership between 1st April 2008 and 31st March 2014 will provide a pension based on 1/60th of final years pensionable pay for each year of membership PLUS option to exchange up to ¼ of pension pot for a lump sum (each £1 of pension providing £12 lump sum).
- 50:50 Option - allowing members the option to pay half contributions for half pension benefits.
- Normal Retirement Date - Later of State Pension Age or age 65. Member also has the right to retire from age 55 (although benefits will normally suffer an actuarial reduction).
- Earliest Retirement Date – age 55 in cases of – Member initiated Early Retirement / Flexible Retirement / Redundancy / Efficiency of the Service.
- Ill Health Retirement – early payment of benefits (irrespective of age) if “permanently” incapable of continuing in the employment the member was engaged in due to medical reasons and is not immediately capable of undertaking any “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 – Partner pension payable to eligible partner.
- 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.

The index currently used for this purpose is the Consumer Price Index (CPI).

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

- paying additional monthly contributions to purchase

additional pension (to a maximum (at 1st April 2014) of £6,500);

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

Beneficiaries

Membership summary by type of employer

	Pensioners	Widow(er)s/ Dependants	Deferreds	Contributors
County Council (including non academy schools)	7,399	1,074	10,904	9,849
District Councils	2,533	591	2,554	1,514
Academies	210	15	1,029	3,285
Colleges	831	80	2,159	1,710
Other Scheduled Bodies	566	82	842	1,052
Admitted Bodies	764	62	661	1,220
Total	12,303	1,904	18,149	18,630

In addition, at 31st March 2016, there were 2,982 undecided leavers; members who are no longer accruing service and to whom a refund of contributions or transfer out may be due.

Other Appropriate Material

Employer Summary

Please find listed below a summary of the number of employers in the Fund during 2015/16 analysed by scheduled bodies and admitted bodies which were active (with active members) and ceased (no active members) during the year.

	Active at 1st April 2015	New Actives	Ceased	Total at 31st March 2016
Scheduled body	142	4	1	145
Admitted body	35	5	-	40
Total	177	9	1	185

Analysis of Fund Assets as at 31st March 2016

	UK £m	Non UK £m	Global £m	Total £m
Equities	355.9	744.9	-	1,100.8
Bonds	255.6	108.3	-	363.9
Property (direct holdings)	-	-	-	-
Alternatives*	125.6	11.8	-	137.4
Cash and cash equivalents	22.5	2.2	-	24.7
Other**	-	-	75.7	75.7
Total	759.6	867.2	75.7	1,702.5

Analysis of Investment Income Accrued During the Reporting Period

	UK £000	Non UK £000	Global £000	Total £000
Equities	10,550	45	-	10,595
Bonds	7,609	1,069	-	8,678
Property (direct holdings)	-	-	-	-
Alternatives*	5,071	135	-	5,206
Cash and cash equivalents	143	-	-	143
Total	23,373	1,249	-	24,622

*Alternatives are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds and derivatives.

** Other denotes assets not falling into any other category such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

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 advisor 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 59.

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).

Hedge

A means of protecting against financial loss, normally by taking an offsetting position in a related investment.

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.

Net Asset Value (NAV)

The value in a company or mutual fund, calculated by subtracting total debt from total assets and dividing the result by the number of shares or units in existence.

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 re-valued 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 Allocation

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

Notes



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