



Cheshire Pension Fund

Annual Report

2014/2015

www.cheshirepensionfund.org

Contents

Introduction	3
Management & Financial Performance	4
Scheme Management and Advisors (as at 31 March 2015)	4
Risk Management	6
Financial Performance	10
Administrative Management Performance	15
Investment Policy & Performance	22
Scheme Administration Report	35
Governance Arrangements	36
Governance Compliance Statement	39
Member Training	41
Statement of Accounts	42
Scheme Advisory Board Summary Information	89
Actuarial Report	90
LGPS Contributions Breakdown	94
Funding Strategy Statement – January 2015	104
Statement of Investment Principles – January 2015	136
Communications Policy Statement	148
Auditor Report	160
Contacts and Further Information	162

Published by: Cheshire Pension Fund, Cheshire West and Chester Council,
Council Offices, 4 Civic Way, Ellesmere Port CH65 0BE.

Pension Fund information is also available in audio, braille, large print and other formats.
If you would like a copy in a different format or another language please contact us:

Email: pensions@cheshirewestandchester.gov.uk Tel: **01244 976000**
Fax: **01244 972087** Website: www.cheshirepensionfund.org

Welcome to the annual report for the **Cheshire Pension Fund** for the year ending 31st of March 2015.

2014-15 was a notable year for the Fund and the Local Government Pension Scheme (LGPS) as from 1st April 2014 the LGPS changed from a final salary pension to a Career Average Revaluation (CARE) scheme. The primary objective for the Fund in 2014-15 was to achieve a seamless transition from the old to the new scheme.

A key factor in the successful implementation of the new scheme was ensuring that employers and members understood the changes to the scheme. From an employers perspective the focus was working with employers so that they recognised and understood their revised responsibilities under the new scheme. From a members perspective the Fund targeted communications to members and potential members to allow them to understand how the new scheme works, the benefits package available and to reassure them that their pension earned up to 31st March 2014 was protected.

Whilst introducing a new scheme could be viewed as a huge undertaking in its own right, the Fund also faced the not insignificant task of introducing a new pensions administration system.

Implementing these two major projects has been a significant challenge for the staff during the year and limited resources have been continually reallocated and objectives reprioritised to meet these challenges whilst still striving to deliver a first class service to our customers.

The team also took an office move in their stride as they relocated out of the Forum to modern office facilities at Nicholas House in Chester.

I would like to thank our customers for their patience and support as we met these unprecedented challenges.

I'm pleased to announce that the Fund was recognised in two prestigious pension industry awards in 2014-15. The fund received the 'Best De-Risking Initiative' accolade at the 2014 Engaged Investor Trustee Awards, the UK's only awards for trustees of occupational pension schemes. The Fund won the accolade for its introduction of bespoke investment strategies and a de-risking framework which is pioneering within the Local Government Pension Scheme. It was also named Fund of the Year - for funds above £2 billion - at the Local Government Chronicle Investment Awards.

On the investment side the Fund has seen the net value of its assets increase from £3.6bn to £4.1bn. This increase reflects both the general rise in markets over the last 12 months and also the pro-active management of Fund assets.

The local elections in May saw some changes to the Pension Fund Committee and I would like to take the opportunity to thank Councillors Frank Keegan, Hilarie McNae, Ben Powell and Peter Raynes for their enthusiasm and contribution to the Committee during their tenure.

Whilst 2014/15 has been an extremely busy year, looking forward, the speed of change in the LGPS shows no sign of slowing down as we look forward to implementing new Governance arrangements with the creation of a new Local Pension Board, and further national consultation on how the LGPS manages its investment assets.

Many thanks for your support during 2014/15 and I look forward to continuing our excellent working relationship in 2015/16.

Mark Wynn Head of Finance,
Cheshire West and Chester Council.

Management & Financial Performance

Scheme Management and Advisors (as at 31 March 2015)

Administering Authority

Cheshire West and Chester Council, HQ, 58 Nicholas Street, Chester, CH1 2NP

Cheshire West and Chester Council Officers

Mark Wynn Head of Finance

Vanessa Whiting Head of Governance and Monitoring Officer

Pension Fund Committee

Councillor Myles Hogg Cheshire West and Chester Council (Chairman)

Councillor Don Beckett Cheshire West and Chester Council

Councillor Ben Powell Cheshire West and Chester Council*

Councillor Hilarie McNae Cheshire West and Chester Council

Councillor Frank Keegan Cheshire East Council*

Councillor Peter Mason Cheshire East Council

Councillor David Newton Cheshire East Council

Councillor Peter Raynes Cheshire East Council*

Councillor John Joyce Warrington Borough Council

Councillor Mike Wharton Halton Borough Council

Geoff Wright Unison (Employee Representative)**

* Replaced 7th May 2015

Replacements

Councillor Brian Crowe Cheshire West and Chester Council

Councillor David Armstrong Cheshire West and Chester Council

Councillor Paul Findlow Cheshire East Council

Councillor Peter Groves Cheshire East Council

** Replaced by Paul Matthews on 18th September 2015

Investment Managers**Adams Street Partners UK LLP**

4th Floor, 75 Davies Street,
London W1K 5JN

Arrowgrass Capital Partners LLP

Level 34, Tower 42,
25 Old Broad Street,
London EC2N 1HQ

Baillie Gifford & Co

Calton Square,
1 Greenside Row,
Edinburgh EH1 3AN

BlueBay Asset Management

77 Grosvenor Street,
London W1K 3JR

Darwin Property Investment Management Limited

Empire House,
175 Piccadilly,
London W1J 9TB

GMO UK Ltd

No 1 London Bridge,
London SE1 9BG

Henderson Global Investors

201 Bishopsgate,
London EC2M 3AE

Legal & General Investment Management

One Coleman Street,
London EC2R 5AA

Lexington Partners UK LLP

42 Berkeley Square,
London W1J 5AW

M&G Investments

Laurence Pountney Hill,
London EC4R 0HH

Och-Ziff Management Europe Limited

40 Argyll Street,
London W1F 7EB

Pantheon Ventures UK LLP

Norfolk House,
31 St James's Square,
London SW1Y 4JR

Permal Investment Management Services Limited

12 St James's Square,
London SW1Y 4LB

Rockspring PIM LLP

166 Sloane Street,
London SW1X 9QF

Winton Capital Management

Grove House,
27 Hammersmith Grove,
London W6 0NE

Custodian**BNY Mellon Asset Servicing**

London Branch, One Canada Square,
Canary Wharf, London

AVC Providers**Clerical Medical**

PO Box 28121,
15 Dalkeith Road,
Edinburgh EH16 9AS

Equitable Life Assurance Society

PO Box 484,
Walton Street,
Aylesbury,
Bucks HP21 7WW

Standard Life

1 Baileyfield Crescent,
Edinburgh EH15 1ET

Actuary**Hymans Robertson LLP**

20 Waterloo Street,
Glasgow G2 6DB

Investment Advisor**Mercer**

Belvedere, 12 Booth Street,
Manchester M2 4AW

Legal Advisor**Cheshire West and Chester Council**

Head of Legal and Democratic Services,
HQ, Nicholas Street,
Chester CH1 2NP

Auditors**Grant Thornton**

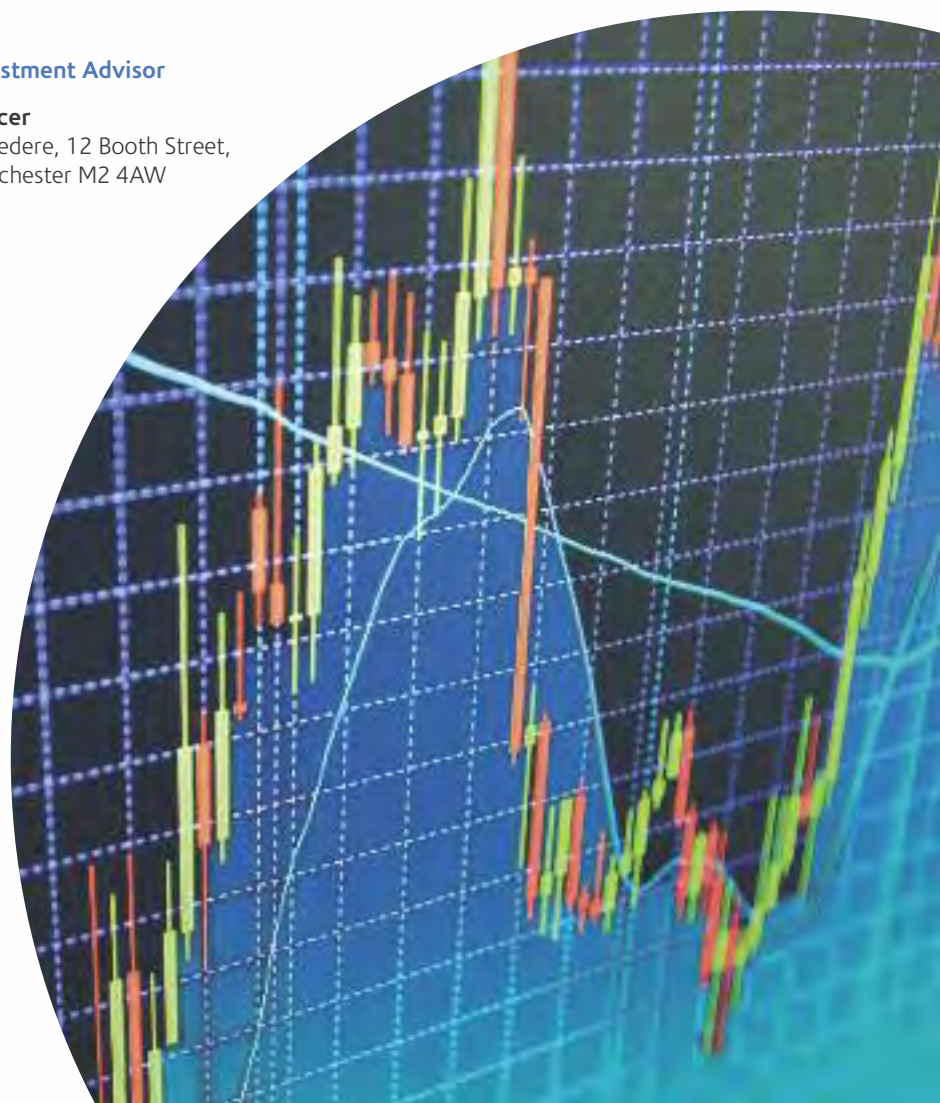
Audit and Assurance,
Public Sector,
Royal Liver Building,
Liverpool L3 1PS

Banker**Lloyds Bank plc**

Chester Branch,
Foregate Street,
Chester CH1 1XP

Scheme Administrator**Cheshire West and Chester Council**

HQ, 58 Nicholas Street,
Chester CH1 2NP



Risk Management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them.

Cheshire West and Chester Council has a statutory responsibility under the Accounts and Audit Regulations (England) 2011 to have arrangements in place for the management of risk.

The Council is responsible for ensuring that its business is conducted in accordance with the law and corporate standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging this accountability, members and senior officers are responsible for putting in place effective arrangements for the governance of the Council's affairs and the stewardship of resources at its disposal.

The Council has a formal risk management strategy with the following objectives:

- To further embed and integrate risk management into the Council's culture and day-to-day operations at both strategic and operational levels, as part of a sound system of corporate governance.
- To adopt a systematic, structured framework to the identification, assessment, evaluation, prioritisation and management of risks to which the Council is exposed, at all levels, in accordance with best practice.
- To ensure risks are considered and recorded in decision-making processes at all levels within the Council via the maintenance of risk registers.

As part of the Finance service, the Pension Fund has a dedicated risk register which forms part of the Finance Service's Risk Register. The Finance Service maintains a risk register that

links to objectives as detailed in its business plan. The register is reviewed at management team meetings on a regular basis and any risks considered to be performing badly, difficult to control or whose impact might have an effect on the whole Council can be escalated to Corporate Leadership Team to consider their inclusion in the Corporate Risk Register.

As part of the annual business plan setting process, the Pensions Management Team identifies the main risks that might prevent the Fund delivering its key objectives. These risks are logged on the risk register across five core areas:

- Governance, Legislation and Compliance
- Administration and Accounting
- Communication and Employer Liaison
- Investments, Liability Management
- Major Projects

The risk register is regularly reviewed in light of new information and updated when necessary with new risks added and old risks removed. The Pension Fund Committee receives an update on the key risks facing the Fund as a standing item at every quarterly Committee meeting.

Each risk is initially assigned a score designed to reflect the likelihood of it occurring and also the reputational, financial and resource impacts faced by the Fund if it were to occur. Risks are then considered against a series of mitigations designed to reduce their likelihood and/or impact. Risks are colour coded and assigned a red, amber or green status according to the degree of risk posed.

The following table shows the risks which are highlighted as status amber, where although they are still expected to be delivered successfully in 2015/16 certain risks have been identified which might impact the delivery or the timing of delivery. A full list of the risks identified is available upon request.

Area	Priority/Objective	Risk	Controls	Risk Status
Governance	G.1 - To ensure that the Pension Fund is governed and administered by Committee Members and Officers who have the appropriate knowledge and skills in order to discharge their responsibilities	Frequent and/or extensive turnover of committee members/Local Pension Board Members. Members have insufficient knowledge of regulations, guidance and best practice to make good decisions	Training plan in place for all members. At least four committee/Local Pension Board training days arranged per year. Professional advisors engaged when appropriate	Amber
Administration	A.1 - To provide a first class service to all Pension Fund Members including actives, deferreds, pensioners and dependants	Administration system fails to fully deliver complex historical pension calculations and new look 2014 Scheme	Project plan in place to deliver remaining components of phase 1 of implementing the new system. Where systems fail or cannot deliver, staff have the skills to adopt manual calculations and spreadsheets. The Fund is a member of a multi-authority group of CIVICA UPM users which allows for the sharing of technical expertise and knowledge. Share known issues log team and with user group	Amber
Administration	A.1 - To provide a first class service to all Pension Fund Members including actives, deferreds, pensioners and dependants	Growth in the number of employers in the Fund leads to less pensions knowledge within each employer. New employers fail to understand LGPS obligations. This causes a drain on Fund resources	Training for new employers, development of Communications strategy to communicate to new and prospective employers. Dedicated employer Liaison team to support employers through lifecycle of being in LGPS	Amber
Investments and Liability Management	I.3 - To maximise the investment returns to the Funds assets within risk parameters set out in Investment Strategy	Poor performance of Investment Managers relative to that asset class peer groups	Rigorous selection process in place to ensure that Fund appoints only "best of breed" investment managers. Expert professional advice provided by Investment Consultant supporting manager selection exercise. The Fund also employs the services of Investment Consultant to undertake "Manager Monitoring". The performance of all investment managers is also formally monitored and reported on a quarterly basis to Investment Sub-Committee	Amber

The nature and extent of risks arising from Financial Instruments are detailed in note 19 of the Pension Fund Accounts.

The Fund is exposed to both funding and investment related risk, of which the principal risks are:

Funding risks

- **Financial mismatch – 1.** The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- **Changing demographics** – The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- **Systemic risk** – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Council measures and manages financial mismatch in two ways. It has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring and reviewing Funding levels on a quarterly basis.

The Council keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation. The Council has also become a member of Club Vita, a longevity analytics service and therefore the longevity assumptions that have been adopted at the 2013 valuation are a bespoke set that are specifically tailored to fit the membership profile of the Fund.

The Council seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- **Concentration** – The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- **Illiquidity** – The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- **Manager underperformance** – The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Council's expected parameters. By investing across a range of assets, including quoted equities and bonds, the Council has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager. The performance of all individual managers and investment service providers is scrutinised quarterly by the Investment Sub – Committee with recommendations and escalations taken to the full Pension Fund Committee.

Other provider risk

- **Transition risk** – The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Council takes professional advice and considers the appointment of specialist transition managers.
- **Custody risk** – The risk of losing economic rights to Fund assets, when held in custody or when being traded.

- **Credit default** – The possibility of default of a counterparty in meeting its obligations.

The Council monitors and manages risks in these areas through a process of regular scrutiny of its providers. The Council request and reviews audited statement of accounts from each of their investment managers and where the provider is subject to a regulatory requirement to produce assurance reports on internal controls (or similar), these reports are formally reviewed.



Financial Performance

2013 Triennial Valuation

Every three years the Pension Fund is subject to a formal valuation by the Fund actuary which produces two key outputs.

Firstly, it quantifies the Funding Level i.e. the level to which the Fund's pension liabilities for the accrued benefits of current employees, deferred pensions and pensions in payment are matched by the market value of the Fund's assets. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.

Secondly, it also sets the rate at which employers should contribute to the Fund for the following three years.

The table below summarises the financial position of the Fund at 31 March 2013 and the theoretical common contribution rate that would apply from this date onwards. The 2010 valuation results are also shown for reference.

Summary Valuation Results

	31 March 2013	31 March 2010
Total past service liability (£m)	3,982	3,177
Fund assets (£m)	3,259	2,577
Deficit (£m)	(723)	(600)
Funding level	82%	81%
Future service rate (% pay)	19.3%	16.1%
Past service adjustment (% pay)	8.2%	6.7%
Total contribution rate (% pay)	27.5%	22.8%

Funding Level and Deficit

Although the deficit increased in absolute terms to £723m from £600m, the pace of growth in asset value relative to the pace of growth in liabilities meant that the funding level increased slightly to 82% as at 31st March 2013.

Assets

The performance of the Fund's investments has been greater than the expected return over the three year period to 31 March 2013. This has had a positive effect on the past service position of the Fund at this valuation.

The Fund's investment strategy remained largely unchanged since 2010, with around 80% of the Fund invested in growth assets (such as equities and property). The experience of the last three years serves to underline the fact that, whilst these riskier assets are expected to outperform more risk averse investments (such as government bonds and cash) over the long-term, they are susceptible to volatility in the short-term.

Liabilities

The biggest single driver of the increase in the value of liabilities was the change in financial conditions between the previous valuation and a decrease in the expected future investment returns (the discount rate) between 2010 and 2013. This increase in liabilities has been partially offset by an increase in the actuary's assumption of the gap between RPI and CPI (resulting in a lower CPI assumption for future pension increases) and a reduction in the salary increase assumption to RPI only (previously RPI plus 1.5%).

Analytical Review

The following table provides a brief overview of the major movements in the Fund Account and Net Assets Statement for the financial year. The full statement of accounts are included from page 42 of this report.

Fund Account	2013-14		Notes
	2014-15 £000	Restated* £000	
Net contributions	-32,185	728	The negative 2014-15 figure is due to a one off transfer payment of £53.8m which related to the consolidation of all Probation Service LGPS assets and liabilities to one LGPS fund (the Greater Manchester Pension Fund).
Return on Investments	612,654	355,908	Returns on equities were higher than in the previous year, as were the returns on the absolute return mandate, property and index linked gilts.
Net increase in the Fund	580,379	356,636	

*The figures have been restated following the introduction of the CIPFA LGPS Management Costs guidance in 2014, which has removed Administration costs from the net contributions figure.

Net Assets Statement	2014-15 £000	2013-14 £000	Notes
Pooled Funds	1,886,609	1,408,953	Increase is attributable to strong investment performance of growth assets (most notably equities)
Equities	1,000,624	1,129,018	Reduction due to de-risking (assets have been transferred from equities into Index Linked Gilts)
Absolute Return Funds	551,756	496,466	Increase is attributable to the performance of the Hedge Fund managers.
Investment Properties	311,510	230,965	Increase is attributable to net additional investment in the property portfolio and an increase in market value.
Private Equity	214,969	195,454	Increase is attributable to the funds being almost fully invested
Loans	54,534	57,632	Decrease is due to net distributions from M&G UKFF
Cash	72,066	31,114	Cash held by investment managers at year end will vary year on year
Other	5,143	6,502	
	4,097,211	3,556,104	



Analysis of Pension Contributions

The table below shows the value of primary pension contributions received on time and late.

	Total £000	On Time £000	On Time % (by value)	Late £000	Late % (by value)
Employee	34,284	33,939	98.99	345	1.01
Employer	139,946	138,575	98.99	1,371	1.01
	174,230	172,514	98.99	1,716	1.01

The Fund receives circa 2,500 individual monthly contributions from over 210 employers in a year. The Fund classes contributions income as being received on time where it is received within 22 days, commencing from the end of the month in which the amount is deducted from the earnings. Contributions received over 22 days are classed as late.

In total 111 monthly contributions were received late, of which 82 (74%) were subsequently received within 1 month, 16 (14%) were received between 2 and 3 months and the remainder (12%) after 3 months.

Interest of £4,267 was charged on late payments relating to three employers, as the value formed a material risk to the Fund.

The Fund continues to monitor the timeliness of contribution receipts from all employers and will consider charging interest if the Fund experiences a series of consistent late payments from any individual employer or a late payment that is of significant size to be a material risk to the Fund. Material breaches will also be reported to The Pensions Regulator.

Forecasts

The table below outlines the fund's performance for key financial variables against forecast for the 12 months to 31 March 2015.

Fund Account	2014-15 Forecast £000	2014-15 Actual £000
Contributions	150,710	174,230
Payments	(150,840)	(154,553)
Admin/Oversight and Governance expenses	(1,926)	(2,009)
Net investment income	55,821	34,766
Investment expenses	(22,601)	(42,134)
Change in market value	186,258	577,888
Net increase in the fund	217,422	588,188

The key variance between the forecast and the actual performance was the change in market value which was driven by high returns on the investment assets, particularly equities. Cheshire West and Chester Council elected to pay their three year fixed deficit of £17m as a lump sum during the year increasing the contributions received from employers in 2014-15.

The following tables show the forecasts for the Fund Account and Net Assets Statement for the 3 years to 31 March 2018.

Fund Account	2015-16 £000	2016-17 £000	2017-18 £000
Contributions	148,705	155,105	162,062
Payments	(152,648)	(161,884)	(171,836)
Admin/Oversight and Governance expenses	(2,145)	(2,230)	(2,268)
Net investment income	35,000	36,449	37,977
Investment expenses	(26,928)	(28,306)	(29,764)
Change in market value	188,000	198,000	209,000
Net increase in the fund	189,984	197,134	205,171

Contributions and payments are based on current expectations, the administration and investment management expenses are based on current budgets, and the net investment income and change in market value are based on the long term forecast returns for each asset class.

Fund Account	2015-16 £000	2016-17 £000	2017-18 £000
Pooled Funds	1,920,328	1,968,336	2,017,544
Equities	1,089,611	1,157,167	1,228,912
Absolute Return Funds	573,826	596,779	620,650
Investment Properties	335,463	351,230	367,738
Private Equity	197,702	214,309	232,311
Loans	56,878	59,324	61,875
Cash	53,267	53,534	53,801
Total Investment Assets	4,227,075	4,400,679	4,582,831

The forecasts for total investment assets are based on the actual allocations at 31st March 2015 figures multiplied by the forecast long term returns for each asset class as provided by the Fund's investment advisor.

These forecasts have also been adjusted for any investment decisions formally approved by the Committee prior to the date of publication of this annual report. They do not assume or take into account any other potential additions or disposals of investments within these asset classes during this 3 year period. The long term forecasts are as follows:

Asset Class	Long term forecast return
Equities	6.20%
Absolute Return	4.00%
Property	4.70%
Private Equity	8.40%
Fixed Income	2.50%
Secured Loans	4.30%
Cash	0.50%

These long term forecasts are revised every three years in line with the actuarial valuation exercise and the subsequent strategic asset allocation review with the next review taking place in 2016.

Operational Expenses

	2014-15 Forecast £000	2014-15 Actual £000
Administration/Oversight and Governance		
Employees	1,315	1,175
Supplies and Services	336	202
Investment Advisor Expenses*	0	171
Actuarial Fees	103	262
IT Costs	50	97
External Audit Fees	29	22
Printing & Postage	64	53
Legal Fees	29	27
Total	1,926	2,009

Investment Management

External Fund Managers	22,601	41,956
Custodian	167	178
Professional Fees*	103	0
Total	22,871	42,134

*Professional fees have been transferred into Oversight and Governance costs following the introduction of the CIPFA LGPS Management Costs guidance.

	2015-16 £000	2016-17 £000	2017-18 £000
Administration/Oversight and Governance			
Employees	1,322	1,355	1,389
Supplies and Services	200	210	221
Actuarial Fees	270	300	280
Investment Advisor Expenses	101	106	112
IT Costs	38	40	42
Capital Repayment Costs*	99	99	99
External Audit Fees	29	30	31
Printing & Postage	55	57	59
Legal Fees	31	33	35
	2,145	2,230	2,268
Investment Management			
External Fund Managers	26,618		29,439
Custodian	182	186	190
Professional Fees	128	131	135
Total	26,928	28,306	29,764

*The capital repayment cost is for the costs associated with the new administration software system implemented during 2014-15, which will be repaid over a period of 5 years.

The Cheshire Pension Fund pays over 24,800 pensioners every month, with a monthly gross payroll in excess of £10.7m million. Unfortunately mistakes can occur and with such a large volume of pensioner payments it is inevitable that there will be times when a member has been receiving more pension than they are entitled to. Wherever possible the Fund will attempt to recover any overpayment and will only write off an overpayment as a last resort when all other avenues have been exhausted.

Analysis of Pension Overpayments	2014-15	2013-14	2012-13	2011-12	2010-11	Total
Overpayments Recovered	£35,000	£32,000	£35,000	£47,000	£60,000	£209,000

Overpayments written off:

Deaths	£7,000	£11,000	£18,000
--------	--------	---------	---------

Annual Payroll (£000's)	£129,111	£124,638	£118,983	£110,946	£103,626	£587,304
Write offs as % of payroll	0.005%	0.00%	0.01%	0.00%	0.00%	0.00%
Number of cases written off	8	0	26	0	0	34
Number of cases recovered	37	35	46	61	123	302
Number of cases in the process of being recovered	7	8	10	8	11	44

Administrative Management Performance

Challenges in 2014/15

Each year as part of the Business Planning process, the main strategic challenges facing the Fund are identified and factored into the Business Plan. In the Scheme year 2014/15 the Fund implemented two strategic projects. The first project saw the introduction of the New LGPS 2014 as from 1st April 2014 the LGPS changed from a final salary scheme to a Career Average Revaluation Earnings (CARE) Scheme.

The second project was the introduction of a new pension administration software system which underpins every aspect of the Fund's business, from member record maintenance, to benefit calculation, to workflows, to allocating tasks to the Fund's administration staff. The Fund went live with new system on 2nd December 2014.

These two major projects were large and complex and in an 'ideal' world would normally have been implemented separately and over a two year period. Unfortunately due to circumstances beyond the Fund's control there was little alternative but to address both projects concurrently in 2014/15.

Introducing the LGPS 2014 Scheme

A key factor in the successful implementation of the new scheme was ensuring that employers and members understood the changes to the scheme. This process began in the months leading up to 1st April 2014 and the support continued through this scheme year

The Fund focused on two areas:

Firstly, ensuring that employers recognised and understood their revised responsibilities, under the new scheme by delivering

- Comprehensive HR / Payroll Operational Guides
- Employer Section of the website containing, factsheets, technical guidance
- Pension Workshops for large employers
- Access to a technical help desk

It was to be expected that it could take several months for such a significant change to the scheme to become embedded in employer processes and practices.

Secondly, the fund targeted communications to members and potential members to allow them to understand how the new scheme works, the benefits package available and the protection of pension earned up to 31st March 2014.

One of the main aims of the Fund was to limit the impact on members and to achieve a seamless transition from the old to the new scheme. In the main this was achieved, although all LGPS Funds were impacted by the late publication of statutory guidance on the transitional arrangements for existing members of the scheme and by the late arrival of Government Actuary Department factors required to perform some key pension calculations. As a result, rather than stock pile casework until these issues were addressed, the Fund took the decision to design and implement manual workarounds to process the business critical calculations, thereby minimising the disruption in quality of service to members.

New Pensions Administration System

In 2013 the Fund was given notice by its existing software provider of their intention to decommission its pension administration software.

This provided the Fund with the opportunity to review and consider its options for the type of administration system it required going forward. Particularly in trying to meet the changing face of LGPS administration and the increased expectation from scheme members, employers and other stakeholders on how they engage with pensions administrators.

The Fund, worked collaboratively with 10 other administering authorities to procure a new pension administration system by creating a national framework that would allow all LGPS Funds to call off a supplier from the framework. Following the creation of the national

framework, the Fund undertook its own selection process and appointed a provider off the framework, (Civica Ltd) to deliver the Fund's software solution.

New System Implementation

A pensions administration system is a vital component of the Fund's business and underpins for example, member record maintenance, calculating pension benefits, workflows and allocating tasks to the Fund's administration staff.

This project has been demanding and challenging in its complexity and placed significant pressures on the overall pension team as internal resources were diverted to the implementation project.

Implementing complex IT projects are notoriously challenging and it can be difficult to strike the correct balance between additional development and testing and making the decision to go-live.

The Fund went live with the new system on 2nd December 2014, recognising that not all functionality would be available to deliver 100% of services from day-one. The decision was made with an agreed plan for post go-live system development and workable manual work arounds, where appropriate.

CIPFA Benchmarking

The Fund participates in the Chartered Institute of Public Finance (CIPFA) Pensions Administration Benchmarking Club. The Club compares a wide range of statistics with other Administering Authorities in England and Wales to assess performance, with a drive to raising the standard of administration and keeping the service cost effective. The Fund is required to provide extensive data to CIPFA, including number of staff and the range of work that is carried out in each area.

The total cost of administering the Fund per member for the 2014/15 was £18.06 compared with £19.49 for 2013/14. This compared favourably with the average for local authorities of £18.68 for 2014/15 and £20.75 for 2013 /14

The annual cost of administering the Cheshire Pension Fund per member compared with the average cost for authorities in the benchmarking club is shown below.

Cost Per Member 2014 /15	Cheshire Pension Fund £	Average £
Staff	8.19	7.77
Payroll	1.84	1.16
Other direct costs	8.03	9.75
Total cost per member	18.06	18.68

The following table shows the Cheshire Pension Fund's total cost per member compared against a range of other local authorities within the benchmark club.

Comparison of unit cost per member 2014/15	
Highest	£34.00
Cheshire West & Chester	£18.06
Average	£18.68
Lowest	£12.00

Administration Performance

As noted earlier, the Administration Team has experienced unprecedented challenges in 2014/15 with the introduction of the New LGPS 2014 scheme and the migration and implementation of the new administration software system.

The Fund has prioritised minimising the impact that these two major projects have on our measured service level agreements.

Pre – go live Performance

Prior to implementing the new system in December 2014, the legacy pension system did not have the full functionality to process some of the key calculations, and as a result staff were required to perform manual workarounds to process the business critical calculations.

By concentrating resource in those areas where an immediate payment is due, the published target levels were met for all business critical process up to the point of implementing the new system on 2nd December 2014. However by targeting critical casework the processing of deferred pensions (no immediate payment due) and general enquires have taken a lower priority. As a result the published target levels were not met in all areas.

This re-prioritising of workloads was agreed by the Pension Fund Committee and progress against the Service Levels and the Business Plan was reported to the Committee at each quarterly committee meeting.

Post Go Live – Performance Statistics

Table 1 Administration Process Statistics from 1st April – 2nd December 2014

Process	Target for completion (days)	Number of cases up to go live	% processed within target
Letter detailing Transfer In Quote	10	216	87.50%
Letter detailing Transfer Out Quote	10	293	97.44%
Process and Pay Refund	5	194	40.00%
Letter notifying estimate of retirement benefit	10	1,775	100.00%
Letter notifying actual retirement benefit	5	1074	82.81%
Letter acknowledging death of member	5	416	100.00%
Letter notifying amount of dependant's benefits	10	64	N/A
Calculate and notify deferred benefits	10	992	40.33%

On 2nd December 2014 all ongoing casework was migrated from the legacy system to the new system. As the casework was in various stages of completion, and the processes and procedures are different in each of the two systems it was necessary to revert all open caseworks to the starting point in the new system. This inevitably had an impact on service delivery as each task had to be progressed from the starting point regardless of how far it had been progressed at the point of migration.

As part of the implementation, there was a ten-day business downtime to allow for software configuration, data migration and testing prior to go-live. The Fund also suffered an additional combined downtime of 9 business days as the Fund relocated its offices in Chester

and also to meet the Council's policy of an office shut-down over the Christmas period.

A combination of lost working days caused by enforced downtime, limited functionality at the point of go-live and all process migrated to the new system reverting to the starting point, restricted the volumes of cases we would normally complete and resulted in a reduction in meeting published service levels.

To mitigate the impact on members, the Fund continued to focus resource on those areas where an immediate payment is due, or for those employers who require redundancy estimates.

Table 2 Administration process Statistics from 2nd December 2014 to 31st March 2015

Process	Target for completion (days)	Number of cases processed	% processed within target
Letter detailing Transfer In Quote	10	20	80%
Letter detailing Transfer Out Quote	10	32	100%
Process and Pay Refund	5	135	77%
Letter notifying estimate of retirement benefit	10	340	100%
Letter notifying actual retirement benefit	5	119	81%
Letter notifying amount of dependant's benefits	10	80	100%
Calculate and notify deferred benefits	10	51	0*

*This is casework carried forward from the legacy system which could not be accurately measured against our published Service Level Agreement.

We expect that the pressures and demands placed on the Administration Team over the last 12 months may continue over the short term. However over the next year the service levels will improve due to the increased systems functionality and existing staff will develop their skills and understanding of the new pension software.

Performance table for 2013/14

2013/2014	Target for completion (days)	Number of cases processed	% processed within target
Letter detailing Transfer In Quote	10	329	99
Letter detailing Transfer Out Quote	10	531	99
Process and Pay Refund	5	136	80
Letter notifying estimate of retirement benefit	10	2,349	95
Letter notifying actual retirement benefit	5	1,499	97
Letter acknowledging death of member	5	541	98
Letter notifying amount of dependant's benefits	10	122	100
Calculate and notify deferred benefits	10	2,472	19

Retirements with enhanced – ill health, redundancy and efficiency of service

The following table shows the total number of pensioners at 31st March 2015 that had received an enhanced pension benefit as a result of retiring on ill health, redundancy or efficiency. It should be noted that members' who retire on tier 3 of ill health do not receive enhanced benefits and have been excluded. It is assumed that members' benefits are payable from the earliest age that the employee can retire without incurring a reduction to their benefit. Employers are required to pay additional contributions (strain) wherever an employer retires before attaining this age.

Reason for leaving	Number of pensioners 1,392	% of total number of pensioners 2014 /15
Ill Health Retirement	62	4.45%
Early Retirement (redundancy and efficiency)	480	34.48%



Analysis of membership as at 31st March 2015

The following table shows the percentage of the Fund's membership of active, members, deferred members and pensioners at 31st March 2015.

Differences between the data in the fund and membership chart and the table below can be attributed to rounding.

Age Group	Active		Deferred		Pensioner		Total
	Number	%	Number	%	Number	%	
0-5	0	0.00	0	0.00	1	0.00	1
5-10	0	0.00	0	0.00	11	0.04	11
10-15	0	0.00	0	0.00	38	0.15	38
15-20	126	0.37	12	0.05	98	0.39	232
20-25	966	2.82	336	1.39	42	0.17	1325
25-30	2107	6.16	1341	5.54	3	0.01	3404
30-35	2839	8.29	2074	8.57	2	0.01	4878
35-40	3416	9.98	2447	10.11	9	0.04	5843
40-45	4669	13.64	3310	13.68	21	0.08	7955
45-50	5925	17.31	4454	18.41	84	0.34	10437
50-55	6358	18.57	5031	20.79	195	0.79	10938
55-60	4626	13.51	3974	16.43	1016	4.09	9598
60-65	2457	7.18	1093	4.52	4502	18.14	8048
65-70	620	1.81	111	0.46	6510	26.23	7160
70-75	116	0.34	7	0.03	4332	17.46	4453
75-80	7	0.02	4	0.02	3188	12.85	3203
80-85	0	0.00	0	0.00	2358	9.50	2360
85-90	0	0.00	0	0.00	1519	6.12	1528
90-95	0	0.00	0	0.00	686	2.76	691
95-100	0	0.00	0	0.00	174	0.70	175
100-105	0	0.00	0	0.00	27	0.11	27
105 +	0	0.00	0	0.00	1	0.00	1
Total	34,232		24,194		24,817		83,243

Internal Dispute Resolution Procedure

There are times when Scheme members, employers and the administering authority may find themselves in disagreement about a pension issue. The first approach in these situations is for those involved to talk to each other to reach resolution. However, should this not prove possible, the Fund has established an Internal Disputes Resolution Procedure (IDRP).

The IDRP is a two stage process. When the Fund or an Employer makes a decision about a beneficiaries' benefit under the LGPS rules, if for any reason a member, pensioner, deferred pensioner or potential beneficiary is not satisfied about a decision made they can apply to the employer or the Fund to have their complaint reviewed under a stage 1 of the IDRP.

If the beneficiary is dissatisfied with the stage 1 decision they may move to a stage 2 of the IDRP within six months of the stage 1 decision.

If after the stage 2 decision the beneficiary is still dissatisfied they can contact The Pensions Advisory Service (TPAS) and ask for their assistance. Where the complaint or dispute cannot be resolved after the intervention of TPAS, the member has three years in which to apply to the Pensions Ombudsman for a decision.

The Pension Ombudsman can investigate any type of complaint about a beneficiary's pension, but the beneficiary must have been through stages 1 and 2 above of the IDRP before they contact the Ombudsman.

Fortunately such instances are few and far between. The table below is a summary of the IDRP's made against the Administering

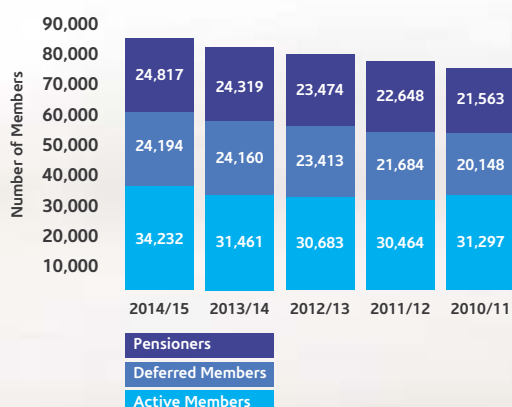
Stage	Cases Submitted during 14/15	Outstanding cases resolved in 14/15	Outstanding cases as % of benchmarked workload	Dismissed	Upheld
First	0	0	0	0	0
Second	0	2	0	2	0
Total	0	2	0	2	0

*Includes cases submitted from previous financial years

The total number of cases resolved during the year amounted to less than 0.1% of the total benchmarked workload.

Analysis of membership profile

Fund membership profile



Fund's Membership Profile over a five year period

The fund's membership continues to grow year on year across all membership categories with the number of pensioners increasing by the largest percentage. It is positive to note that despite continued pressure on public sector finances that the number of active members in the scheme increased year on year, as an increasing amount of employers are now obliged to auto-enrol new employees into the scheme.

Membership Category (at 31st March each year)

	March-11	March-12	% change	March-13	% change	March-14	% change	March-15	% change
Actives	31,297	30,464	-2.7%	30,683	0.7%	31,461	2.5%	34,232	8.8%
Pensioners	21,563	22,648	5.0%	23,474	3.6%	24,319	3.6%	24,817	2.0%
Deferreds	20,148	21,684	7.6%	23,413	8.0%	24,160	3.2%	24,194	0.1%
Total	73,008	74,796	2.4%	77,570	3.7%	79,940	3.1%	83,243	4.1%

Investment Policy & Performance

Asset Allocation

The Pension Fund's strategic asset allocation ("SAA") is formally reviewed every three years alongside the actuarial valuation. The SAA aims to deliver the long term target rate of return with an acceptable level of risk and provide an appropriate level of diversification across asset classes.

The SAA is considered and approved by the Pension Fund Committee after taking advice from the Fund's professional advisers.

Cheshire Pension Fund manages four investment strategies, each with a different level of investment risk and target return. Each of the four strategies has its own SAA which is approved by the Pension Fund Committee, and is monitored by the Investment Sub Committee.

Four distinct investment strategies give 200+ employers access to an appropriate level of risk, dependent on their individual characteristics (covenant strength, funding position, liability profile and time horizon). For example (everything else being equal) a less well funded employer would have an SAA with a greater exposure to equities (to access greater expected returns) than a better funded employer.

The Fund also operates a risk management strategy which enables this risk to be adjusted at predetermined funding level triggers. The risk management strategy enables the Fund to reduce investment risk as funding levels improve (or re-risk if the funding level deteriorates). De/re risking actions are only taken following confirmation that there will be no negative impact on employer contribution rates.

Further details on the Fund's investment strategy, risk management strategy and governance arrangements are available on the Fund's website:

http://www.cheshirepensionfund.org/?page_id=21

This annual report provides the SAA for each of the Fund's four investment strategies. The report also illustrates the aggregate effect of the four strategies on total Fund assets ("the aggregate SAA").

The asset allocation information set out in this annual report represents the aggregate of the four independent strategies ("the aggregate SAA").

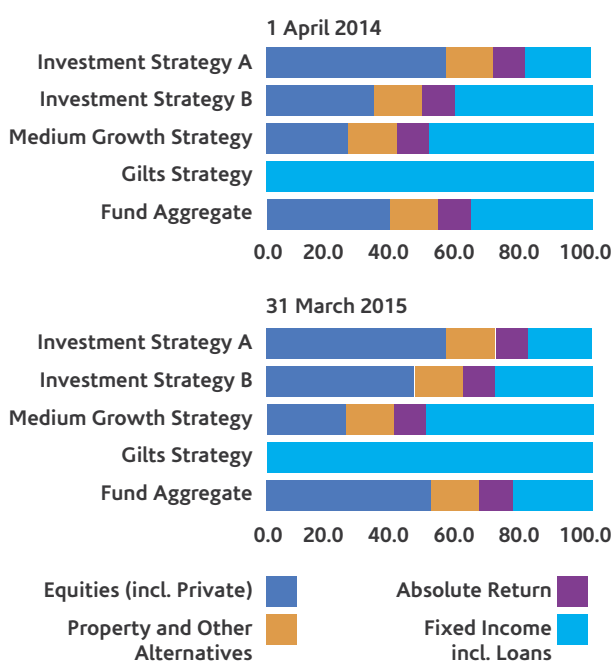
The following table and charts set out the Fund's aggregate SAA at 31 March 2015 and the SAA for each of the following investment strategies: Growth Strategy A; Growth Strategy B; Medium Growth Strategy and Gilts Strategy.

Aggregate Strategic Asset Allocation

Asset Class	2013 Strategic Allocation (%)	2014 Strategic Allocation (%)	Change +/- (%)
Equities (incl. Private)	50.8	38.3	-12.5
Fixed Income	24.2	36.7	+12.5
Absolute Return	15.0	15.0	
Property and Other Alternatives	10.0	10.0	

The SAA for each of the underlying strategies at the start and end of the financial year is illustrated in the following charts.

Strategic Asset Allocation – by Strategy

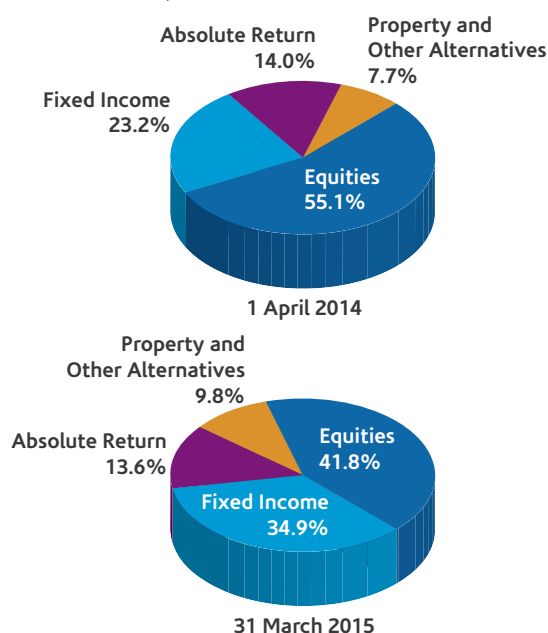


During 2014-15 Growth Strategy B's SAA was changed by the Pension Fund Committee with a 12% reduction in the allocation to equities and a corresponding increase in the allocation to fixed income. This was implemented in two equal tranches on 1 July 2014 and 1 October 2014. This change was in line with the Fund's governance arrangements and risk management strategy. During 2014-15 Growth Strategy B's funding level improved sufficiently to provide the opportunity to 'de-risk' and reduce the strategy's allocation to equities without adversely increasing employer contribution rates. The funding level improvement was a result of strong investment performance.

This was the only material change to SAAs during the year and is reflected in the aggregate SAA.

Each strategy's actual asset allocation is monitored against control ranges set by the Pension Fund Committee. Control ranges are reviewed annually in line with the Fund's governance arrangements. At 31 March 2015 the actual asset allocation for each strategy is in line with the control ranges set by the Committee.

The aggregate actual asset allocation of the Pension Fund at the start and end of the financial year is set out below. The figures are based on market value and reflect the relative performance of investment markets, the impact of asset allocation decisions made by investment managers and changes to strategic asset allocations during the financial year (as outlined above).



Appointed Investment Managers

The Fund has appointed 15 external investment managers to undertake the day to day management of the Fund's assets across 18 mandates. Each manager has a specific performance target against which their performance is regularly monitored. The value of direct assets under management (excluding any investment liabilities) by each manager and their respective benchmarks are shown in the table below:

Manager	Assets (£m)	Date appointed	Mandate	Investment Style	Benchmark	Performance Target
Legal & General	1,184	1993	Global Equities / Bonds	Passive Index Tracker	Tailored Benchmark	Track Index
Baillie Gifford Global Alpha	486	2011	Global Equities	Active	MSCI All World Index	+3%
Baillie Gifford Long Term Global	413	2005	Global Equities	Active	FTSE All World Index	+3%
GMO	127	2005	Global Equities	Active	MSCI World	+3%
Rockspring	320	1988	Property	Active	BNY Property Median	Outperform Index
BlueBay Asset Management	304	2015	Fixed Income	Active	LIBOR	+5-8% per annum
Henderson	201	2012	Fixed Income	Active	LIBOR	6% Absolute Return Target
M&G	163	2006	Secured Loans	Active	LIBOR	+1.75%
M&G	24	2009	UK Company Financing Fund	Active	LIBOR	10% per annum
M&G	31	2012	Distressed Debt	Active	LIBOR	15% per annum
Adam Street Partners	102	2003	Private Equity	Active	LIBOR	12%-15% IRR (net of fees)
Pantheon Ventures	75	2003	Private Equity	Active	LIBOR	8%-10% per annum
Lexington	4	2005	Private Equity	Active	LIBOR	10% per annum
Arrowgrass	132	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Permal	217	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Och Ziff	96	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Winton	108	2011	Absolute Return	Active	CPI	CPI + 5% per annum
Darwin	22	2014		Active	BNY Property Median	8-12% per annum
Money Market Funds	53	Various	Cash	Active	LIBOR	Outperform LIBOR
Total	4,060					

Geographic Distribution of Equity Investment

as at 31 March 2015

The Fund has £1,020m invested directly in equities around the world with a further £488m invested indirectly through pooled or collective investment vehicles. The geographical distribution of the Fund's equity investments including pooled funds is shown below:



Details of Largest Equity Investments

as at 31 March 2015

The Fund's 15 largest direct equity holdings are shown below:

Top 15 Direct Equity Investments	Market Value ("MV") (£m)	MV as a percentage of direct equity	MV as a percentage of total assets
Amazon.com Inc	53.7	5.3%	1.3%
Baidu Inc ADR	37.2	3.6%	0.9%
Tencent Holdings Ltd	36.6	3.6%	0.9%
Illumina Inc	32.4	3.2%	0.8%
Google Inc	30.3	3.0%	0.7%
Facebook Inc	27.0	2.6%	0.7%
Inditex Sa	19.4	1.9%	0.5%
Royal Caribbean Cruises Ltd	18.8	1.8%	0.5%
Tesla Motors Inc	18.6	1.8%	0.5%
Naspers Ltd	18.1	1.8%	0.4%
Intuitive Surgical Inc	17.9	1.8%	0.4%
Aia Group Ltd	17.6	1.7%	0.4%
Prudential Plc	16.5	1.6%	0.4%
Alibaba Group Holding Ltd ADR	16.4	1.6%	0.4%
Atlas Copco AB	15.8	1.6%	0.4%

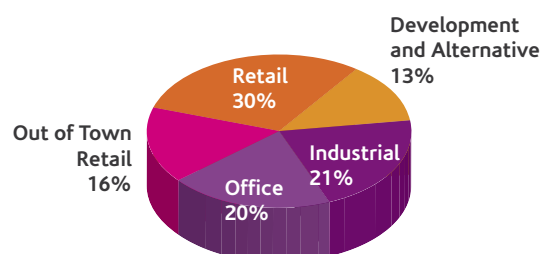
Property Holdings

The Fund holds direct UK property assets totalling £320m in a diversified portfolio of UK retail, industrial and office properties. A portfolio summary including the Fund's 10 largest holdings is shown below.

10 Largest Direct Property Holdings	Sector	Market Value (£m)
Flow 1 & 2, The Causeway, Staines	Office	31.5
City Gateway, Parkville Road, Southampton	Development and Alternative	22.6
Tweedbank Retail Park, Berwick upon Tweed	Out of Town Retail	21.8
154-162 Tottenham Court Road, London	Retail	21.8
Maybrook Retail Park, Sturry Road, Canterbury	Out of Town Retail	19.6
1,3 & 5a/2/4 Haymarket & Humberstone Gate, Leicester	Retail	18.0
Haddenham Business Park, Haddenham	Industrial	15.0
Transigo, Gables Way, Thatcham	Industrial	14.5
House of Fraser, 11-29 Victoria Street West, Grimsby	Retail	14.5
Sainsbury's, Engaine Drive, Shenley Church End Milton	Retail	14.0

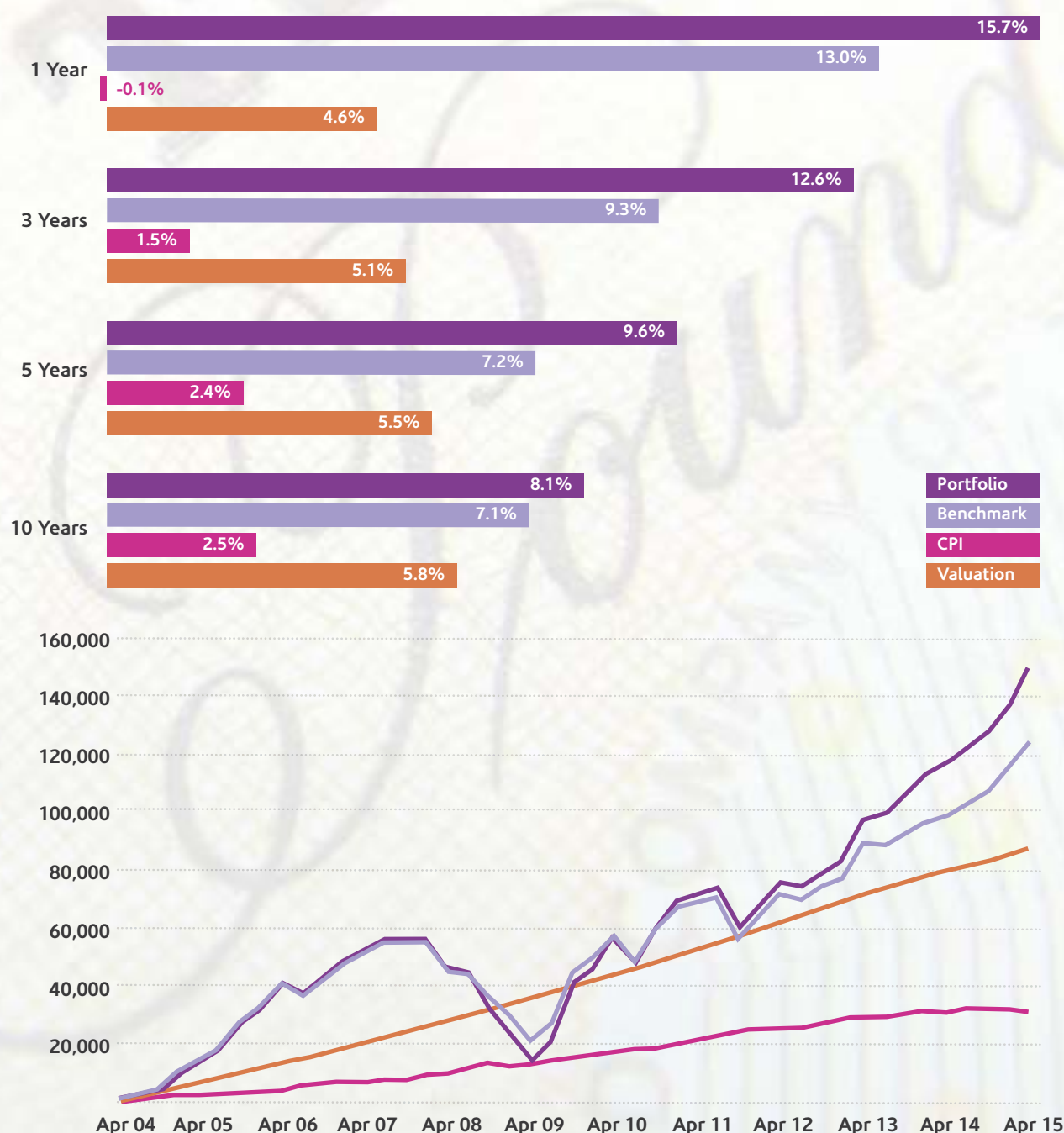
Note: Flow 1 and 2, The Causeway was sold during May 2015.

Sector Distribution



Investment Performance

The Fund uses a tailored benchmark that reflects its specific asset allocation rather than a peer group benchmark. The following tables show the performance of the Fund relative to its strategic benchmark, inflation (CPI) and the return assumption used by the actuary as part of the triennial valuation:



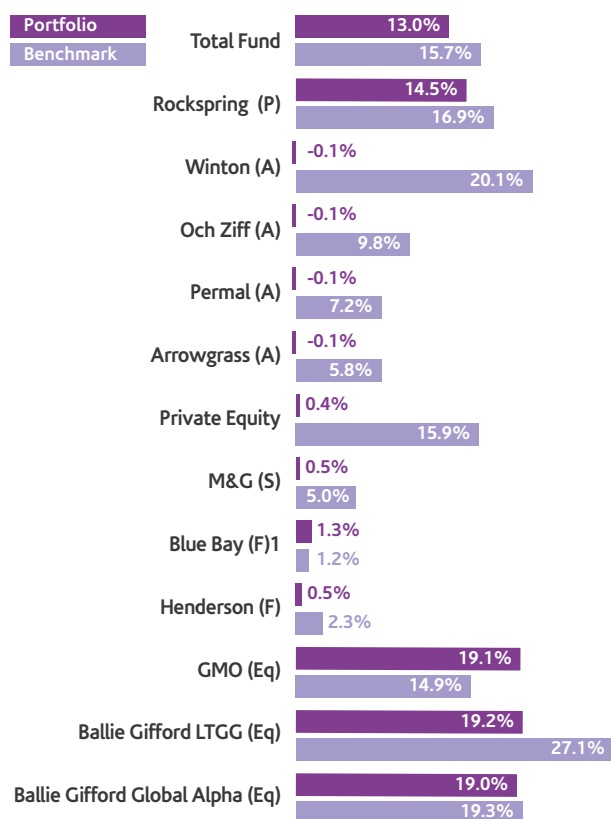
The Fund has produced a return in excess of its tailored strategic benchmark, CPI and the valuation assumption over all time periods.

At 31 March 2015, 70% of the Fund's assets were managed actively by external investment managers in the belief that over the long term, active management will add value (net of management fees) over index or benchmark returns.

Notwithstanding this expectation of outperformance from active management, the Fund's performance will inevitably be also linked to the performance of the global financial markets in which the managers invest. The Fund also gains market exposure through index tracking funds managed by Legal and General and this represents 30% of total assets.

Performance by asset class and investment manager is shown in the charts below.

One Year Performance by Active Investment Managers



Equities (Eq); Fixed Income (F); Secured Loans (S); Absolute Return (A); Property (P); (1) BlueBay performance measured over a period of less than one year.

- Publicly disclose their policy on how they will discharge their stewardship responsibilities.
- Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- Monitor their investee companies.
- Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- Be willing to act collectively with other investors where appropriate.
- Have a clear policy on voting and disclosure of voting activity.
- Report periodically on their stewardship and voting activities.

The Fund has adopted a number of specific policies to implement its approach to long term responsible investment and its responsibilities under the Stewardship Code.

Policies Adopted

The Fund adopts a policy of positive engagement with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the best long term interests of the Fund, its beneficiaries and other stakeholders.

Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Fund actively supports the work of LAPFF and sees this as an important element of its stewardship responsibilities.

Statement of Responsible Investment

The Cheshire Pension Fund adopts a long term approach to responsible investment. The Pension Fund Committee recognise their full responsibility for the oversight of assets and are charged with determining the overall investment strategy and the type of investment management used. The investment strategy is aimed at achieving best returns whilst minimising risk and overall variability in future employers' contribution rates. Environmental, social and governance (ESG) issues will be taken into account where these are considered likely to impact on returns.

The Fund supports best practice in corporate governance and adopts the Stewardship Code as recommended by the revised Myners Principles. The Code states that institutional investors should:

The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund delegates responsibility for voting to its appointed investment managers who are required to vote wherever the Fund has a voting interest. Wherever practicable, votes must be cast in accordance with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.

In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the fund, investment manager's quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the Fund's behalf. This is reported to the Investment Sub Committee on a quarterly basis and any exceptions or examples non-compliance are addressed directly with the Fund's managers.

The table below summarises the voting activity for the fund over the 12 months to 31st March 2015:

	UK	Overseas	Total	%
Number of Companies	44	653	697	
Votes Cast in Favour	821	6,401	7,222	92.02
Votes Cast Against	10	481	491	6.26
Votes Abstained / Withheld	4	131	134	1.71
Total number of Resolutions	835	7,013	7,847	100.00

Statement of Compliance with the UK Stewardship Code for Institutional Investors

The Cheshire Pension Fund supports the FRC Stewardship Code and, as part of its commitment to best practice, seeks to apply the Principles in the Code to its investment activity.

The day to day management of the Fund's assets is split delegated to its appointed investment managers and the Fund's adherence to the FRC Stewardship Code is set out below.

Principle 1 – Institutional investors should publically disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. The Fund believes that active stewardship will help to deliver high standards of corporate governance which will contribute positively to business performance over time by:

- encouraging accountability between directors, shareholders, and other stakeholders;
- strengthening the integrity of relationships between these bodies; and
- improving transparency in the way companies are run.

In practice, the Fund's policy is to apply the Code through engagement with investee companies, the utilisation of its voting rights, an interpretation of best practice guidelines, existing arrangements with its external investment manager, and through membership of the Local Authority Pension Fund Forum (LAPFF).

More details on the Fund's corporate governance strategy can be found in its Statement of Investment Principles, which is available on www.cheshirepensionfund.org.uk.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publically disclosed.

The Fund maintains and monitors a Register of Interests which is completed by members of the Pension Fund Committee. Pension Fund Committee members are required to make any declarations of interest prior to Committee meetings. These interests are disclosed on the Fund's website.

Principle 3 – Institutional Investors should monitor their investee companies.

The Pension Fund Committee delegates responsibility for managing the Fund's assets to the Investment Managers, who are expected to monitor companies and intervene where necessary. The Fund's appointed equity managers provide a quarterly report to the Investment Sub Committee on its level of engagement with investee companies. Additionally the Fund and its investment managers receive an "Alerts" service from the LAPFF which highlights corporate governance issues of concern at investee companies.

Ultimately, the Fund's investment managers can exercise their discretion not to vote in accordance with industry best practice. Where this discretion is exercised, the rationale for this decision is reported to the Investment Sub Committee on a quarterly basis.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's Investment Managers, including the escalation of engagement when necessary. Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation. Any such actions and subsequent outcomes are reported to the Pension Fund Committee in order to monitor activity and assess effectiveness.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

Collaborative engagement is a key part of a responsible investment strategy and the Fund will seek to work

collectively with other institutional shareholders in order to maximise the influence it can have on individual companies. The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attaching to its investments, where practical.

The Fund supports the principles underpinning the UK Corporate Governance Code. As a general rule, the Fund will vote in favour of resolutions which are in line with the UK Corporate Governance Code or comply with best practice. The Fund will vote against resolutions which do not meet these guidelines, or which represent a serious breach of best practice, or which will have a negative impact on shareholders rights. The Fund may abstain on resolutions which may have an adverse impact on shareholder rights, or represent a less significant breach of these guidelines, or where the issue is being raised for the first time with a company. The specific voting outcome will depend on the particular circumstances of the company and the types of resolution on the meeting agenda.

The Fund's appointed investment managers are responsible for the exercise of voting rights attaching to investments that are managed by them on behalf of the Fund.

Reports summarising the Fund's voting activity are presented to the Investment Sub Committee on a quarterly basis, and the Fund publishes summary details of voting activity in its Annual Report and Accounts.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

The Fund publishes details of its stewardship and voting activities in the Annual Report and Accounts.

Myners' Principles

The Myners' Principles are a set of principles for good investment governance, originally created in 2001 and subsequently updated in 2008. Local government pension funds are required to produce a statement in their annual report regarding

compliance with these Principles on a 'comply or explain' basis. The Myners' Principles are:

Principle 1: Effective Decision-Making

Principle 2: Clear Objectives

Principle 3: Risk and Liabilities

Principle 4: Performance Assessment

Principle 5: Responsible ownership

Principle 6: Transparency and Reporting

The Pension Fund's compliance with the Myners' Principles is shown in the following table:

Principle	Evidence of Compliance
Principle 1: Effective Decision Making Administering authorities should ensure: <ul style="list-style-type: none"> • 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 • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	Compliant Decisions are taken by the Pension Fund Committee which is responsible for the management of the Cheshire Pension Fund. The Committee has support from Council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.
Principle 2: Clear objectives An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	Compliant The Committee has established objectives for the Fund which take account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers. There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.
Principle 3: Risk and liabilities <ul style="list-style-type: none"> • 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. 	Compliant The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity. The Committee and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.

Principle**Evidence of Compliance****Principle 4: Performance assessment**

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

Partially compliant

The performance of the Fund and its individual managers are monitored on a regular basis.

The quality of advisers is assessed on a qualitative basis and is subject to periodic retender in order to ensure value for money.

The Pension Fund Committee does not yet have a formal process in place to measure its own effectiveness.

Principle 5: Responsible Ownership

Administering authorities should

- Adopt, or ensure their investment managers adopt, the Financial Reporting Council's (FRC) Stewardship Code 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.

Partially compliant

The Pension Fund Committee encourages its investment managers to adopt the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents on the Fund's behalf but not all of the managers comply fully with the ISC Principles.

The Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.

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.
- Should provide regular communication to scheme members in the form they consider most appropriate.

Compliant

The Pension Fund Committee maintains minutes of meetings which are available on the Council website.

The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Committee meetings.

The Statement of Investment Principles is published on the Fund's website and is available to members on request. Other information on the Scheme is available to members on the Fund's website.

Investment Administration and Custody

Whilst the Fund's appointed investment managers make and implement investment decisions, particularly in respect of the purchase and sale of stock, the practical consequences of their decisions in terms of the Fund's rights to, and benefits of, ownership of investments and cash are handled by custodians who are independent of the investment managers.

The Pension Fund's custodian is Bank of New York Mellon who is responsible for custody and safekeeping of assets within the segregated equity mandates managed by Baillie Gifford and GMO. The Fund's custodian is also employed to undertake an independent review and validation of the assets held in unit trusts with other investment managers and their own custodians. A full list of the custodians used by the Fund and its investment managers is provided below:

Investment Manager / Sub Fund	Asset Class	Custodian
Baillie Gifford	Segregated Equity	Bank of New York Mellon
GMO	Segregated Equity	Bank of New York Mellon
BlueBay Asset Management	Fixed Income	Brown Brothers Harriman
Henderson	Fixed Income	BNP Paribas
M&G	Secured Loans	State Street
Arrowgrass	Absolute Return	CITCO Fund Services
Och Ziff	Absolute Return	CITCO Fund Services
Winton	Absolute Return	CITCO Fund Services
Permal	Absolute Return	HSBC
Legal & General	Passive Equity / Gilts	HSBC

Both the investment managers and custodians report monthly on the investment transactions undertaken and officers of the Authority consolidate and analyse the data for accounting and management information purposes. The Investment Sub Committee receive detailed reports from each investment manager on a quarterly basis with any issues raised escalated to the full Pension Fund Committee.

Investment performance – link to Funding Strategy Statement

An output of the 2013 triennial valuation the actuary set a notional common contribution rate of 27.5%. In practice, no employer pays this notional rate as each individual employer will have a contribution rate which reflects their own particular circumstances.

Volatility in employer contribution rates can have a significant impact on payroll and the actuary has a regulatory requirement to ensure as constant a contribution rate as possible is maintained.

As part of the 2013 valuation process, extensive modelling was conducted to explore the long term effect on the Fund of capping or stabilising future contribution increases to avoid fluctuations in employer contribution rates resulting from formal funding valuations.

The results of this modelling indicated that it was justifiable to limit employer contribution rate changes to within defined limits of employers' contributions per annum, subject to the following conditions being met:

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

The table below summarises the actuary's recommendations for stabilised rates from the outputs of their modelling:

Type of Employer	Stabilisation Mechanism
Tax Raising bodies excluding Cheshire East Council (including Police and Fire and Parish Councils)	+0.5% pa/-0.5% pa
Cheshire East Council	+1.5% pa/-0.5% pa
Colleges	+2.0% pa/-0.5% pa
Academies	Same stabilisation as ceding local authority

All other employers were set an appropriate individual employer rate based on their own individual characteristics. This contribution rate may be different to their theoretical contribution rate. Any deviation will be based on their own circumstances and a range of factors including (amongst other things) their perceived security or covenant, any budgetary constraints that they may be bound by, their likely time horizon as an LGPS employer etc.

Two scheme employers phased in their contribution increases over a three year period.

During the year the Fund welcomed 31 new employers into the scheme, 26 schools converted to academies, 1 town Council passed a resolution to join the scheme, 1 company wholly owned by Cheshire West and Chester Council and 3 admitted bodies.

The LGPS regulations requires that admitted bodies carry out, to the satisfaction of the administering authority an assessment, taking account of actuarial advice, of the level of risk arising on the premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

Such a risk assessment was carried out for each of the three new admitted bodies and admission agreements and pension indemnity bonds were put in place by all three, to be reviewed on an annual basis.

A bond was not required by the wholly owned Council company, as the Council acted as guarantor should the company default on its pension obligations.



Scheme Administration Report

Pensions Section structure

The Pensions section sits within the Finance Service of Cheshire West and Chester council.

The section which deals with the day to day administration of the scheme membership is made up into four teams:

- **Data Management team** – responsible for indexing incoming post and e-mails onto member records, creating records for new members, amending records for existing active, deferred and pensioner members and data cleansing for the annual benefits statements and triennial valuation projects.
- **Benefits Team** – responsible for the calculation of retirement benefits, early leavers, deceased members, CETV calculations for divorced members, transfers in and out of the fund and arranging and maintaining AVC'S/added years/ARC'S/APC's contracts.
- **Employer Liaison and Communications Team** – responsible for notifying new employers of their responsibilities to the Cheshire Pension Fund, arranging and providing training to new employers, attending and delivering presentations at retirement seminars hosted at external sites, creating and maintaining factsheets for members and employers and updating the Cheshire Pension Fund website.
- **Systems Team** – responsible for maintaining the UPM pensions database to ensure it is backed up regularly, running monthly, quarterly and one-off reports through UPM to provide accurate statistics for CIPFA benchmarking data and other projects and providing assistance to staff members who are having issues with the UPM pensions database.

The number of full time equivalent (FTE) staff increased from 32.6 in 2013/14 to 35.5 as a result of the increased workload from implementing the new scheme from April 2014 and the administration system.

There are 28.1 FTE staff that work on the administration of the fund, 2.2 FTE working in communications and a further 5.2 staff working in employer liaison and pension fund investments.

Technology and Pensions Administration System

The Pensions section currently uses the UPM pensions administration software supplied by Civica, utilising benefit calculations, task management, document imaging, document production and workflow functionality. The legacy system (AXISe, which was supplied by Heywood) ceased to be supported from January 2015 and following a collaborative procurement exercise, the Council migrated to the UPM software during 2014. The implementation plan includes the roll out of employer and employee self-service functionality in 2015.

Pensioners payroll is processed through the Council's Oracle payroll system.

The Pension Fund has a dedicated website www.cheshirepensionfund.org which provides information on all aspects of the LGPS and has dedicated sections for the Fund's customer groups - including active members, deferred members, pensioners, councillor members and employers. It also contains key publications such as policy statements and a back collection of annual reports.

In 2013/14 a Cheshire Pension Fund twitter account @CPF_LGPS was launched to widen the communication channels open for the Fund to communicate to its customers. The Fund's Communication Policy Statement which provides an overview of how the Fund will communicate with its customers (members and employers) and stakeholders is laid out in the Communications Policy Statement section of this report.

Governance Arrangements

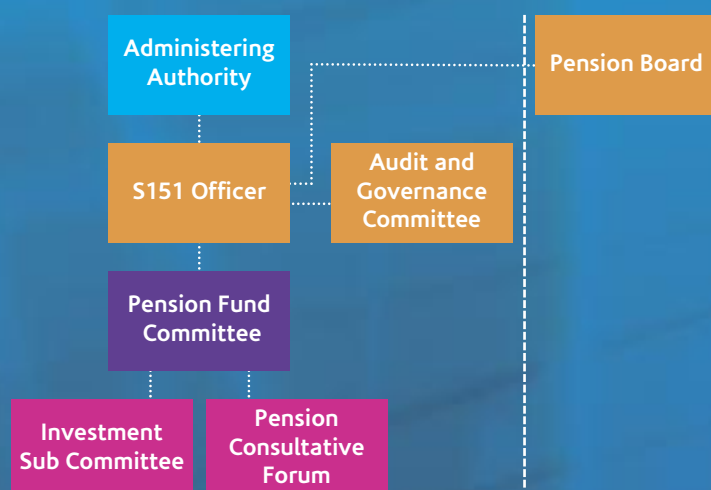
Overall responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council who have delegated the management and administration of the Fund to the Section 151 Officer.

The Full Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee.

The Local Pension Board assists the Council deliver efficient governance and administration of the Pension Fund responsibilities through the Council's Audit and Governance Committee.

The section 151 Officer is advised by the Pension Fund Committee and also takes appropriate advice from the Councils Head of governance, the Fund actuary and from the strategic Investment Advisor.

The Pension Fund Committee receives recommendations from the Investment Sub Committee and the Pensions Consultative Forum (PCF) to enable it to discharge its responsibilities effectively.



The Pension Fund Committee

The Pension Fund Committee's key responsibilities are to advise the s151 Officer on the management of the Cheshire Pension Fund, including the management of the administration of the benefits and strategic management of Fund assets, taking advice from a strategic and actuarial investment advisor. The Committee principally fulfil this responsibility by:

- Meeting quarterly, or otherwise as necessary, to effectively monitor the management and administration of the Fund;
- Monitoring investment policy and monitor overall investment performance;
- Overseeing the appointment and termination of investment managers;
- Reviewing performance benchmarks and targets for investment managers;
- Reviewing the funds governance arrangements and the effective use of its advisors to ensure good decision-making;
- Overseeing the Pensions Consultative Forum (PCF) arrangement and compliance with best practice;
- Receiving regular reports from the (PCF) on Scheme administration to ensure that best practice standards are satisfied and met and to satisfy itself and justify to stakeholders that the Fund is being run on an effective basis; and
- Reviewing and advising on the development of a Statement of Investment Principles, Funding Strategy Statement, Communication Policy, Governance Compliance Statement and publish a Pension Fund Annual Report.

The Committee receive recommendations from the Investment Sub Committee and the Pensions Consultative Forum (PCF) to enable it to discharge its responsibilities effectively.

The Pension Board

The role of an LGPS Board is defined by Public Service Pensions legislation and Regulations. The Board's aim is to assist the Administering Authority to ensure the effective and efficient governance and administration of the LGPS, including:

- securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- Securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- Such other matters as the LGPS regulations may specify.

The Board will ensure it effectively and efficiently complies with the Guidance issued by the LGPS Scheme Advisory Board and may determine the areas it wishes to consider including:

- Meeting for a minimum of two occasions during a twelve month period.
- Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.
- Monitor complaints and performance on the administration and governance of the scheme.
- Review the implementation of revised policies and procedures following changes to the Scheme.
- Review the arrangements for the development of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- Review the exercise of employer and administering authority discretions.
- Review the outcome of internal and external audit reports, review draft accounts and scheme annual report.
- Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.

The Investment Sub-Committee

The Sub Committee comprises 5 members of the Full Committee and ensures that the Pension Fund Committee limited governance time is utilised in the most efficient manner, with this sub-committee focussing on more complex investment issues.

- On a quarterly basis, review the performance of the Pension Fund and the Fund Managers against the objectives, benchmarks and targets set.
- Receive and consider any investment manager or service provider issues escalated to the Sub Committee by key officers.
- After taking appropriate advice, formulate and continually review a governance structure to ensure effective consideration, implementation and monitoring of investment opportunities for the opportunities fund
- After taking appropriate advice, identify and implement any tactical asset switches (within ranges prescribed by the Pension Fund Committee).
- Receive reports from the Fund's investment managers and other service providers on issues that may impact the Fund's investment strategy and objectives and consider if, and to what extent, any recommendations to the Pension Fund Committee may be necessary to ensure the efficient and effective performance of the Pension Fund.

Pension Consultative Forum

The Fund is keen for all stakeholders to participate in the governance of the Fund and achieves this through the Pension Consultative Forum which consists of employer representatives from Local Authorities, Police, Fire and Rescue Authorities, Housing Associations, Admitted Bodies, Colleges and the Trades Unions. The Forum allows the Fund's stakeholders to bring their own perspective to the management of the Fund. The Forum's key responsibilities are set out below.

The Forum will meet at least twice a year or otherwise as necessary to:

- Agree the terms and manage, on an ongoing basis, the Service Level Agreements in relation to the provision of administration services;
- Discuss the minutes and updates from the Pension Fund Committee and ensure the flow of information between the Committees and the Forum; and
- Ensure that the Forum's functions are discharged and approve the Annual Administration Reports.

Representation

Representation on the Pension Fund Committee, the Pension Consultative Forum and Pension Board.

Pension Fund Committee

The Committee has the following membership

Cheshire West and Chester Council	Elected Members	4 (voting rights)
Cheshire East Council	Elected Members	4 (voting rights)
Warrington Borough Council	Elected Members	1 (voting right)
Halton Borough Council	Elected Members	1 (voting right)
Employee representative	Unison Representative	1 (non voting right)

Cheshire West and Chester Council as Administering Authority ensure that the correct political balance is maintained.

Decisions are made by a clear majority and the Chairman of the Committee has a casting vote should there be equality in the voting.

Pension Consultative Forum

The Forum has the following membership:

- A Chairperson (who is also Chairperson of the PFC).
- An Employee Representative
- Up to two representatives from Cheshire West and Chester Council
- Up to two representatives from Cheshire East Council.
- One representative each from Warrington and Halton Borough Councils
- One employer representative from Cheshire Police, Cheshire Fire & Rescue, Colleges, Admitted Bodies, and the Housing Trusts.

Pension Board

The Board has the following membership:

- An Independent Chairperson (Appointed by Administering Authority after nominations and appointment process).
- Two employer representatives (with voting rights)
- Two member representatives (with voting rights)
- One Independent (no voting rights)

Governance Compliance Statement

Principle	Cheshire Pension Fund	Compliance
Structure		
The Management of the administration of benefits and strategic management of the fund assets clearly rests with the main committee established by the appointing council.	The Pension Fund Committee established by the Administering Authority has been given their remit.	Comply
The representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee.	Cheshire West and Chester Council is compliant with these principles; the Main Committee includes a member representative. The proposed secondary committee (Consultative Governance Forum) comprises of other Councils, Unison, Pensioner Representatives, Colleges and Admitted Bodies.	Full Compliance April 2009
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	The Pension Consultative Forum (PCF) will receive all papers sent to the main committee except where reports are deemed to be confidential (e.g. ongoing/open fund manager appointment reports) PCF meetings will be attended by representatives from the main committee and officers of the Council.	Full Compliance April 2009
Where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel.	The Chairman of the PCF will be a member of the main committee, together with the member representative (Unison Representative).	Full Compliance April 2009
Representation		
That all-key stakeholders are afforded the opportunity to be represented within the main or sub committee. These include <ul style="list-style-type: none"> • Employing authorities • Admitted Bodies 	Scheme Employers, Housing Trusts, Colleges and Admitted Bodies will be represented on the PCF.	Full Compliance April 2009
Scheme Members (including deferred and pensioner scheme members).	The main committee and the PCF include a trade union representative. The PCF will include a pensioner representative.	Full Compliance April 2009
Independent professional observers	The committee has expert advisors attending each meeting, however, we are currently reviewing this area in particular and looking at the profile and experience required for an independent advisor to compliment and add value to the proposed structure going forward.	Under Review Partial Compliance
<ul style="list-style-type: none"> • Expert advisors (on an ad hoc basis) 	Expert advisors attend each Committee meeting. For example, the actuary attends periodically when the valuation, and other issues are being considered, and the investment consultant attends each meeting.	Full Compliance
<ul style="list-style-type: none"> • The policy on voting rights is clear and transparent. 	To date all decisions have been reached by consensus, but voting rights remain with councillors on the main committee because the Council retains legal responsibility as the administering body. The PCF does not have voting rights as they are not members of the administering body. However, the PCF chairman and member representative are members of the main board, and will bring the perspectives of all stakeholders on the PCF to the main committee.	Full Compliance

Principle	Cheshire Pension Fund	Compliance
Training / Facility Time / Expenses		
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 re-imbursement of expenses in respect of members involved in the decision making process.	There is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process.	Full Compliance
Where such a policy exists, it applies equally to all members of the main and sub committees.	The policy applies equally to all members on the main and sub committees.	Full Compliance
Meetings (Frequency / Quorum)		
The main committee meets at least quarterly.	The main committee meets quarterly with additional special meetings as and when required.	Full Compliance
The sub-committee meets at least twice a year and is synchronised with the dates when the main committee sits.	The Pensions Consultative Forum will be formed in April 2009 and will meet at least twice a year.	Full Compliance April 2009
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees have equal access to committee papers, documents and advice that is considered at meetings of the main committee.	The sub- committee receives all papers sent to the main panel, except where reports are deemed to be confidential (such as ongoing/open fund manager appointment reports).	Full Compliance April 2009
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Cheshire West and Chester is fully compliant with this principle by bringing both investments and benefit issues to the current Pension Investment Panel. In future the introduction of the PCF will make the process more transparent and each body will have clear terms of reference.	Full Compliance
Publicity		
That the administering authority has published details of their governance arrangements in such a way, that those stakeholders with an interest in the way the scheme is governed, can express an interest to be part of those arrangements.	Cheshire West and Chester is fully compliant with this principle by publishing statements in the Annual Report and our Website.	Full Compliance

Member Training

The Cheshire Pension Fund is keen to maintain and develop the knowledge and skills of its trustees on a continual basis. In order to achieve this, the Fund continues to seek the most appropriate structure to deliver a comprehensive training package that supports the delivery of a first class service to employers and members alike.

The Fund's trustees and officers completed the CIPFA knowledge and skills framework questionnaire, which aimed to identify the knowledge base of those involved. It was pleasing that all parties had a strong base of knowledge for all aspects of the LGPS. Following completion of this exercise, the Fund has developed a rolling 2 year training and skills programme.

The programme is delivered by industry experts and external advisors and is directly linked not only to the knowledge and skills framework but also the key activities that will be of interest to the Funds employers and members. The training programme was approved by the Pension Fund Committee and will see the delivery of a training session every quarter. This training and education programme has been developed in accordance with the Funds Policy statement on the subject.

In addition to this formal plan the Fund will supplement these defined sessions with additional training and education to reflect current issues e.g. specific asset classes in advance of a procurement process, and seminars and conferences held by industry recognised professionals and the Funds existing advisors and fund managers.

During 2014-15 the following sessions were held for all members of the committee:

Date	Topic	Delivered by
20 June 2014	Local Investing Private Equity	Mercer Pantheon Enterprise Ventures
7 August 2014	Multi Asset Credit Property	Mercer
19 September and 24 October	Multi Asset Credit – the selection and appointment process	Officers Mercer
28 November 2014	LGPS Governance Pension Boards Secured Loans	Officers Mercer M&G
13 March 2015	Passive Equities Liability Driven Investing	Mercer

In addition to the above formal training arranged by Cheshire Pension Fund, one or more committee members attended the following events which include an element of training:

- LGC Investment Conference, 8-10 September 2014
- Baillie Gifford Investment Seminar, 19 June 2014
- Cheshire Pension Fund Employer Meeting and Training Day, 30 January 2015.

The Pension Fund Committee has designated the section 151 Officer to be responsible for ensuring that the policy in respect of training and education is implemented.

As the officer nominated by the pensions committee responsible for ensuring that the authority's training policies and strategies are implemented, the section 151 Officer can confirm that the officers and members charged with the financial management and decision-making of the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Mark Wynn
Head of Finance

Statement of Accounts



Cheshire Pension Fund - Fund Account
for the year ended 31 March 2015

	Notes	2014-15 £000	2013-14 RESTATED £000
Contributions and Benefits			
Contributions Receivable			
From Employers		139,946	116,792
From Employees		34,284	33,124
Total Contributions Receivable	6.1/6.2	174,230	149,916
Transfers in from Other Schemes			
	7	7,804	8,667
Benefits Payable			
Pensions		-129,111	-124,638
Lump Sums		-21,999	-21,051
Death Benefits		-3,443	-3,619
Total Benefits Payable	8	-154,553	-149,308
Payments to and on account of Leavers			
Refund of Contributions		-195	-13
Transfers to Other Schemes		-59,471	-8,534
	9	-59,666	-8,547
Net Additions / (withdrawals) from dealing with members		-32,185	728
Management Expenses			
	10	-44,143	-37,623
Returns on Investments			
Investment Income	11	35,840	40,608
Taxes on Income	12	-1,074	-920
Profits and losses on disposal of investments and changes in the market value of investments	13f	577,888	316,220
Net Returns On Investments		612,654	355,908
Net Increase/ (Decrease) in the Fund During the Year		536,326	319,013
Opening Net Assets of the Scheme		3,578,342	3,259,329
Closing Net Assets of the Scheme		4,114,668	3,578,342

*The fund account has been restated for 2013-14 to remove the separate classifications for administration and investment manager fees which have been replaced by Management expenses. The change is in accordance with the CIPFA guidance Accounting for LGPS Management Costs and resulted in changes to Management expenses, Profit and the Closing net assets (see Note 2).

Cheshire Pension Fund - Net Assets Statement as at 31 March 2015

	Notes	2014-15 £000	2013-14 £000
Investment Assets			
Pooled Investment Vehicles	13/f, 18/19	1,886,609	1,408,953
Equities	13/f, 18/19	1,000,624	1,129,018
Absolute Return Funds	13b/f, 18/19	551,756	496,466
Investment Properties	16	311,510	230,965
Private Equity	13c/f 18/19	214,969	195,454
Loans	13d/f, 18/19	54,534	57,632
Derivative Contracts	14, 18/19	855	479
		4,020,857	3,518,967
Cash	13e/f, 18/19	72,066	32,153
		4,092,923	3,551,120
Other Investment Balances		4,288	6,024
	13f, 18/19	4,097,211	3,557,144
Investment Liabilities			
Derivative Contracts	14, 18/19	0	-764
Total Net Investments	17	4,097,211	3,556,380
Long Term Assets			
	22	11,306	13,653
Current Assets			
	23		
Cash at Bank		185	47
Debtors		15,316	16,723
Current Liabilities			
	24		
Creditors		-8,732	-7,854
Receipts In Advance		-618	-607
Net Current Assets		6,151	8,309
Total Net Assets		4,114,668	3,578,342

*The cash and other investment balances have been restated in 2013-14 (see Note 2) which has also resulted in changes to the Total Net Investments and Total Net Assets figures.

Note 1 – Description of the Fund

The Cheshire Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Cheshire West & Chester Council (The Council). The Council is the reporting entity for this pension fund.

The following description is a summary only. For more detail, reference should be made to the Cheshire Pension Fund Annual Report and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

The scheme is governed by the Public Service Pensions Act 2013 and is 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

The LGPS is a statutory, funded pension scheme. The LGPS is administered by the Council to provide pensions and other benefits for pensionable employees of Cheshire West and Chester, Cheshire East, Halton and Warrington Borough Councils and a range of other scheduled and admitted bodies within the County area. The Fund excludes provision for teachers, fire fighters and police officers as they come within other national pension schemes. A full list of the employers with active members participating in the Fund is shown at the end of the Fund's Statement of Accounts.

Responsibility for managing the Fund lies with the full Council of Cheshire West & Chester Council with lead officer responsibility delegated to the Section 151 Officer, who undertakes the day to day management of the Fund. The Head of Finance is advised, with regard to investment matters, by the Pension

Fund Committee and external advice from Mercer. The Fund also receives actuarial advice from Hymans Robertson. The Pension Fund Committee reports directly to the Cheshire West and Chester Audit and Governance Committee.

The Cheshire Pension Fund manages four investment strategies each with different objectives and different allocations to growth assets and defensive assets. The overarching principle being to tailor investment strategies to better match the risk / return requirements of employers, on their journey towards the long term funding objective. A key part of the Fund's investment strategy is the dynamic risk management framework. The risk management framework ensures that employers only take the level of investment risk that is necessary to meet their funding objectives by adjusting the strategic asset allocation and investment risk profile based on pre-determined funding level triggers.

At 1 April 2014 the Fund managed four investment strategies each defined by their respective allocation to growth assets and defensive assets:

Growth Strategy A	80% Growth / 20% Defensive
Growth Strategy B	70% Growth / 30% Defensive (58%/42% at 31 March 2015)
Medium Growth Strategy	50% Growth / 50% Defensive
Gilts Strategy	0% Growth / 100% Defensive

There have been two key developments during the financial year, firstly Growth Strategy B's funding level had progressed sufficiently that investment risk was reduced during July and September 2014. At 31 March 2015 Strategy B's strategic asset allocation was 58% Growth / 42% Defensive. Risk reduction was achieved through a disinvestment from equities and an investment in Index Linked Gilts (UK Government Bonds).

The second development during the year saw a disinvestment from fixed income mandates managed by Baillie Gifford and Goldman Sachs and an investment in the BlueBay Total Return Diversified Credit Fund. The initial investment in BlueBay (26 January 2015) of £300 million was the final step in the Fund's strategy to restructure the fixed income portfolio in light of the prevailing low yield environment. BlueBay and Henderson as the Fund's core fixed income managers both have mandates to deliver returns whilst actively managing interest rates risk.

The Fund made a £20 million investment in the Darwin Leisure Property Fund. This investment was funded from cash reserves and now forms part of the Fund's alternatives portfolio. The Fund also took the opportunity to dispose of the remaining units in The Property Industrial Trust managed by Rockspring with the units being purchased by another investor in the fund allowing the pension fund to reinvest in other priority areas.

To manage the Fund's assets in accordance with its investment strategy, the Council has 15 appointed external investment managers who each have specific responsibility for part of the Fund's investment portfolio.

The Council uses the services of BNY Mellon Asset Servicing to independently monitor the performance of the investment strategy and the contributions of individual managers. Performance is monitored against the Fund's tailored asset allocation benchmark rather than to a peer group benchmark.

BNY Mellon Asset Servicing reported that for the year ending 31 March 2015 the Fund achieved a return from its investments of +15.7% (+9.8% in 2013-14) compared with the Fund's tailored benchmark return of +13.0% (+4.9% in 2013-14). For the three years ending 31 March 2015 the Fund achieved an annualised return of +12.6% per annum against the Fund's benchmark return of +9.3% per annum.

Membership

In accordance with the Governments Automatic Enrolment Legislation, eligible employees are automatically enrolled into the LGPS from their first day of employment, however membership of the LGPS is voluntary and employees are able to choose to remain in the scheme, opt out of the Scheme, re-join at a later date or to make their own personal arrangements outside of the scheme.

Organisations participating in the fund include:

- Scheduled bodies (scheme employers), which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund; and
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking public sector authority functions following outsourcing to the private sector.

There are 210 employer organisations with active members who were contributing into the fund as at 31 March 2015, including the Administering Authority itself, as detailed below:

Cheshire Pension Fund	31 March 2015	31 March 2014
Number of employers with active members	210	177
Number of employees in the scheme		
Cheshire West and Chester Council	7,521	7,481
Other employers	25,527	23,980
Total	33,048	31,461
Number of pensioners		
Cheshire West and Chester Council	1,644	1,404
Other employers	23,173	22,915
Total	24,817	24,319
Number of Deferred pensioners		
Cheshire West and Chester Council	2,944	2,784
Other employers	21,250	21,376
Total	24,194	24,160
Undecided Leavers	1,184	1,121
Total Membership	83,243	81,061

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employer's contributions which are set based on triennial actuarial valuations. The last such valuation was at 31 March 2013. The next valuation will be based on information as at 31 March 2016.

Benefits

Prior to 1 April 2014, Pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x pension . In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

LGPS 2014

From 1 April 2014, the LGPS became a career average revalued earnings scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is inflated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For details, please refer to the fund scheme handbook which is available from the Fund or visit the website www.cheshirepensionfund.org.

	New Scheme
Basis of Pension	Career Average Revalued Earnings (CARE)
Accrual Rate	1/49th
Revaluation Rate	By order of Her Majesty's Treasury
Contribution Flexibility	Members can pay 50% contributions for 50% of the pension benefit
Normal Pension Age	Equal to the individual member's State Pension Age (minimum 65)
Death in Service lump sum	3 x assumed pensionable pay
Death in Service survivor benefits	1/160 accrual basis
Ill-health provision	Three Tiers
Indexation of pension in payment	Pensions Increase Orders (presently CPI)
Qualifying period for benefits	2 years

Note 2 – Basis of Preparation

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

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is appended to the statement of accounts. Further information is included within Note 21 of these accounts.

The accounts contain a number of restatements to the 2013-14 figures as follows:

The Fund Account has been restated to remove the separate classifications for Investment Management and Administration Expenses which have been replaced by Management expenses. The change is in accordance with the CIPFA guidance Accounting for LGPS Management Costs. Further detail is provided in Note 10. As well as separate categories for Investment Management Fees and Administration costs an additional category of Oversight and Governance Costs has been introduced and costs have been redistributed across the three categories in accordance with the CIPFA guidance.

Investment Management Expenses have been restated to include £11.8m of fees and expenses which had been deducted at source relating to Fund of Fund investments. The profit and loss on disposal of investments and changes in market value of investments has similarly been increased by £11.8m to reflect the deductions of these fees from the Market Value (see Note 13f). Transaction costs of £1.279k have also been adjusted on the same basis.

Investment manager fees have also been restated to remove £107k relating to a fee rebate which had been misclassified. The profit and loss on disposal of investments and changes in market value of investments has similarly been reduced by £107k to reflect this amendment (see Note 13f).

The Net Assets Statement has been restated. Cash has been increased by £1.048m due to a misclassification of £9k previously included within Other Investment Balances and an omission of £1.039m. Other Investment Balances has also been restated for an omission of £1k of accrued income (see Notes 13e and 13f).

An amount of £235k relating to the Magistrates Court bulk transfer has been reclassified as a current rather than long term debtor (see notes 22 and 23).

The interest rate risk and credit risk disclosures in note 18c have been restated to include Index Linked Gilts of £171k managed by Legal and General which were omitted.

Note 3 – Summary of significant accounting policies

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employer's augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme regulations (see notes 7 and 9).

Individual transfers in/out are accounted for when they are received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 7).

Bulk (group) transfers are accounted for on a cash basis once terms have been agreed and payment made to/from the respective fund.

c) Investment income

- Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.
- Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.
- Foreign income has been translated into sterling at the date of the transaction. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Fund account – expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management Expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs. The comparator figures for 2013-14 have been restated to reflect the implementation of the CIPFA guidance. Consequently management expenses reported in the Fund Account for 2013-14 have been increased by £11.8m and Profit and Loss on disposal of investments and changes in the market value of investments has similarly been increased by £11.8m to reflect the deductions of these fees from the Market Value.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the fund has negotiated with the following managers that an element of their fee be performance related:

- Baillie Gifford
- Goldman Sachs Asset Management
- M&G Investments
- Arrowgrass Capital Partners
- Permal
- Winton Capital
- Och Ziff Capital Management
- Darwin

Performance related fees amounted to £17.29m in 2014-15 (£12.2m in 2013-14 Restated) for managers who outperformed the benchmark.

Performance fees for 2013-14 have been restated from £6.96m to £12.2m to account for the additional fees which had been deducted at source relating to fund of fund assets.

Where an investment manager's fee invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. The total of fees based on estimates in 2014-15 was £4.6m relating to fees due for the quarter ending 31 March 2015 (£1.9m in 2013-14).

Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged directly to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Net Assets Statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date with the exception of any assets classified as loans and receivables, e.g. cash and debtors, which will be measured at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, debt securities and absolute return funds. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price.

The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- Investments in unquoted property funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the funds share of the net assets in the private equity fund or limited partnerships using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association. Where these valuations are not at the Fund's balance sheet date, the valuations have been adjusted having due regard to latest dealings, asset values and other appropriate financial information at the time of preparing these statements, in order to reflect our balance sheet date.

iii) Pooled investment vehicles

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 reinvested in the fund, net of applicable withholding tax.

iv) Freehold and leasehold properties

The investment properties were valued at open market value as 31 March 2015 by Colliers CRE, Chartered Surveyors in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards. Acquisition costs of investments are included in the Total Purchase Cost.

h) Foreign currency transactions

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank

accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The Fund uses derivative financial instruments predominantly to manage its exposure to specific risks arising from its investment activities. The Fund's equity managers can utilise forward foreign currency exchange contracts to express market views.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value (note 13f).

The values of futures contracts are determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the investment manager.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash in hand and on demand deposits, and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date, excluding creditors which are measured at amortised cost. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 Employee Benefits and relevant actuarial standards.

As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the fund has opted not to disclose the actuarial present value of promised retirements in the net assets statement, instead providing the information by reference to an accompanying actuarial report. A copy of the full actuarial calculation is appended to the Statement of Accounts.

m) Additional voluntary contributions

The Fund provides an Additional Voluntary Contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Clerical Medical, Standard Life and Equitable Life as its AVC providers. Individual members AVC contributions are paid directly to the AVC provider by their respective employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. Further detail can be found in Note 25.

Note 4 – Critical judgements and key sources of estimation uncertainty

In the application of the Fund's accounting policies, which are described in Note 3, those charged with governance of the Fund are required to make judgements, estimates and assumptions about the values of assets and liabilities which are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Note 4.1 – Critical Judgements in applying accounting policies

The Cheshire Pension Fund does not have any critical judgements contained within the accounts.



Note 4.2 – Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains some estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain.

Estimates are made taking into account historical experience, current trends and other relevant factors, however, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £215m (£195.5m 2013-14). There is a risk that this investment may be under or overstated in the accounts.
Absolute Return funds	Absolute Return funds are valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the funds directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total value of absolute return funds in the financial statements is £552m (£496m in 2013-14). There is a risk that this investment may be under or overstated in the accounts.
Pension fund liability	The pension fund liability is calculated every three years by the Funds actuary, Hymans Robertson, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in the actuarial calculation which is included within the Annual Report. This estimate is subject to significant variances based on changes to the underlying assumptions.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would reduce the value of the liabilities by approximately £374m. A 0.5% increase in assumed earnings inflation would increase the value of the liabilities by approximately £114m and a 1 year increase in assumed life expectancy would increase the liabilities by approximately £119m.

Note 5 – Events After the Balance Sheet Date

Under the Public Service Pensions Act 2013 and Regulation 106 of the Local Government Pension Scheme Regulations 2013 there is a requirement for all Administering Authorities to establish a Local Pensions Board (LPB) by 1st April 2015. The first meeting of the LPB for Cheshire Pension Fund will be held before the end of July 2015.

As part of a consolidation of services in the North West of England, the fire control centres for Greater Manchester, Cheshire, Cumbria and Lancashire were combined into a single entity (North West Fire Control who are an employer in the Cheshire Pension Fund) on 29 May 2014 with assets of £966k being received from Lancashire Pension Fund during 2014-15. A further £2.33m has been received from the Greater Manchester Pension Fund on 18th May 2015.

The Valuation Tribunal Service seeks to consolidate its Local Government Pension Scheme administration by transferring all assets and liabilities to the London Pension Fund Authority (LPFA). The effective date of consolidation is proposed as 1 July 2015. It is expected that assets totalling circa £550k will be transferred to LPFA between 1 July 2015 and 31 March 2016.

Note 6 – Contributions Receivable

Note 6.1 – Employer and Employee Contributions Receivable

* Employer Normal Contributions may include an element towards reducing any deficit in the scheme's funding position. At the triennial valuation (31 March 2013) the Actuary calculated a common employer contribution rate of 27.5% of which 8.2% targeted recovering the funding deficit with 19.3% towards future service costs. These rates apply to the 2014-15 contribution figures.

The common contribution rate from the 2010 valuation was 22.8%, of which 6.7% targeted recovering the funding deficit with 16.1% towards future service costs. These rates apply to the 2013-14 figures.

It is estimated that employers contributed a notional £40.6m in 2014-15 (£32.6m in 2013-14) towards deficit funding.

The deficit funding figure of £40.6m includes a payment of £25m from Cheshire West and Chester Council who elected to pay their full three year deficit contribution as a lump sum.

The cost of early retirements represents the contributions relating to Employers meeting the capitalised costs of discretionary early retirements. The Fund recharges the Employers for such costs and the income received is made up of both one-off lump sum payments and instalments. The accounts recognise the full cost due from early retirement contributions from scheme employers who have the option of paying over more than one year.

Augmentation Contributions include those payable by Employers to provide new benefits or to augment benefits awarded to specific members under LGPS regulations.

	2014-15 £000	2013-14 £000
Employers Normal Contributions	95,441	78,405
Employees Normal Contributions	34,284	33,124
Employers Deficit Funding*	40,550	32,628
Employers Cost of Early Retirements (pension strain)	3,886	5,477
Employers Augmentation Contributions	69	282
Total	174,230	149,916

6.2. – Analysis of Contributions Receivable

	2014-15		2013-14	
	Employers £000	Employees £000	Employers £000	Employees £000
Scheme Employers	80,546	22,986	76,858	22,404
Cheshire West & Chester Council	44,612	7,191	28,502	7,643
Community Admission Body	11,687	2,965	10,260	2,786
Transferee Admission Body	3,101	1,142	1,172	291
Total	139,946	34,284	116,792	33,124

Note 7 – Transfers in from other Pension Funds

	2014-15 £000	2013-14 £000
Transfers from other Local Authorities	3,455	5,306
Transfers from other pension funds	3,383	3,361
Bulk Transfers	966	0
Total	7,804	8,667

The group transfer figure of £966k relates to a transfer of assets from Lancashire Pension Fund relating to the consolidation of the fire control service in the North West of England which have combined into North West Fire Control who are employer in the Cheshire Pension Fund.

Note 8 – Benefits payable

	2014-15 £000	2013-14 £000
Scheme Employers	97,459	93,647
Cheshire West & Chester Council	44,044	43,429
Community Admission Body	9,245	8,635
Transferee Admission Body	3,805	3,597
Total	154,553	149,308

Note 9 – Payment to and on account of leavers

	2014-15 £000	2013-14 £000
Group Transfers	53,800	0
Individual Transfers	5,671	8,534
Refunds to Members leaving service	195	13
Total	59,666	8,547

The group transfer figure of £53.8m relates to the transfer of assets to the Greater Manchester Pension Fund who were appointed to administer the LGPS in respect of the National Probation Service from 1 June 2014. The assets were transferred in November 2014.

The refunds to members leaving the service relates to members who opted out of the scheme within two years of joining. The individual transfer figure represents the cash payments from the Fund in relation to individual scheme members' who have left the scheme and transferred their benefits to another pension provider.

Note 10 – Management

	2014-15 £000	2013-14 £000
Investment management	42,134	35,150
Administration costs	1,321	1,653
Oversight and governance costs	688	820
Total	44,143	37,623

Expenses

The analysis of the costs of managing the Cheshire Pension Fund during the period has been prepared in accordance with CIPFA Guidance – Accounting for LGPS Management Costs.

Note 10a – Investment Management Expenses

	Management Fees £000	Performance Fees £000	Other Expenses £000	Total £000
2014-15				
Absolute Return Fund	9,437	13,152	8	22,597
Equities	3,084	3,113	2,698	8,895
Private Equity	4,212		764	4,976
Loans	1,438	1,024		2,462
Pooled Funds	2,170			2,170
Investment Properties	856			856
Custody Fees	178			178
Total	21,375	17,289	3,470	42,134

The other expenses figure of £3.470m includes transaction costs of £2.672m. No costs have been included for carried interest.

	Management Fees Restated £000	Performance Fees Restated £000	Other Expenses Restated £000	Total Restated £000
2013-14				
Absolute Return Fund	8,798	9,049		17,847
Equities	4,163	1,700	1,279	7,142
Private Equity	4,613		732	5,345
Loans	1,263			1,263
Pooled Funds	1,319	1,452		2,771
Investment Properties	620			620
Custody Fees	162			162
Total	20,938	12,201	2,011	35,150

The other expenses figure of £2.011m includes transaction costs of £1.279m. No costs have been included for carried interest.

Investment manager fees for 2013-14 have been restated (see Note 2).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds of sales from investments (see Note 13f).



Note 10b – Administration Costs

	2014-15 £000	2013-14 Restated £000
Direct Staffing	985	975
Other Supplies and Services	193	500
IT	97	125
Printing and Postage	53	53
Legal Expenses	2	3
Income	-9	-3
Total	1,321	1,653

Administration costs for 2013-14 have been restated in accordance with CIPFA guidance (see Note 2)

Note 10c – Oversight and Governance Costs

	2014-15 £000	2013-14 £000
Direct Staffing	190	254
Actuarial Fees	262	388
Investment Advisor Expenses	171	103
External Audit Fees	22	30
Legal Expenses	27	35
Other Expenses	16	10
Total	688	820

	2013-14 £000	2012-13 £000
Dividends from Equities	15,678	19,697
Net Rents from Properties	11,622	12,104
Income from Fixed Interest Securities	7,131	7,890
Income from Pooled Investment Vehicles:		
Other	266	292
Property	7	253
Stock Lending	598	235
Interest from Cash Deposits	293	99
Other	245	38
Total	35,840	40,608

Note 12 – Taxes on income

	2014-15 £000	2013-14 £000
Withholding tax - Equities	530	742
Withholding tax – Private Equity	541	177
Withholding tax - Other	3	1
Total	1,074	920

The Fund is exempt from UK income tax on interest and from capital gains tax on the profits resulting from the sale of investments. The Fund is exempt from United States withholding tax on dividends and can recover all or part of the withholding tax deducted in some other countries. The amount of withholding tax deducted from overseas dividends which the Fund is unable to reclaim in 2014-15 amounts to £1.074k and is shown as a tax charge, compared to £920k in 2013-14.

As Cheshire West & Chester Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment and property expenses.

Note 13 – Investments

	2014-15 £000	2013-14 Restated £000
Investment Assets		
Equities		
Overseas Quoted	936,980	1,037,499
UK Quoted	63,644	91,519
Pooled Investments		
UK Government Index Linked	696,466	170,775
Fixed Income – Multi Strategy	504,491	452,641
UK Equity Listed	240,827	321,405
Overseas Equity Listed	251,009	296,441
Secured Loans	163,326	155,588
UK Property	21,567	0
Overseas Unit Trusts – Property	8,894	10,652
UK Unit Trusts – Property	0	1,425
UK Equity Unlisted	29	26
Absolute Return Funds	551,756	496,466
Investment Properties	311,510	230,965
Private Equity	214,969	195,454
Cash Deposits	72,066	32,153
Loans	54,534	57,632
Derivative Contracts:		
Forward currency contracts	855	479
Other investment balances:		
Outstanding dividends	4,288	6,024
	4,097,211	3,557,144
Investment Liabilities		
Derivative Contracts:		
Forward currency contracts	0	-764
Net Investments	4,097,211	3,556,380

The Fund made a £20 million investment in the Darwin Leisure Property Fund. This investment was funded from cash reserves and now forms part of the Fund's alternatives portfolio. The Fund also took the opportunity to dispose of the remaining units in The Property Industrial Trust managed by Rockspring with the units being purchased by another investor in the fund allowing the pension fund to reinvest in other priority areas.

The changes have impacted upon the year on year comparison figures for UK Property and UK Unit Trusts Property respectively.

The cash and other investment balances in 2013-14 have been restated (see Note 2).

Note 13a – Fixed Income Multi Strategy

The Fund has invested in two pooled fixed income investment vehicles managed separately by Henderson and BlueBay. The Fund disinvested its fixed income mandate with Goldman Sachs Asset Management during the year. The underlying assets of these pooled vehicles are invested by the managers in diversified portfolios of a wide range of fixed income assets including Government Bonds (UK and Overseas), Corporate Bonds, High Yield Bonds, Emerging Market Bonds, Asset and Mortgage Backed Securities, Secured Loans and currency. Within these mandates managers may use derivative instruments to manage its exposure to specific risks arising from its investment activities.

Note 13b – Absolute Return Funds

	Strategy	2014-15 £000	2013-14 £000
Permal	Hedge Fund of Funds	216,977	202,567
Arrowgrass Capital Partners	Multi Strategy Hedge Fund	131,588	124,419
Winton Capital	Commodity Trading Advisor	107,672	89,650
Och Ziff Capital Management	Multi Strategy Hedge Fund	95,519	79,830
Total		551,756	496,466

Note 13c – Private Equity

	Number of Funds	2014-15 £000	2013-14 £000
Adam Street Partners	16	117,155	105,445
Pantheon Ventures	7	92,785	84,222
Lexington	1	5,029	5,787
Total		214,969	195,454

Note 13d – Loans

The Fund has committed £50m to the M&G UK Financing Fund which is a limited partnership whose investment objective is to take advantage of difficulties in the UK banking sector and lend monies to UK FTSE350 companies through senior debt and equity linked instruments. As at the 31st March 2015 £33.8m of this commitment had been drawn down.

The Fund has also committed £30m to the M&G Debt Opportunities Fund which aims to take advantage of discrete market opportunities that arise over time. As at the 31st March 2015 the full £30m of the commitment had been drawn down.

Note 13e – Cash

	2014-15 £000	2013-14 Restated £000
Cash Deposits	(176,785)	4,621
Cash Instruments	248,851	27,532
Total	72,066	32,153

The Fund hedges its direct European and US Dollar equity exposure through forward currency contracts on a three month rolling cycle.

The forward currency contract relating to the January to March hedge was settled on 31 March 2015. In line with the Fund Custodian's accounting policy trades settled after the accounting cut off are allocated to the following business day. This is reflected in the substantial cash instrument figure which offsets the overdrawn cash deposit balance as at 31 March.

The 2013-14 cash deposits figure has been restated (see Note 2)



Note 13f – Reconciliation of movements in Investments and Derivatives

	Fair Value at 31 March 2014 £000	Purchases at cost and derivative payments	Sales proceeds and derivative receipts £000	Change in Fair value £000	Fair Value at 31 March 2015 £000
Pooled Investment Vehicles	1,408,953	1,111,678	-850,995	216,973	1,886,609
Equities	1,129,018	492,618	-795,780	174,768	1,000,624
Absolute Return Funds	496,466	1,449	-22,596	76,437	551,756
Private Equity	195,454	27,760	-86,066	77,821	214,969
Investment Properties	230,965	47,423	-8,509	41,631	311,510
Loans	57,632	3,321	-6,349	-70	54,534
	3,518,488	1,684,249	-1,770,295	587,560	4,020,002
Derivative Contracts:					
Forward currency contracts	479	2,664	-2,408	120	855
	3,518,967	1,686,913	-1,772,703	587,680	4,020,857
Cash	32,153	49,705		-9,792	72,066
	3,551,120	1,736,618	-1,772,703	577,888	4,092,923
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	6,024				4,288
	3,557,144				4,097,211
Investment Liabilities					
Derivative Contracts:					
Forward currency contracts	-764				0
Net Investments	3,556,380				4,097,211



	Fair Value at 31 March 2013 Restated £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts Restated £000	Change in Fair value Restated £000	Fair Value at 31 March 2014 Restated £000
Pooled Investment Vehicles	1,306,341	576,051	-534,856	61,417	1,408,953
Equities	994,003	346,633	-357,161	145,543	1,129,018
Absolute Return Funds	460,638	31,428	-46,266	50,666	496,466
Private Equity	204,748	10,372	-42,237	22,571	195,454
Investment Properties	188,249	22,254	-15,661	36,123	230,965
Loans	38,618	20,962	-5,264	3,316	57,632
	3,192,597	1,007,700	-1,001,445	319,636	3,518,488
Derivative Contracts:					
Futures	334			-334	0
Forward currency contracts	962	5,550	-6,044	11	479
	3,193,893	1,013,250	-1,007,489	319,313	3,518,967
Cash	34,030	1,216	0	-3,093	32,153
	3,227,923	1,014,466	-1,007,489	316,220	3,551,120
Outstanding dividend entitlements, accrued interest and recoverable withholding tax	4,723				6,024
	3,232,646				3,557,144
Investment Liabilities					
Derivative Contracts:					
Futures	-20				0
Forward currency contracts	-788				-764
Net Investments	3,231,838				3,556,380

The cash and other investment balances in 2013-14 have been restated (see Note 2).

The sales and change in fair value figures have been restated due to adoption of the CIPFA LGPS Management Costs guidance and for misclassifications (see Note 2).

	Asset 2014-15 £000	Liability 2014-15 £000	Asset 2013-14 £000	Liability 2013-14 £000
Forward Foreign Exchange Contracts	855	0	479	764
Total	855	0	479	764

Contract	Settlement Date	Currency Bought		Currency Sold		Asset £000	Liability £000
		£000		£000			
Forward OTC	3 months	96,878	GBP	143,000	USD	491	0
Forward OTC	3 months	112,710	GBP	155,000	EUR	364	0
Total Derivatives						855	0

2013-14 Forward Foreign Exchange Contracts

Contract	Settlement Date	Currency Bought		Currency Sold		Asset £000	Liability £000
		£000		£000			
Forward OTC	3 months	2,154	USD	1,316	GBP		-24
Forward OTC	3 months	1,188	EUR	1,623	USD	9	
Forward OTC	3 months	435,496	JPY	4,203	USD	16	
Forward OTC	3 months	435,496	JPY	4,203	USD	34	
Forward OTC	2 months	71	USD	64	CHF		-1
Forward OTC	2 months	663	USD	491	EUR		-8
Forward OTC	2 months	748	SGD	590	USD	3	
Forward OTC	2 months	908	USD	672	EUR		-11
Forward OTC	2 months	1,046	SGD	824	USD	4	
Forward OTC	2 months	932	USD	1,034	CAD		-3
Forward OTC	2 months	1,190	USD	1,076	CHF		-17
Forward OTC	2 months	1,202	USD	1,087	CHF		-17
Forward OTC	2 months	1,202	USD	1,087	CHF		-17
Forward OTC	2 months	1,317	USD	1,485	AUD		-35
Forward OTC	2 months	1,393	USD	1,571	AUD		-38
Forward OTC	2 months	1,597	USD	1,771	CAD		-5
Forward OTC	2 months	2,479	USD	1,833	EUR		-28
Forward OTC	2 months	1,679	USD	1,892	AUD		-45
Forward OTC	2 months	510,148	JPY	5,031	USD		-46
Forward OTC	2 months	673,396	JPY	6,639	USD		-60
Forward OTC	2 months	683,599	JPY	6,741	USD		-62
Forward OTC	2 months	683,599	JPY	6,744	USD		-63
Forward OTC	2 months	1,099	USD	6,940	NOK		-36
Forward OTC	2 months	18,723	USD	11,474	GBP		-243
Forward OTC	2 months	1,011	USD	608	GBP		-1
Forward OTC	2 months	2,030	SGD	1,602	USD	7	
Forward OTC	2 months	1,801	USD	183,340	JPY	13	
Forward OTC	2 months	2,064	USD	1,234	GBP	4	
Forward OTC	2 months	3,045	SGD	2,415	USD	4	
Forward OTC	2 months	5,404	USD	550,020	JPY	38	
Forward OTC	2 months	3,045	SGD	2,416	USD	3	
Forward OTC	1 month	124,278	JPY	1,210	USD		-2
Forward OTC	1 month	1,027	USD	6,120	NOK	3	
Forward OTC	1 month	124,278	JPY	1,209	USD		-2
Forward OTC	1 month	1,023	USD	6,120	NOK	0	
Forward OTC	3 months	80,496	GBP	134,000	USD	65	
Forward OTC	3 months	162,400	GBP	196,000	EUR	276	
Total Derivatives						479	-764

Forward currency contracts are used to hedge the risks associated with the foreign currencies represented by the securities held, or to adjust the foreign currency exposure of the Fund.

The Fund hedges its European equity exposures by investing in a hedged European equity mandate with Legal and General. The Fund also hedges its direct European and US Dollar equity exposure through forward currency contracts. As at the year end the balance was £855k (£341m in 2013-14).

Note 15 – Stock Lending

In accordance with the LGPS (Management and Investment of Funds) Regulations 2009 the Fund allows its' stock to be lent provided that the total value of the securities loaned out does not exceed 25% of the total Fund value. The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon and only accepts government and quasi government bonds as collateral against loaned stock to safeguard the Fund's assets. During the year ended 31 March 2015 the Fund earned £598k (£235k 2013-14) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £51.5m (£57.9m 2013-14) and the value of collateral held was £56.08m (£63.6m 2013-14).

Note 16 – Investment in properties

	2014-15 £000	2013-14 £000
Freehold	263,425	207,175
Leasehold	41,935	18,770
Heritable	6,150	5,020
Total	311,510	230,965

Note 16a – Property Income

	2014-15 £000	2013-14 £000
Rental Income	14,694	14,186
Surrender premiums	48	0
Dilapidations	0	50
Interest/Misc Income	2	7
Direct Operating Expenses	-3,076	-2,064
Net Rental Income	11,668	12,179

Note 16b – Fair Value of Investment Properties

	2014-15 Restated £000	2013-14 Restated £000
Balance at the start of the year	230,965	188,249
Additions	47,423	22,254
Disposals	-8,509	-15,661
Net gain/loss on fair value	41,631	36,123
Balance at the end of the year	311,510	230,965

At the year-end there were no amounts of restrictions on the realisability of investment property or the remittance of income on proceeds of disposals.

Contractual obligations for development, repairs and maintenance amounted to £8.5m (£157k in 2013-14). There were no obligations to purchase new properties.

The disposals and net gain/loss figures have been restated by due to adoption of the CIPFA LGPS Management Costs guidance in relation to transaction costs. The disposal figure has decreased by £556k with a corresponding increase in the net gain/loss on fair value (see Note 2).

Note 16c – Operating Leases

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating an appropriate investment returns.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund (and reflected in the Net Assets Statement).

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

Age profile of lease income	2014-15 £000	2013-14 £000
No later than one year	2,490	1,963
Between one and five years	5,280	4,298
Later than five years	9,240	6,723
Total	17,010	12,984

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease entered into, such as adjustments following rent reviews.

Note 17 – Investment by Fund Manager

	2014-15 £000	2014-15 %	2013-14 Restated £000	2013-14 Restated %
Legal & General	1,184,107	29.0	741,253	20.8
Baillie Gifford	899,151	21.9	783,165	22.0
Rockspring Property Investment Managers	321,312	7.8	244,522	6.9
BlueBay	303,685	7.4	0	0
M&G Investments	219,442	5.4	215,275	6.1
Permal	216,976	5.3	202,566	5.7
Henderson	200,805	4.9	196,258	5.5
Arrowgrass Capital Partners	131,588	3.2	124,419	3.5
GMO	126,849	3.1	459,575	12.9
Adams Street Partners	117,155	2.9	105,445	3.0
Winton Capital	107,672	2.6	89,650	2.5
Och Ziff Capital Management	95,519	2.3	79,830	2.2
Pantheon	92,785	2.3	84,222	2.4
Fidelity (Money Market)	24,528	0.6	7,123	0.2
Deutsche Bank (Money Market)	23,056	0.6	6,111	0.2
Darwin	21,567	0.5	0	0
Bank of New York Mellon	5,954	0.1	5,826	0.1
Lexington Capital Partners	5,029	0.1	5,787	0.2
HG Capital	29	0.0	26	0.0
Internal	2	0.0	9	0.0
Goldman Sachs Asset Management	0	0	205,318	5.8
Total	4,097,211	100	3,556,380	100

A review of the investment strategy during 2014-15 saw a disinvestment from fixed income mandates managed by Baillie Gifford and Goldman Sachs and an investment in the BlueBay Total Return Diversified Credit Fund.

The Fund made a £20 million investment in the Darwin Leisure Property Fund. This investment was funded from cash reserves and now forms part of the Fund's alternatives portfolio. The Fund also took the opportunity to dispose of the remaining units in The Property Industrial Trust managed by Rockspring with the units being purchased by another investor in the fund allowing the pension fund to reinvest in other priority areas.

The increase in value on investments managed by Legal and General and corresponding reduction in value in assets managed by GMO is attributable to the implementation of the Fund's risk management strategy. Funding level improvements for those employers in growth strategy B have enabled the Fund to reduce exposure to growth assets with GMO and increase the allocation to matching assets through the purchase of index linked gilts with Legal and General.

These changes have impacted upon the year on year comparison figures for Legal and General, GMO, BlueBay, Darwin and Goldman Sachs.

Note 17a - Concentrations of Investments

The CIPFA Code of Practice requires disclosure where there is a concentration of investment which exceeds either 5% of the total value of the net assets of the scheme or of any class or type of security. Five investments fall into this former category as follows:

Security Description	Market Value 31 March 2015 £000	% of total fund	Market Value 31 March 2014 £000	% of total fund
Legal and General – Over 5 Yr Index Linked Gilts	696,466	17.0	170,775	4.81
BlueBay Total Return Diversified Credit Fund*	303,685	7.41	0	0
Permal (Fauchier) - Jubilee absolute return fund	216,976	5.30	202,566	5.64

*The assets identified were only held by the fund in one of the two years.



Investments which fall into the second category are as follows:

	Market Value 31 March 2015 £000	% of Asset Type	Market Value 31 March 2014 £000	% of Asset Type
Fixed income				
BlueBay Total Return Diversified Fund	303,685	60.20	0	0
Henderson horizon total return bond	200,805	39.8	196,258	43.36
Absolute return				
Jubilee absolute return fund	216,976	39.32	202,566	40.80
Arrowgrass International Fund	131,588	23.85	124,419	25.06
Winton Futures GBP Fund	107,672	19.51	89,650	18.06
OZ Overseas Fund II	95,519	17.31	79,830	16.08
UK Listed Equities				
L&G UK Equity Index	240,827	79.03	321,404	78.94
UK Government index linked gilts				
Over 5 Year Index Linked Gilts	696,466	100.00	170,775	100.00
Secured loans				
M&G European Loan Fund	163,326	87.26	155,588	84.26
M&G UK Companies Financing Fund	23,841	12.74	29,059	15.74
Loans				
M&G Debt Opportunities Fund	30,692	100.00	28,573	100.00
Property				
Burgan House, Staines	31,500	9.46	24,800	10.74
Southampton City Gateway, Southampton	22,560	6.77	17,960	7.78
Tweedbank Retail Park, Berwick on Tweed*	21,800	6.55	0	0
Tottenham Court Road, London*	21,750	6.53	0	0
Darwin*	21,567	6.47	0	0
Maybrook Retail Park, Canterbury	19,600	5.88	17,330	7.50
1, 3, 5 and 7 Haymarket and 2-4 Humberstone Gate, Leicester	18,000	5.40	17,000	7.36
Property – Unit Trusts				
German Retail Box Fund	8,707	97.89	8,065	66.78
Private Equity				
Pantheon 2008 Europe VI	23,369	10.87	20,150	10.31
Pantheon 2004 USA Fund VI	18,447	8.58	15,891	8.13
Pantheon 2007 USA Fund VIII	15,099	7.02	12,221	6.25
ASP 2005 US Fund	14,437	6.72	14,273	7.30
Pantheon 2007 Asia Fund V	13,932	6.48	10,916	5.59
ASP 2007 Direct Co-Investment Fund II	13,910	6.47	8,929	4.57
ASP 2007 US	13,350	6.21	11,654	5.96
Pantheon 2004 Europe Fund IV	11,468	5.33	14,974	7.66
ASP 2006 US	11,403	5.30	11,091	5.67
Cash and cash instruments				
BNY Mellon Sterling Liquidity Fund	20,770	30.17	14,300	51.05
Fidelity Institutional Liquidity Fund	24,528	9.84	7,123	25.43
Deutsche Bank Global Liquidity Managed Fund	23,046	9.24	6,109	21.81
UK Equity unlisted				
Mercury Unquoted 2nd Fund	22	75.92	20	75.51
Mercury Unquoted 1st Fund	7	24.08	6	24.49

*The assets identified were only held by the fund in one of the two years.

Note 18 – Financial Instruments

Note 18a – Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the market value of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2015			31 March 2014 Restated		
	Fair value through profit and loss £000	Loans and receivables at amortised cost £000	Financial liabilities at amortised cost £000	Fair value through profit and loss £000	Loans and receivables at amortised cost £000	Financial liabilities at amortised cost £000
Financial assets						
Pooled investments	1,886,609			1,408,953		
Equities	1,000,624			1,129,018		
Absolute return Funds	551,756			496,466		
Private equity	214,969			195,454		
Loans	54,534			57,632		
Derivative contracts	855			479		
Cash		71,556			31,671	
Other investment balances		4,273			6,011	
Debtors		26,621			30,376	
	3,709,347	102,450	-	3,288,002	68,058	-
Financial Liabilities						
Derivative contracts	0			-764		
Other investment balances						
Creditors			-8,732			-7,247
	0	-	-8,732	-764	-	-7,247
Total	3,709,347	102,450	-8,732	3,287,238	68,058	-7,247

The cash and other investment balances have been restated (see Note 2).

Note 18b – Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and liabilities presented in the Fund's net asset statement. The fair values presented in the table are at a specific date and may be significantly different from the amounts which were actually paid or received on the maturity or settlement date. Loans and receivables are included for current assets measured at fair value whereas long term assets are excluded. The carrying value excludes long term debtors of £11.3m (£18m in 2013-14) and investment managers cash and accruals of £22.4m (£12.8m in 2013-14) which are both included in the fair value figure as per the financial instruments note 18a.

	2014-15		2013-14	
	Carrying Value £000	Fair Value £000	Carrying Value £000	Fair Value £000
Financial assets				
Loans and receivables	68,776	102,450	36,193	67,019
Fair value through profit and loss	3,709,346	3,709,346	3,288,002	3,288,002
Total Financial assets	3,778,122	3,811,796	3,324,195	3,355,021
Financial Liabilities				
Fair value through profit and loss	0	0	-764	-764
Total Financial Liabilities	0	0	-764	-764

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



Note 18c - Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Fair value measurement defines an active market as a market in which transactions for the financial instrument occur with sufficient frequency and volume to provide pricing information on an ongoing basis, as well as the reporting date. Products classified as level 1 comprise listed equities, exchange traded futures, options and an element of absolute return funds.

Level 2

Financial instruments at level 2 are those whose values are based on quoted market prices that are not as active as level 1 markets or based on models whose inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Products classified as level 2 comprise bonds and loans, less liquid and restricted equity securities, absolute return funds and over the counter derivatives.

Level 3

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

Such instruments would primarily include private equity investments and also some elements of the absolute return fund investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in absolute return funds are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent external audit of the individual funds.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into levels 1 to 3, based on the level at which the fair value is observable. The table does not reconcile back to the net assets figure as it excludes direct property and items which are valued at amortised cost (i.e. loans and receivables).

Values as at 31 March 2015	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Available for sale assets	2,884,413	593,893	230,186	3,708,492
Fair value through profit and loss	0	855	0	855
Total Financial assets	2,884,413	594,748	230,186	3,709,347
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	0	0	0
Total Financial Liabilities				
Net financial assets	2,884,413	594,748	230,186	3,709,347

Values as at 31 March 2014	Quoted Market Price Level 1 Restated £000	Using observable inputs Level 2 Restated £000	With significant unobservable inputs Level 3 Restated £000	Total Restated £000
Financial assets				
Available for sale assets	2,434,357	640,452	212,714	3,287,523
Fair value through profit and loss	0	479	0	479
Total Financial assets	2,434,357	640,931	212,714	3,288,002
Financial Liabilities				
Financial liabilities at fair value through profit and loss	0	-764	0	-764
Total Financial Liabilities	0	-764	0	-764
Net financial assets	2,434,357	640,167	212,714	3,287,238

The split of the available for sale assets between levels 1 and 2 have been restated by £88.6m as the assets for Winton were previously categorised 100% as level 2 when they should have been split between levels 1 and 2. The Loans and receivables figure of £68,058k has also been included as it was omitted in error.



A reconciliation of fair value measurement in Level 3 is set out below:

	2014-15 £000	2013-14 £000
Opening balance	212,714	223,498
Acquisitions	27,760	10,372
Disposal proceeds	-84,032	-39,161
Total gains / (losses) included in the fund account:		
On assets sold	0	0
On assets held at year end	71,417	18,005
Closing balance	227,859	212,714

Note 18d– Breakdown of Asset Values

The table below summarises the asset between types of assets and whether they are quoted or unquoted (excluding direct property and items valued at amortised cost i.e. cash and accruals).

	Quoted Market Price £000	Unquoted Market Price £000	2014-15 Total £000	Quoted Market Price £000	Unquoted Market Price £000	2013-14 Total £000
Equity Securities:						
Consumer	450,852		450,852	424,558		424,558
Manufacturing	134,018		134,018	173,018		173,018
IT	135,697		135,697	160,855		160,855
Financial Institutions	134,139		134,139	159,116		159,116
Other	57,946		57,946	73,682		73,682
Health and Care	46,411		46,411	45,694		45,694
Energy and Utilities	41,562		41,562	92,095		92,095
Private Equity	3,459	211,510	214,969	1,164	194,290	195,454
UK Property	21,567		21,567			
Real Estate – Overseas property		8,894	8,894		12,077	12,077
Investment Funds and Unit Trusts:						
Equities	789,447	6,103	795,550	788,621	26	788,647
Bonds	897,271		897,271	374,851	77,790	452,641
Absolute Return Funds	172,043	379,713	551,756	52,121	444,345	496,466
Other		163,326	163,326		155,588	155,588
Secured Loan Investments		54,534	54,534		57,632	57,632
Derivatives		855	855	-626	341	-285
Total	2,884,412	824,935	3,709,347	2,345,149	942,089	3,287,238

Note 19 – Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce risk exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet the fund's forecast cash flows. The Council manages these investment risks as part of its overall Pension Fund risk management programme.

Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. Policies are reviewed regularly to reflect changes in activity and in market changes.

a) Market risk

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

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

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry

sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. 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 Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

In consultation with the Fund's investment advisers and, following analysis of historical data and expected investment return movement during the financial year, the administering authority has determined that the following movements in market price risk are reasonably possible for the 2014-15 reporting period:

Asset Type	Potential market movements % (+ / -)
Private Equity	24.2
Global Equities - Emerging	29.5
Global Equities - Developed	17.4
UK Equities	17.4
Property Unit Trusts	15.1
High Yield	9.2
Absolute Return Funds	8.2
Corporate Bonds	3.6
Government Bonds	3.7
Cash	1.4

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. The tables do not reconcile back to the net assets figure as they exclude direct property.

Asset Type	Value as at 31 March 2015 £000	Percentage Change %	Change in Value on increase £000	Change in Value on decrease £000
Global equities – Developed	1,081,252	17.4	188,138	-188,138
Government Bonds	994,077	3.7	36,781	-36,781
Absolute Return Funds	551,756	8.2	45,244	-45,244
UK equities	305,332	17.4	53,128	-53,128
Corporate bonds	228,446	3.6	8,224	-8,224
High Yield	217,860	9.2	20,043	-20,043
Private equity	214,998	24.2	52,030	-52,030
Global equities – Emerging	90,394	29.5	26,666	-26,666
Cash	87,037	1.4	1,219	-1,219
Property Unit Trusts	8,894	15.1	1,343	-1,343
Investment income due	4,274	0.0	-	-
Net derivative assets	855	0.0	-	-
Total assets available to pay benefits	3,785,175		432,816	-432,816

Interest rate risk

The Fund invests in a number of interest bearing instruments such as Government bonds, corporate bonds and secured loans for the primary purpose of obtaining a return on those investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

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

Asset Type	2014-15 £000	2013-14 Restated £000
Corporate and Government Bonds	1,200,956	623,416
Cash and cash equivalents	24,492	17,873
Cash balances	47,573	13,232
Total	1,273,021	654,521

The corporate and government bonds figure in the above table has been restated to include Index Linked Gilts of £171k managed by Legal and General (see Note 2).

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.

The £1,200.96bn fair value of the bond mandates managed by Henderson and BlueBay are particularly sensitive to movements in interest rates. This sensitivity is measured by their duration of 2.07, 3.7 and 23.1 years respectively.

A 1% increase in the prevailing level of interest would decrease the aggregate fair value of these mandates by £176.2m (£58.07m in 2013-14). Likewise a 1% decrease in the level of interest would be expected to increase the fair value of these mandates by a similar amount.

The secured loans invested in by M&G and Henderson, and the UK Financing Fund loans and Debt Opportunities Fund managed by M&G, are typically structured with a floating rate payment structure, whereby a fixed basis point spread is paid over the prevailing reference rate, typically 3 month LIBOR or EURIBOR. As a result, there is negligible interest rate risk involved in these investments. However, the total interest earned on investments will vary from time to time with changes in the underlying reference rate.

The Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis points (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset Type	Duration	Carrying amount at 31 March 2015	Effect on Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		24,492		
Cash Balances		47,573		
Fixed Income – Henderson	2.07	200,805	4,161	-4,161
Fixed Income - BlueBay	3.7	303,685	11,236	-11,236
Fixed Income – Legal and General	23.1	696,466	25,796	-25,796
Total change in assets available		1,273,021	41,193	-41,193

Asset Type	Duration	Carrying amount at 31 March 2014	Effect on Asset Values	
			+100 BPS	-100 BPS
Cash and Cash Equivalents		17,873		
Cash Balances		13,232		
Fixed Income – Baillie Gifford	8.46	51,065	4,320	-4,320
Fixed Income – Goldman Sachs	6	205,318	12,319	-12,319
Fixed Income – Henderson	2.37	196,258	4,651	-4,651
Fixed Income – Legal and General	21.5	170,775	4,047	-4,047
Total change in assets available		654,521	25,337	-25,337

Income Source	Duration	Carrying amount at 31 March 2015	Effect on Asset Values	
			+100 BPS	-100 BPS
Cash deposit/cash and cash equivalents	1.4	293	4	-4
Fixed Income Securities		7,131		
Total change in assets available		7,424	4	-4

Income Source	Duration	Carrying amount at 31 March 2014	Effect on Asset Values	
			+100 BPS	-100 BPS
Cash deposit/cash and cash equivalents	1.4	99	1	-1
Fixed Income Securities		7,890		
Total change in assets available		7,989	1	-1

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's liabilities are denominated in sterling but as part of its investment strategy the Fund invests in assets denominated in foreign currencies, which exposes the Fund to the risk of movement in exchange rates. The Fund's investment managers may at their own discretion hedge part or all of the foreign exchange risk inherent in their portfolio. The Fund has also hedged its European and equity exposure by investing in a hedged European equity mandate with Legal and General and also hedges its direct European and US Dollar equity exposure through forward currency contracts.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following tables summarise the Fund's net currency exposure, after hedging, as at 31 March 2015 and 31 March 2014:

Currency exposure – asset type 2014-15	Gross Exposure £000	Hedging Exposure £000	Net Exposure £000
Overseas listed equities	1,193,410	-157,556	1,035,854
Overseas unquoted securities	214,969		214,969
Absolute Return funds overseas fixed interest	95,519	-96,329	-810
Overseas unit trusts	9,088		9,088
Total	1,512,986	-253,885	1,259,101

Currency exposure – asset type 2013-14	Gross Exposure £000	Hedging Exposure £000	Net Exposure £000
Overseas listed equities	1,373,627	-187,725	1,185,902
Overseas unquoted securities	195,454		195,454
Absolute Return funds overseas fixed interest	79,830	-80,377	-547
Overseas unit trusts	11,639		11,639
Total	1,660,550	-268,102	1,392,448

Currency risk - sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisers, the Council considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

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

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

Net Currency exposure – asset type	Asset values 2014-15 £000	Change to net assets available to pay benefits	
		+13% £000	-13% £000
Overseas listed equities:	1,035,854	134,626	-134,626
Of which from USD	609,251	79,203	-79,203
Of which from JPY	50,565	6,573	-6,573
Of which from HKD	60,542	7,870	-7,870
Of which from SEK	25,788	3,352	-3,352
Of which from CHF	19,189	2,495	-2,495
Of which from DKK	16,173	2,102	-2,102
Of which from ZAR	18,088	2,351	-2,351
Of which from other currencies	235,988	30,680	-30,680
Overseas unquoted securities:	214,969	27,946	-27,946
Of which from USD	180,131	23,417	-23,417
Of which from EUR	34,838	4,529	-4,529
Absolute Return funds overseas:			
Of which from USD*	-810	-105	105
Overseas unit trusts:			
Of which from EUR	9,088	1,181	-1,181
Total	1,259,101	163,648	-163,648

*The Fund hedges its US Dollar exposure for assets held by Och Ziff.

		Change to net assets available to pay benefits	
Net Currency exposure – asset type	Asset values 2013-14 £000	+13% £000	-13% £000
Overseas listed equities:	1,191,666	154,916	-154,916
Of which from USD	676,508	87,946	-87,946
Of which from JPY	59,143	7,689	-7,689
Of which from HKD	45,403	5,902	-5,902
Of which from SEK	32,541	4,230	-4,230
Of which from CHF	27,462	3,570	-3,570
Of which from DKK	16,799	2,184	-2,184
Of which from ZAR	11,461	1,490	-1,490
Of which from other currencies	322,349	41,905	-41,905
Overseas unquoted securities:	195,454	25,409	-25,409
Of which from USD	160,330	20,843	-20,843
Of which from EUR	35,124	4,566	-4,566
Absolute Return funds overseas:			
Of which from USD*	-546	-71	71
Overseas unit trusts:			
Of which from EUR	11,639	1,513	-1,513
Total	1,398,213	181,767	-181,767

*The Fund hedges its US Dollar exposure for assets held by Och Ziff.

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the market value of the fund's financial assets and liabilities.

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

The primary credit risk to the Fund is through its fixed interest instruments managed by Legal and General, Henderson and BlueBay and secured loans managed by M&G. However, the majority of the Funds fixed income assets are investment grade quality (above BBB rated) sovereign or corporate bonds rated.

Multi Asset

The Fund's aggregate exposure to credit risk through these three mandates as measured by the credit rating of external agencies is summarised in the table below:

S&P Quality Rating	Fair Value 2014-15 £000	% of Fair value of Fixed Income Assets 2014-15
AAA	703,493	59.0
AA	22,515	2.0
A	38,428	3.0
BBB	118,594	10.0
Below BBB	251,437	21.0
Cash	51,203	4.0
NR	15,286	1.0
Derivatives	0	0
Total	1,200,956	100

S&P Quality Rating	Fair Value 2013-14 Restated £000	% of Fair value of Fixed Income Assets Restated 2013-14
AAA	217,703	34.9
AA	165,814	26.6
A	63,816	10.2
BBB	76,315	12.2
Below BBB	65,279	10.5
Cash	19,756	3.2
NR	2,860	0.5
Derivatives	11,873	1.9
Total	623,416	100

The above table has been restated to include Index Linked Gilts of £171k managed by Legal and General.

Secured Loans

The Fund also invests in secured loans through dedicated mandates managed by M&G, whilst the Henderson and BlueBay Fixed Income mandate also has discretion to invest a proportion of their fund tactically in the same asset class. Secured loans are below investment grade, which as a result carry greater credit risk

than investment grade sovereign or corporate bonds or loans. The increased credit risk associated with this asset class is mitigated by the managers through detailed credit research analysis and through constructing a diversified portfolio of secured loans across individual counterparties, ratings, industry sector and geography. Credit risk is further reduced by the senior position in the capital structure that is inherent in this asset class which is secured against the counterparty's assets.

The Fund's aggregate exposure to credit risk through these secured loan mandates as measured by the credit rating is summarised in the table below:

2014-15 Rating	Fair Value £000	% of Fair value of Assets
BBB-	0	0
BB+	14,699	9.0
BB	9,800	6.0
BB-	35,932	22.0
B+	39,198	24.0
B	45,732	28.0
B-	6,533	4.0
BBB-	1,633	1.0
CCC+	1,633	1.0
CCC and below	8,166	5.0
Total	163,326	100

2013-14 Rating	Fair Value £000	% of Fair value of Assets
BBB-	467	0.30
BB+	9,491	6.10
BB	17,270	11.10
BB-	34,540	22.20
B+	34,229	22.00
B	50,722	32.60
B-	5,446	3.50
CCC+	2,801	1.80
CCC and below	622	0.40
Total	155,588	100

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AA ratings from a leading ratings agency.

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in the Fund's history. The Fund's cash holding under its treasury management arrangements as at 31 March 2015 was £47.6m (31 March 2014 £13.2m) and was held in the Deutsche Bank and Fidelity money market accounts. The remainder of the cash was held by the fund's custodian, Bank of New York Mellon with a small amount of cash in transit which was held by the fund's property investment manager Rockspring.

2014-15 Counterparty	Moody's Rating	£000	% of cash balances
Bank of New York Mellon (Money Market/Cash Accounts)	Aa2	23,982	33.28
Fidelity Worldwide Investment (Money Market)	Aaa-mf	24,528	34.03
Deutsche Bank Advisors (Money Market)	Aaf/S1	23,046	31.98
Cash in transit	NR	510	0.71
Total		72,066	100

2013-14 Counterparty	Moody's Rating	Restated £000	Restated % of cash balances
Bank of New York Mellon (Money Market/Cash Accounts)	Aaa-mf	18,439	57.35
Fidelity Worldwide Investment (Money Market)	Aaa-mf	7,123	22.15
Deutsche Bank Advisors (Money Market)	Aaa-mf	6,109	19.00
Cash in transit	NR	482	1.50
Total		32,153	100

The 2013-14 table has been restated by £1.048m (see Note 2).

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments.

The Council has immediate access to its Pension Fund cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. Illiquid assets can include assets where a) there are no highly liquid active markets, such as investment properties and private equity or b) individual fund structures, where the Fund's investment is locked in for a specific period or where the investment manager may have the ability to 'gate' or limit investors withdrawal from the fund. As at 31 March 2015 the value of illiquid assets was £316m, which represented 7.8% of the total fund assets (31 March 2014 £287m which represented 8.07% of the total fund assets).

In terms of liquidity risk, the Fund had £72m (2013-14 £32m restated) of cash balances as at 31 March 2015 and current net assets of £17m (£22m in 2013-14). The Funds net cashflow, before taking account of investments and excluding management expenses, as at 31 March 2015 was -£32m (+£0.7m in 2013-14). There is no significant risk that it will be unable to meet its current commitments.

All current liabilities are due to be paid in less than one year.

Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.

Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.

Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Council measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Fund prepares periodic cash flow forecasts to understand and manage the timing of cash flows. The appropriate strategic level of cash balances to be held is a central consideration in preparing the Fund's annual investment strategy.

The Council keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Council seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Stock Lending

The Fund has entered into a stock lending programme managed by its custodian the Bank of New York Mellon and only accepts government and quasi government bonds as collateral against loaned stock to safeguard the Fund's assets. The credit rating of the collateral accepted is summarised below.

Moodys rating	Fair Value of Collateral 31 March 2015 £000	% of Fair value of collateral 31 March 2015 %	Fair Value of Collateral 31 March 2014 £000	% of Fair value of collateral 31 March 2014 %
Aaa	35,047	63	52,584	83
Aa1	21,028	37	11,042	17
Grand Total	56,075	100	63,626	100
Value of Stock on Loan	51,506		57,877	

During the year ended 31 March 2015 the Fund earned £598k (£235k 2013-14) of income from its stock lending activities. At the balance sheet date the value of aggregate stock on loan was £51.5m (£57.9m 2013-14) and the value of collateral held was £56.08m (£63.6m 2013-14).

Note 20 – Funding Arrangements

In line with the LGPS (Administration) (Amendment) Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. The next valuation will take place as at March 2016.

The key elements of the funding policy are:

- To ensure long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- To ensure that employer contribution rates are as stable as possible;
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- 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 aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2013 valuation, the fund was assessed as 82% funded (81% at the March 2010 valuation). This corresponded to a deficit of £723m (2010 valuation: £600m) at that time.

Contribution increases will be phased in over the three-year period ending 31 March 2017

for both scheme employers and admitted bodies. The common contribution rate (i.e. the rate which all employers in the fund pay) is:

Common Contribution	31 March 2010 %	31 March 2013 %
Future	16.1	19.3
Deficit	6.7	8.2
Total	22.8	27.5

Individual employer's 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.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

	31 March 2010		31 March 2013	
	Nominal	Real	Nominal	Real
Discount rate	6.1%	2.8%	4.6%	2.1%
Salary increases	5.3%	2.0%	3.3%	0.8%
Price inflation / Pension Increases	3.3%	-	2.5%	-

Longevity assumptions

	Actives and Deferreds		Current Pensioners	
Assumed life expectancy at age 65	Male	Female	Male	Female
2010 valuation - baseline	19.8	22.5	19.8	22.5
2010 valuation - improvements	24.9	27.7	22.9	25.7
2013 valuation - baseline	19.8	22.7	20.1	22.4
2013 valuation - improvements	24.1	26.7	22.3	24.4

Commutation assumption

It is assumed that future retirees will elect to exchange their pension for additional tax free cash up to 50% of HMRC limits for service to 31 March 2008 and 75% of HMRC limits for service from 1 April 2008.

Note 21 – Actuarial value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2014-15 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 Accounting and Reporting by Retirement Benefit Plans refers to as the actuarial present value of promised retirement benefits. There are three options for disclosure.

The Fund has opted not to disclose the actuarial present value of promised retirements in the net assets statement, instead providing the information by reference to an accompanying actuarial report. A copy of the full actuarial calculation is appended to the Statement of Accounts.

Note 22– Long Term Assets

	2013-14 2014-15 Restated £000	2013-14 Restated £000
Long Term Debtors:		
Contributions due - Employers	10,130	12,477
Sundry Debtors	1,176	1,176
Total	11,306	13,653

Analysis of Long Term debtors

	2013-14 2014-15 Restated £000	2013-14 Restated £000
Due from Cheshire West & Chester Council	9,851	9,933
Due from Bodies External to General Government	1,206	1,282
Due from Other Local Authorities	249	2,438
Total	11,306	13,653

The Fund has long term debtors for early retirement contributions from scheme employers who have the option of paying over five years and the settlement from Magistrates Courts of £2.351m which is being paid in equal instalments over 10 years (the first payment of £277k was received in 2010-11), discounted at 3.76%. Both have been included at present value.

Long term and current debtors have been restated by £235k (see Note 2).



Note 23 – Current Assets

	2014-15 £000	2013-14 Restated £000
Current Debtors and cash:		
Contributions due - Employers	12,314	14,390
Contributions Due - Employees	2,778	2,150
Sundry Debtors	282	381
Provision for Doubtful Debt	-58	-198
Cash balances	185	47
Total	15,501	16,770

Analysis of Current debtors

	2014-15 £000	2013-14 Restated £000
Due from Other Local Authorities	8,640	9,704
Due from Cheshire West & Chester Council	3,451	4,405
Due from Bodies External to General Government	3,227	2,704
Other Debtors	51	45
Central Government Bodies	5	63
Less Provision for Doubtful Debt	-58	-198
Total	15,316	16,723

The current debtors figures includes contributions which were due in March but not received until after the year end and, outstanding dividend entitlements and recoverable withholding tax claims relating to investments.

Sundry debtors and amounts due from bodies external to general government have been restated by £235k (see Note 2).

Note 24 – Current Liabilities

	2014-15 £000	2013-14 £000
Sundry Creditors	7,879	6,954
Benefits Payable	853	900
Receipts in Advance	618	607
Total	9,350	8,461

Analysis of creditors

	2014-15 £000	2013-14 £000
Due to Bodies External to General Government	5,085	4,007
Due to Other Local Authorities	595	303
Due to Cheshire West and Chester	1,089	1,384
Other Creditors	1,963	2,160
Due to Central Government Bodies	0	0
Total	8,732	7,854

Note 25 – Additional Voluntary Contributions (AVCs)

The AVC providers to the members of the Fund are Clerical Medical, Standard Life and Equitable Life. The AVCs are invested separately from the Fund's main assets and used to acquire additional pension benefits and therefore are not included in the Fund's accounts in accordance with regulation 4 (2) (a) of the LGPS (Management and Investment of Funds) Regulations 2009. Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year.

A summary of the information provided by Clerical Medical, Standard Life and Equitable Life for the year to 31 March 2015 is shown below, along with a prior year comparator

	Clerical Medical £000	Standard Life £000	Equitable Life £000	Total £000
Contributions received in year 2015	323	151	2	476
Contributions received in year 2014	369	161	2	532
Fair value at 31 Mar 2015	2,762	2,510	625	5,897
Fair value at 31 Mar 2014	2,331	2,313	622	5,266

Note 26 – Related Party Transactions

The Fund is administered by Cheshire West and Chester Council. Consequently there is a strong relationship between the Council and the Fund. The majority of the Fund's cash is invested with the Fund's investment managers or directly with external financial institutions. The Fund has its own specific bank account however some of the Fund's transactions (Accounts Payable and Income) are processed through corporate systems and are paid in the first instance through the Council's corporate bank accounts. The Fund repays cash due to the Council for such transactions plus any interest charges on a monthly basis. In 2014-15 the Fund paid £5.9k to the Council for interest accrued on these balances. In 2013-14 the Fund received £1.4k from the Council for interest accrued. This payment was to correct a miscalculation of interest which had been paid to the council in error.

The Council is one of the largest employers and contributed £45.3m into the Fund in 2014-15 (2013-14 £28.3m). Of the £45.3m figure £25m related to the payment of the 3 year deficit which the Council elected to pay as a lump sum. At the year end, a balance of £13.302m (2013-14 £14.338m) was due to the Fund from the Council, primarily relating to early retirement costs which will be repaid over more than one year and also contributions which were paid in April but became due in March. A balance of £1.1m (2013-14 £1.4m) was owing to the Council for Fund transactions processed through the Administering Authority's accounts payable and receivable systems. The Administering Authority incurred costs of £1.321m to administer the Fund in 2014-15 (2013-14 £1.653m) as well as £688k for oversight and governance costs (2013-14 £820k) and these costs were recharged to the Pension Fund. Note 10 provides an analysis of these costs. These are related party transactions as Cheshire West and Chester is also a member body of the Pension Fund.

The Fund has not made any employer related investment at any time during the period.

Specific declarations have been received from Pension Fund Committee Members regarding membership of and transactions with any parties related to the Pension Fund. A number of Members act as Councillors or Board Members of particular employers who maintain a conventional employer relationship with the Fund.

The value of transactions with each of these related parties, namely routine monthly payments to the Fund of employer's and employee's contributions is determined by the Local Government Pension Scheme Regulations, and as such no related party transactions have been declared.

A register of outside bodies that Members are appointed to, along with a register of interests is available on the Internet for Cheshire West and Chester, Cheshire East, Warrington and Halton Councils.

Governance

Responsibility for managing the Fund lies with the full Council of Cheshire West & Chester Council with lead officer responsibility delegated to the Head of Finance, who undertakes the day to day management of the Fund. The Head of Finance is advised, with regard to investment matters, by the Pension Fund Committee and external advice from Mercer. The fund also receives actuarial advice from Hymans Robertson. The Pension Fund Committee reports directly to the Cheshire West and Chester Audit and Governance Committee

Since January 2004 elected members who are offered membership of the Scheme under their respective Council's scheme of allowances have been eligible to join the Scheme. As at 31 March 2015, seven members of the Pension Fund Committee had taken this option and were members of the Scheme.

There are two members of the Committee who are in receipt of pension benefits from the Fund

(Councillor P. Mason (also an Active member) and Councillor D. Newton). In addition, Committee members Councillors M.Hogg , F.Keegan, P. Raynes, D. Beckett, H. McNae, P. Mason and M.Wharton were active members of the Fund as at 31 March 2015.

From 1 April 2014 council Members are not entitled to join the new LGPS 2014 Scheme, however, a Councillor who was a member of the scheme on 31 March 2014 may continue to accrue rights until the end of the term of office which that member is serving.

Each member of the Committee is required to declare their interests at each meeting and sign an annual declaration form which is published on the fund's website.

As the Fund forms part of the LGPS it does not strictly have trustees. The members of the Committee do not receive any fees in relation to their specific responsibilities as members of the Committee, although they may be reimbursed for any out of pocket expenses incurred whilst discharging their Committee role.

Key Management Personnel

Prior to 2014-15 the posts of Director of Resources and Head of Finance were deemed to be key management personnel with regards to the pension fund. Following an organisational restructure the post of Director of resources was removed from the Councils structure during 2014-15 and all responsibilities for the management of the Pension Fund transferred to the Head of Finance. The combined financial value of their relationship with the fund (in accordance with IAS24 Related Party Disclosures) is set out below:

	31 March 2015 £000	31 March 2014 £000
Short term benefits	61	59
Long term/post-retirement benefits	1,903	1,314
Total	1,964	1,373

The long term/post-retirement benefits are calculated on an IAS19 basis and will be affected by the assumption used for the calculation which can vary from year to year.

Note 27 – Contingent Liabilities and Contractual Commitments

The Fund has contractual commitments to the value of £314m (2013-14 £275m) in private equity funds. As at 31 March 2015 the Fund had actually invested £279m (2013-14 £237m) and therefore had an outstanding commitment of £35m (2013-14 £38m). As these funds are denominated in US Dollars and Euros the commitment in Sterling is subject to changes due to currency fluctuations.

The Fund has contractual commitments to the value of £50m to the UK Companies Financing Fund managed by M&G. As at 31 March 2015 £32m (£32m in 2013-14) has been drawn down.

The Fund also has contractual commitments to the value of £30m to the Debt Opportunities Fund managed by M&G. As at the 31st March 2015 the full £30m of the commitment had been drawn down.

Note 28 – Contingent Assets

There are 20 admitted bodies in the Cheshire Pension Fund who hold insurance bonds to guard against the possibility of being unable to meet their pension obligations, along with an additional 2 employers with Parent Company Guarantees. The bonds are drawn in favour of the Council as administering authority for the Fund and payment will only be triggered in the event of employer default.

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £7m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £0.1m. This issue is still progressing through the courts.

Note 29 – Impairment for Bad and Doubtful Debts

During 2014-15 the fund has recognised doubtful debts of £52k (£53k in 2013-14) for possible non-recovery of rental income on its investment properties of £47k (£51k in 2013-14) and non-recovery of pensioner death overpayments totalling £5k (£2k in 2013-14).

Note 30– Statement of Investment Principles

The Fund's Statement of Investment Principles (SIP) sets out the Fund's investment objectives and investment management arrangements. A full copy of the SIP can be obtained from the Pensions Section, Cheshire West & Chester Council, HQ, Nicholas Street, Chester, CH1 2NP or from the Fund's website at:

www.cheshirepensionfund.org

Note 31 – Funding Strategy Statement

Under the LGPS Regulations 2013 (as amended) administering authorities are required to prepare a Funding Strategy Statement (FSS). The key requirements relating to the FSS in the regulations are that;

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
 - o FSS guidance produced by CIPFA;
 - o Its Statement of Investment Principles published under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.
- The Fund's actuary must have regard to the FSS as part of the fund valuation process.

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

The Funding Strategy Statement for the Cheshire Pension Fund can be obtained from:

The Pensions Section, Cheshire Pension Fund, Cheshire West and Chester Council, Council Offices, 4 Civic Way, Ellesmere Port, CH65 0BE.

Or from the Fund's website at:

www.cheshirepensionfund.org

Scheme Advisory Board Summary Information

The following information is provided to assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board.

1. The table below provides a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members).

2014-15	Active	Ceased	Total
Scheduled Body	145	30	147
Admitted Body	65	43	96
Totals	210	73	243

2. The table below provides an analysis of fund assets as at 31 March 2015

	UK £000	Non-UK £000	Global £000	Total £000
Equities	240,827	246,814	1,004,821	1,492,462
Alternatives	229,628	756,255	12,768	998,651
Bonds	897,271		303,685	1,200,956
Property (direct holdings)	333,076			333,076
Cash	48,083		23,983	72,066
Total	1,748,885	1,003,069	1,345,257	4,097,211

3. The table below provides an analysis of investment income accrued as at the 31 March 2015

	UK £000	Non-UK £000	Global £000	Total £000
Equities	133	1	16,055	16,189
Alternatives	7,728	7		7,735
Property (direct holdings)	11,623			11,623
Cash	252		41	293
Total	19,736	8	16,096	35,840

Actuarial Report

Cheshire Pension Fund Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. This statement is in respect of Cheshire Pension Fund ("the Fund") which is administered by Cheshire West and Chester Council ("the Administering Authority")

Description of Funding Policy

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

- to ensure the long-term solvency of the Fund and of the share of the Fund attributable to individual employers;
- to 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;
- to reflect the different characteristics of different employers in determining contribution rates;

- to have 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 including tax raising employers from an employer defaulting on its pension obligations.

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £3,259 million, were sufficient to meet 82% 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 £723 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Funding Strategy Statement.

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 31 March 2014.

Method

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

Assumptions

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

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

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	3.3%	0.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions used were 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	22.3 years	24.4 years
Future Pensioners*	24.1 years	26.7 years

*Future pensioners were assumed to be aged 45 at the last valuation date

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

Experience over the period since April 2013

Real bond yields have fallen dramatically since the valuation, placing a higher value on liabilities. Strong asset returns have partially offset this. In aggregate, deficits are likely to have increased since the 2013 valuation.

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



Gemma Sefton FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP 8 May 2015

Pension Fund Accounts Reporting Requirement – IAS 26

Introduction

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

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

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

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

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

Balance sheet

	31 Mar 2015	31 Mar 2014
Year ended	£m	£m
Present value of Promised Retirement Benefits	5,594	4,791

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £2,662m in respect of employee members, £897m in respect of deferred pensioners and £2,035m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £757m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015 % p.a.	31 Mar 2014 % p.a.
Inflation/Pensions Increase Rate	2.40%	2.80%
Salary Increase Rate	3.30%	3.60%
Discount Rate	3.20%	4.30%

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.3 years	24.1 years
Future Pensioners*	24.4 years	26.7 years

*Future pensioners were assumed to be aged 45 at the last formal valuation date

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

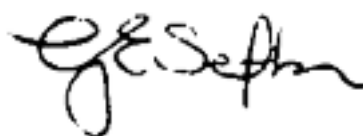
Commutation assumption

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 17 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Gemma Sefton FFA
8 May 2015

For and on behalf of Hymans Robertson LLP

LGPS Contributions Breakdown

Employers who made a contribution to the Fund during 2013/14

The following table shows the total contributions received from each employer within the Fund, and the total contributions paid by employees split by contribution banding.

Employees Contributions																
Employer Name	Inv'ment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'ments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
Cheshire East	A	1,245,383.34	1,369,118.00	1,784,535.08	637,104.96	649,959.34	143,124.70	33,808.82	60,165.22	-	34,649.16		93,876.52	28,326.42	23,446,720.11	29,526,771.67
Cheshire Probation Service	B	2,444.57	8,675.04	40,485.77	15,796.38	2,733.42	4,150.91	-	-	-	744.65		631.23	-	315,552.00	391,213.97
Cheshire West and Chester Council	B	525,675.89	829,544.90	1,754,183.16	821,954.69	775,626.98	208,510.31	35,179.28	52,285.74	3,750.00	50,411.20		12,315.99	37,856.31	36,952,428.86	42,059,723.31
Avenue Service - Cheshire West and Chester Council	B	693.57	5,638.40	8,695.16	2,674.20	-	-	-	-	-	-0.04		-	-	61,976.68	79,677.97
Cheshire West and Chester Council - St Wilfrids	B	535.16	1,101.11	-	-	-	-	-	-	-	-		-	-	6,546.87	8,183.14
Odd Rode Parish Council	B	-	787.84	553.08	-	-	-	-	-	-	-		-	-	4,059.69	5,400.61
Cheshire Fire Authority	B	14,329.60	70,790.17	149,459.41	47,112.30	37,310.84	6,829.05	-	-	-	2,043.51		198.4	802.65	1,051,701.57	1,380,577.50
Halton Borough Transport	B	-	-	3,300.88	116.41	-	-	-	-	-	697.99		-	425.06	14,858.34	19,398.68
Halton Borough Council	B	430,199.27	831,999.75	1,237,741.48	443,966.94	194,191.31	124,457.48	8,598.31	41,126.82	20,799.96	2,249.43		15,477.58	-	10,763,905.75	14,114,714.08
Halton Borough Council - Halton Lodge	B	1,503.70	3,219.99	2,833.40	-	-	-	-	-	-	0.75		-	-	26,050.88	33,608.72
Halton Borough Council - Strictly Education	B	4,862.81	8,382.26	3,772.70	-	-	-	-	-	-	-75.43		-	-	59,673.81	76,616.15
Warrington Borough Council	B	758,088.18	1,309,717.00	1,463,700.81	471,869.31	411,417.69	123,236.28	61,025.92	39,274.74	-	22,644.02		59,940.71	4,478.07	15,504,831.03	20,230,223.76
Warrington Borough Council - Strictly Education	B	5,453.01	3,994.23	2,386.44	-	-	-	-	-	-	-147.52		138.32	-	42,646.29	54,470.77
Schools Cheshire West & Chester	B	891,033.99	806,189.47	277,225.49	27,159.66	10,497.62	-	-	-	-	8,660.36		542.56	17,113.68	6,235,472.78	8,273,895.61
NW Fire Control Ltd	B	-	14,923.13	54,695.89	19,016.03	4,302.42	305.31	-	-	-	-265.1		-	-	248,375.69	341,353.37
Alderley Edge PC	B	538.97	795.84	1,608.48	-	-	-	-	-	-	-		-	-	9,315.29	12,258.58
Northwich Town Council	B	-	5,976.78	3,211.51	2,647.29	-	-	-	-	-	0.09		-	-	36,937.85	48,773.52
Nantwich Town Council	B	3,004.48	2,342.71	6,719.67	5,591.53	-	-	-	-	-	-		-	-	54,155.82	71,814.21
Knutsford Town Council	B	99.33	784.36	3,282.65	314.9	-	-	-	-	-	-		-	-	13,599.18	18,080.42
Penketh Parish Council	B	2,450.03	-	3,551.15	-	-	-	-	-	-	0.05		-	-	19,141.66	25,142.89
Bollington Parish Council	B	754.81	927.59	-	-	-	-	-	-	-	-		-	-	5,428.71	7,111.11
Middlewich Town Council	B	-	-	1,772.94	-	3,511.75	-	-	-	-	-		-	-	13,126.60	18,411.29
Poynton-with-Worth Parish Council	B	916.6	546.99	1,702.06	2,759.08	-	-	-	-	-	-		-	-	17,921.33	23,846.06
Valuation Tribunal Services	A	-	-	-	-	3,736.08	1,621.35	-	-	-	-0.1		-	-	204,296.79	209,654.12
Disley Parish Council	B	646.64	1,709.99	-	-	-	-	-	-	-	0.01		-	-	7,959.25	10,315.89
Prestbury Parish Council	B	-	1,056.48	-	-	-	-	-	-	-	-		-	-	3,515.64	4,572.12
Nether Alderley Parish Council	B	359.02	-	-	-	-	-	-	-	-	-		-	-	1,181.32	1,540.34

Employees Contributions																
Employer Name	Inv'ment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'ments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
Birchwood Town Council	B	335.3	3,167.90	2,047.04	-	-	-	-	-	-	-	-	-	-	16,689.58	22,239.8
Grappenhall and Thelwall Parish Council	B	993.38	-	3,014.66	-	-	-	-	-	-	15.43	-	-	-	11,663.76	15,687.2
Congleton Town Council	B	1,748.07	10,180.47	5,226.97	-	4,376.61	-	-	-	-	0.04	-	1,165.02	-	61,786.21	84,483.39
Frodsham Town Council	B	-	1,113.89	-	-	-	-	-	-	-	-	-	-	-	3,706.59	4,820.48
Sandbach Town Council	B	935.52	2,308.49	4,397.55	2,759.17	-	-	-	-	-	-0.03	-	-	-	29,880.16	40,280.86
Priestley Sixth Form College	B	10,016.23	36,181.50	16,888.90	-	7,445.66	-	-	-	-	-281.1	-	-	1,090.55	402,299.82	473,641.56
Warrington Collegiate Institute	B	33,059.22	60,182.02	67,271.42	18,376.36	8,755.06	-	7,416.46	-	-	2,232.96	-	3,288.01	-	872,848.25	1,073,429.76
Macclesfield College	B	12,939.72	36,162.83	27,431.21	13,878.99	-	6,649.59	-	-	-	-186.25	-	3,241.47	-	301,154.25	401,271.81
West Cheshire College	B	57,518.25	88,746.70	71,155.74	16,051.19	14,627.39	7,877.02	-	-	-	-186.19	-	294.28	-	818,506.67	1,074,591.05
South Cheshire College	B	25,074.55	39,676.55	83,117.33	17,837.69	17,353.55	10,765.46	3,915.61	-	-	-	-	-	-	684,995.04	882,735.78
Reaseheath College	B	61,534.98	102,261.95	137,236.20	19,536.87	19,708.89	11,643.38	597.81	-	-	39.93	-	2,353.29	-	1,099,876.46	1,454,789.76
Wade Deacon High School	B	9,863.53	26,520.35	25,863.80	2,759.07	1,265.13	4,666.78	-	-	-	10.33	-	-	-	234,552.10	305,501.09
Rudheath Primary Academy	B	6,556.70	3,023.62	2,921.07	-	-	-	-	-	-	0.1	-	-	-	47,342.01	59,843.50
Birchwood Community High School	B	9,092.62	24,464.38	18,893.36	-	3,982.16	-	-	-	-	0.32	-	4,143.57	-	190,500.86	251,077.27
Penketh High School	B	7,752.14	27,085.69	15,020.58	606.24	3,911.25	-	-	-	-	67.77	-	-	-	180,839.64	235,283.31
Worth Primary School	A	3,182.31	1,844.52	1,690.95	-	-	-	-	-	-	-	-	-	-	27,092.62	33,810.40
St Thomas More Catholic High School	A	10,501.95	7,689.69	7,615.82	2,935.91	-	-	-	-	-	79.82	-	-	866.99	115,160.02	144,850.20
Stapeley Broad Lane	A	1,545.12	4,952.18	2,600.66	-	-	-	-	-	-	-	-	-	-	34,710.92	43,808.88
St Martins Academy	B	1,085.93	1,549.12	-	-	-	-	-	-	-	-	-	-	-	5,031.06	7,666.11
Leighton Academy	A	5,693.80	12,404.48	1,977.27	-	-	-	-	-	-	-	-	-	-	82,905.00	102,980.55
Warrington Collegiate Education Trust	B	140.09	2,203.54	3,692.44	-	3,364.64	-	-	-	-	0.04	-	-	-	14,109.91	23,510.66
University Cathedral Free School	B	1,067.06	3,707.09	1,482.63	-	-	-	-	-	-	0.11	-	-	-	21,865.22	28,122.11
Cloughwood Academy	B	2,102.72	8,277.89	11,620.77	5,774.88	-	-	-	-	-	-	-	-	-	96,181.38	123,957.64
Holmes Chapel Primary School	A	8,381.56	557.56	4,309.75	-	-	-	-	-	-	-	-	-	-	53,039.20	66,288.07
Whirley Primary School	A	5,791.65	1,177.45	1,435.50	-	-	-	-	-	-	-	-	-	-	35,165.13	43,569.73
Alsager School	A	9,999.90	19,673.84	18,680.69	2,914.34	4,144.10	-	-	-	-	-	-	-	-	206,012.67	261,425.54
Sir William Stanier Community School	A	16,893.63	29,565.46	11,659.86	-	3,626.54	-	-	-	-	-	-	-	1,289.37	237,112.43	300,147.29

Employees Contributions																
Employer Name	Inv'ment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'ments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
Over Hall Community School	B	8,159.15	6,433.67	1,635.88	-	-	-	-	-	-	-	-	-	-	58,680.61	74,909.31
Ash Grove Academy	A	5,288.29	5,212.73	2,118.50	-	-	-	-	-	-	-	-	-	-	45,472.45	58,091.97
Cranberry Academy	A	3,548.32	4,146.91	1,852.41	-	-	-	-	-	-	-0.07	-	-	470.3	39,153.87	49,171.74
St Michael's Academy	A	9,957.18	11,996.80	4,760.61	767.58	-	-	-	-	-	0.17	-	-	370.82	112,551.18	140,404.34
Crewe Town Council	B	-	-	-	2,873.88	-	-	-	-	-	-	-	-	-	8,156.85	11,030.73
Adelaide School	A	1,779.47	3,615.89	3,957.67	-	-	-	-	-	-	-	-	-	-	37,041.64	46,394.67
Parkroyal Community School	A	13,022.43	4,261.28	7,263.71	-	-	-	-	-	-	-	-	-	-	93,723.17	118,270.59
Vivo Care Services Ltd	B	142,216.03	107,819.04	56,225.39	29,476.11	12,260.02	6,766.09	-	-	-	5,259.98	-	322.53	1,024.99	1,144,006.15	1,505,376.33
The Quinta Primary School	A	4,277.28	3,769.15	1,627.38	-	-	-	-	-	-	-	-	-	-	37,839.17	47,512.98
Uni Primary Academy Weaverham	B	2,877.29	6,308.06	1,427.03	-	-	-	-	-	-	8.07	-	-	-	41,737.83	52,358.28
Cavendish High Academy	B	712.81	9,020.72	2,487.09	-	-	-	-	-	-	10.68	-	-	-	42,592.03	54,823.33
Wistaston Academy	A	9,756.14	12,455.35	1,720.69	-	-	-	-	-	-	-	-	-	-	99,094.19	123,026.37
Appleton Parish Council	B	1,377.14	405.62	-	-	-	-	-	-	-	-	-	-	-	6,182.21	7,964.97
Stockton Heath Parish Council	B	1,301.86	134	-	-	-	-	-	-	-	-	-	-	-	5,002.31	6,438.17
ANSA Environmental Services	A	9,302.00	217,807.61	79,562.38	17,348.89	18,976.60	6,806.25	-	-	-	-188.48	-	5,806.07	-	1,105,320.58	1,460,741.90
Orbitas Bereavement Services	A	1,670.29	15,033.08	8,265.27	-	3,598.50	-	-	-	-	-133.49	-	-	-	93,318.14	121,751.79
The Hermitage Trust	A	9,406.78	2,478.28	863.23	-	-	-	-	-	-	-	-	-	-	54,035.91	66,784.20
Tytherington School	A	11,452.52	25,834.49	7,357.43	-	4,179.77	-	-	-	-	-	-	-	-	194,210.88	243,035.09
Pear Tree School	A	3,541.19	5,829.18	-	-	-	-	-	-	-	-	-	-	-	40,045.85	49,416.22
The Oak View Primary Academy	B	445.65	12,230.75	573.83	-	-	-	-	-	-	-	-	-	-	51,942.21	65,192.44
Bridgewater Park Primary	B	2,429.92	3,276.84	-	-	-	-	-	-	-	0.02	-	-	-	20,739.76	26,446.54
CoSocius	B	19,037.41	94,043.61	157,200.74	86,049.10	69,649.65	29,930.24	-	-	-	4,595.77	-	1,335.84	3,902.10	1,086,981.10	1,552,725.56
Everybody Sport & Recreation	A	69,033.38	40,215.20	69,534.27	10,922.27	12,785.48	5,643.50	-	-	-	-500.98	-	1,415.63	-	490,870.87	699,919.62
Mersey Gateway Crossing Board	B	-	-	6,471.54	6,573.30	5,545.37	-	-	-	-	-0.03	-	-	-	60,660.84	79,251.02
Marlfields Primary Academy	A	2,977.78	3,578.78	-	-	-	-	-	-	-	-	-	-	-	27,570.94	34,127.50
St Bernards RC Primary School	B	5,657.71	5,043.07	-	-	-	-	-	-	-	-	-	-	-	43,367.64	54,068.42
Black Firs Primary School	A	6,057.45	7,238.82	1,448.40	-	-	-	-	-	-	-	-	-	-	60,972.95	75,717.62

Employees Contributions																
Employer Name	Inv'ment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'ments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
Smallwood CofE Primary Academy	A	3,031.20	645.53	-	-	-	-	-	-	-	-	-	-	-	15,765.51	19,442.24
Nether Alderley Primary School	A	137.8	-	-	-	-	-	-	-	-	0.01	-	60.7	582.72	596.31	1,377.54
Broken Cross Primary Academy & Nursery	A	290.83	378.47	-	-	-	-	-	-	-	-0.01	-	-	-	2,811.55	3,480.84
Mossley CE Primary Academy	A	5,165.73	2,608.39	937.16	-	-	-	-	-	-	-	-	-	-	36,488.49	45,199.77
Riverside College	B	31,807.77	49,611.03	54,200.16	109	18,845.29	7,999.98	-	-	-	-45.58	-	-	-	607,255.78	769,783.43
South Cheshire Enterprises	B	367.71	-	-	-	-	-	-	-	-	-	-	-	-	2,333.18	2,700.89
Poulton with Fearnhead Parish Council	B	-	2,032.54	-	-	-	-	-	-	-	-	-	-	-	6,763.48	8,796.02
University COE Academy	B	8,241.48	28,653.39	31,027.60	197.46	-	6,811.37	-	-	-	-11.03	-	-	-	239,890.13	314,810.40
Neston Town Council	B	500.79	752.87	-	2,446.73	-	-	-	-	-	-	-	-	-	10,509.98	14,210.37
The Fallibroome Academy	A	23,076.09	36,639.84	18,842.89	3,169.68	4,579.88	-	-	-	-	-0.15	-	-	-	341,676.43	427,984.66
Brine Leas School	A	20,405.83	17,317.10	9,200.48	-	4,708.78	-	-	-	-	-	-	-	-	204,374.94	256,007.13
Ormiston Bolingbroke Academy	B	9,942.55	22,612.36	13,015.02	2,403.74	-	-	-	-	-	8.54	-	-	-	156,640.90	204,623.11
Winsford E-Act Academy	B	13,403.42	22,470.84	25,253.34	-	4,881.79	-	-	-	-	-5.08	-	-	-	234,970.49	300,974.80
Sandbach Academy	A	12,043.54	18,146.55	14,085.94	-	4,701.74	-	-	-	-	0.01	-	-	-	194,477.34	243,455.12
Christleton Academy	B	9,169.45	17,064.55	7,088.44	2,826.69	4,246.11	-	-	-	-	-183.59	-	-	390.09	142,063.12	182,664.86
Bishops Blue Coat COE HS	B	8,995.42	12,088.17	12,293.81	-	4,542.37	-	-	-	-	-	-	-	8,135.40	140,159.63	186,214.80
Congleton Academy	A	18,709.83	15,887.50	11,147.06	-	-	-	-	-	-	-	-	-	-	186,963.02	232,707.41
Delamere Academy	B	5,256.22	2,458.92	-	-	-	-	-	-	-	-	-	-	-	30,214.34	37,929.48
Mottram St Andrew School	A	4,329.20	800.81	1,866.87	-	-	-	-	-	-	-	-	-	-	27,400.44	34,397.32
Brio (CWAC Leisure CIC)	B	39,608.21	35,374.44	44,472.05	19,277.12	13,249.98	6,626.04	-	-	-	-163.04	-	1,464.48	-	524,691.40	684,600.68
The Heath School	B	3,344.58	27,818.94	14,051.76	8,937.31	-	-	-	-	-	0.03	-	-	1,309.00	183,450.34	238,911.96
Palacefields Academy	B	3,233.52	4,971.89	4,273.54	-	-	-	-	-	-	-	-	344.08	235.2	44,308.41	57,366.64
Macclesfield Academy	A	6,077.30	10,648.81	7,363.02	1,418.40	-	-	-	-	-	-	-	-	-	102,035.22	127,542.75
Lacey Green Primary School	A	6,201.92	2,597.84	-	3,118.56	-	-	-	-	-	-	-	-	-	44,750.88	56,669.20
Holmes Chapel Comprehensive School	A	17,876.09	26,586.54	12,649.12	-	4,278.39	-	-	-	-	-11.68	-	-	-	210,955.09	272,333.55
Wilmslow Town Council	B	558	205.89	-	2,686.74	-	-	-	-	-	-	-	-	-	10,268.81	13,719.44
UOC Academies Trust	B	-	2,917.22	3,311.07	5,767.79	7,607.86	-	-	-	-	-0.01	-	-	-	55,638.96	75,242.89

Employees Contributions																
Employer Name	Inv'tment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'tments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
University COE Academy Northwich (UCAN)	B	7,985.91	16,542.77	7,796.27	-	-	-	-	-	-	-0.08		-	-	125,482.08	157,806.95
Knutsford Academy	A	18,555.68	18,499.52	16,349.47	2,937.11	-	-	-	-	-	-		-	-	227,484.25	283,826.03
Livewire	B	56,356.30	59,317.77	66,316.78	16,075.34	25,037.42	-	3,491.78	7,635.76	-	3,342.59		176.79	1,736.40	704,624.85	944,111.78
Warrington Cultural Trust	B	6,105.69	11,163.69	10,392.03	10,575.82	5,226.73	-	-	-	-	418.73		-	-	110,610.54	154,493.23
Alsager Town Council	B	306.68	-	237.24	1,536.84	-	-	-	-	-	43.09		-	-	6,293.69	8,417.54
Neston High School	B	17,084.42	22,143.04	8,488.57	-	3,957.85	-	-	-	-	-		-	-	187,185.34	238,859.22
Sandymoor School	B	2,487.43	6,004.32	2,137.28	2,751.29	-	-	-	-	-	0.01		-	-	32,869.34	46,249.67
Tarporley High School & Sixth Form College	B	10,040.85	8,682.86	13,342.13	-	4,179.77	-	-	-	-	-		-	-	127,801.13	164,046.74
Eaton Bank Academy	A	11,376.95	15,540.80	9,917.55	-	3,826.86	-	-	-	-	-		-	-	152,637.20	193,299.36
Lymm High School	B	14,142.71	29,928.87	27,138.60	6,168.47	-	593.38	-	-	-	251.81		-	26.86	272,857.55	351,108.25
County High Leftwich	B	14,813.50	8,948.08	8,403.30	-	-	-	-	-	-	-		-	-	126,060.07	158,224.95
Kelsall Primary School	B	3,660.89	1,920.60	1,698.83	-	1,572.50	-	-	-	-	-		-	-	31,436.38	40,289.20
Handforth Parish Council	B	-	-	1,439.34	-	-	-	-	-	-	-		-	-	4,273.61	5,712.95
Kings Leadership Academy, Warrington	B	2,222.58	2,432.08	2,222.84	1,477.88	2,727.06	-	-	-	-	-		-	-	35,447.52	46,529.96
Holmes Chapel Parish Council	B	250.2	-	-	-	-	-	-	-	-	-		-	-	877.98	1,128.18
Lymm Parish Council	B	255.32	589.27	73.48	-	-	-	-	-	-	7		-	-	3,063.71	3,988.78
University Academy Warrington	B	6,095.89	13,915.58	8,186.22	1,368.66	-	-	-	-	-	16.29		-	-	105,082.95	134,665.59
Great Sankey High School	B	8,483.87	21,244.93	15,430.50	1,146.73	2,888.52	-	-	-	-	-5.79		-	-	163,527.39	212,716.15
All Hallows Catholic College	A	10,293.20	13,714.27	7,999.67	-	2,500.66	3,468.53	-	-	-	-59.6		-	-	145,249.30	183,166.03
Beamont Collegiate Academy	B	6,083.12	20,104.53	14,473.38	2,572.38	-	-	-	-	-	-0.19		1,204.41	-	151,451.93	195,889.56
The Waterways Trust for Vol Serv	C	-	931.9	-	-	-	-	-	-	-	17.56		-	-	5,977.62	6,927.08
Cheshire Community Action	B	-	-	2,235.28	-	-	-	-	-	-	-		-	-	30,184.70	32,419.98
Volunteer Centre Warrington	B	65.85	728.7	2,488.86	2,384.61	-	-	-	-	-	-		-	-	26,855.14	32,523.16
Age Concern Mid Mersey	B	-	998.37	645.25	-	-	-	-	-	-	-		-	-	6,757.89	8,401.51
Middlewich Joint Cemetery Committee	B	377.69	1,002.04	-	-	-	-	-	-	-	-		-	-	4,659.78	6,039.51
Warrington Housing Association	B	6,175.16	13,131.38	37,661.63	5,028.23	17,428.10	-	9,129.25	-	-	-		-	-	277,635.29	366,189.04
Cheshire + Warrington Sports Partnership	B	-	441.98	6,934.94	5,197.74	465.87	6,190.00	-	-	-	-314.7		-	-	39,387.26	58,303.09

Employees Contributions																
Employer Name	Inv'tment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'tments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
Care Quality Commission	C	-	-	1,407.38	5,772.66	-	-	-	-	-	3.88		-	-	26,220.92	33,404.84
Norton Priory Museum Trust	B	625.22	3,029.21	5,214.81	2,354.72	-	-	-	-	-	0.17		-	-	26,716.46	37,940.59
Norton Priory Museum Trust - Halton BC	B	-	-	3,036.49	-	-	-	-	-	-	-		-	-	9,623.29	12,659.78
The Catholic High School, Chester	B	10,944.22	14,800.56	7,422.37	-	4,710.86	-	-	-	-	-24.79		-	-	135,797.70	173,650.92
Macclesfield Museum Trust	A	3,067.89	-	3,028.75	-	-	-	-	-	-	121.44		-	-	38,097.21	44,315.29
Deafness Support Network	C	-	-	688.8	-	3,955.62	-	-	-	-	-		2,103.47	-	132,368.49	139,116.38
Warrington Community Living	B	7,497.91	19,440.64	7,350.26	-	5,044.71	-	-	-	-	-0.03		-	-	240,642.18	279,975.67
Cheshire County Sports Club	C	426.14	1,183.50	-	-	-	-	-	-	-	-		-	-	14,498.67	16,108.31
Cheshire and Warrington Tourism Board	C	-	-	719.08	-	-	-	-	-	-	-		-	-	7,233.03	7,952.11
Dane Housing Group	B	1,682.55	13,080.81	84,693.62	17,843.60	9,241.29	12,913.23	-	-	-	-15.78		-	-	740,437.72	879,877.04
Sandbach School	B	6,798.25	16,522.12	25,575.71	-	4,862.62	-	-	-	-	0.08		-	-	188,202.72	241,961.50
Places for People Leisure Ltd	B	2,517.09	4,188.03	5,889.12	-	-	-	-	-	-	0.05		-	-	47,555.10	60,149.39
Hochtief	B	1,222.95	2,944.21	196.91	-	-	-	-	-	-	-		-	-	15,959.86	20,323.93
Taylor Shaw - Broad Lane	B	19.25	-	-	-	-	-	-	-	-	-		-	-	51.46	70.71
Taylor Shaw - Park Royal	B	829.28	810.64	-	-	-	-	-	-	-	-		-	-	3,079.79	4,719.71
Taylor Shaw - Ivy Bank	B	87.89	-	-	-	-	-	-	-	-	-		-	-	-	87.89
Mears Care Limited	B	8,302.35	1,282.03	-	-	-	-	-	-	-	0.86		-	-	40,987.79	50,573.03
Wistaston Green Primary & Nursery School	A	1,417.66	2,417.38	-	-	-	-	-	-	-	-		-	-	16,059.32	19,894.36
Lafarge Tarmac	B	-	2,655.16	7,492.36	286.73	-	-	-	-	-	-0.02		-	-	34,973.62	45,407.85
Kingsley & District Nursery	A	528.91	-	-	-	-	-	-	-	-	-		-	-	2,192.78	2,721.69
Wulvern Housing Trust	B	6,597.50	24,265.82	105,641.07	33,701.36	13,060.45	14,126.05	10,286.87	-	-	5,030.03		6,400.00	6,300.00	553,536.09	778,945.24
D C Leisure Management	B															-
Eric Wright FM Ltd	B															-
I S S	B	-	3,409.04	1,497.96	-	-	-	-	-	-	40.18		-	-	21,785.27	26,732.45
Cheshire and Warrington Economic Alliance	C	-	-	1,950.00	-	-	-	9,975.00	-	-	-		-	-	66,375.04	78,300.04
Halton Housing Trust	C	3,339.26	63,088.71	113,767.37	45,427.41	29,942.18	6,366.24	-	12,854.64	-	94.36		-	-	807,938.61	1,082,818.78
Cheshire Peaks and Plains Housing Trust	B	5,982.24	23,158.07	83,762.16	9,859.51	28,245.84	12,474.36	9,525.84	-	-	0.87		-	3,541.44	550,982.98	727,533.31

Employees Contributions																
Employer Name	Inv'tment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'tments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
The School Food Company Ltd	B	293.19	-	-	-	-	-	-	-	-	1.28		-	-	-	294.47
Eric Wright EP Schools	B	688.69	745.17	-	-	-	-	-	-	-	0.19		-	-	-	1,434.05
Goldengates Housing	B	11,764.43	59,597.19	359,093.83	78,755.74	61,384.16	25,432.61	4,244.82	20,440.71	-	-541.37		4,579.81	-	1,720,301.71	2,345,053.64
Seddon Property Services Ltd	B	-	-	-	-	-	-	-	-	-	-		-	-	-	-
Innovate Ltd (Tytherington)	B	273.22	-	-	-	-	-	-	-	-	22.63		-	-	2,393.90	2,689.75
A D Solutions	B	535.8	294.99	1,835.19	-	-	-	-	-	-	13.77		-	-	7,923.31	10,603.06
Regent Cleaning (Fire)	B	840.84	-	-	-	-	-	-	-	-	-		-	-	-	840.84
Hall Cleaning Services Ltd	B	591.87	-	-	-	-	-	-	-	-	-0.04		-	-	-	591.83
Bullough's Cleaning Ltd	B	2,144.43	856.68	-	-	-	-	-	-	-	-		-	-	-	3,001.11
Aspens Services	B	1,842.20	-	-	-	-	-	-	-	-	-		-	-	-	1,842.20
SERCO Group	B	-	-	-	-	-	-	-	-	-	-		-	-	-	-
Ringway Jacobs	B	996.84	13,084.23	60,153.32	33,237.17	20,730.24	546.65	-	-	-	-64.09		-	-	30,664.08	159,348.44
R M Estates	B	-	2,183.22	-	-	-	-	-	-	-	-		-	-	8,318.96	10,502.18
Sport Cheshire	B	-	-	1,531.09	-	-	-	-	-	-	0.01		-	-	0.04	1,531.14
Marketing Cheshire	C	155.68	1,442.42	2,193.10	4,049.89	-	-	-	-	-	-7.58		-	-	25,580.69	33,414.20
May Gurney Limited	B	-	18,597.74	59,527.63	2,464.90	-	-	-	-	-	-214.12		-	-	273,799.31	354,175.46
Plus Dane Housing Association Ltd	B	8,965.80	30,078.25	128,125.83	23,302.63	7,638.76	6,109.16	-	-	-	10.96		-	-	670,990.11	875,221.50
Local Solutions	B															-
Dataspire	B	-	1,994.64	-	-	-	-	-	-	-	-		-	-	5,236.44	7,231.08
Ringway Infrastructure	B	5,258.77	15,403.78	24,441.91	5,536.12	4,023.56	-	-	-	-	183.25		-	-	229,007.13	283,854.52
Curzon Cinemas Limited	B	161.96	719.52	-	-	-	-	-	-	-	-		-	-	4,205.94	5,087.42
Foundation Enterprises NW	C	-	290.98	951.94	133.13	-	-	-	-	-	-		-	-	4,691.53	6,067.58
Northgate Managed Services	B	-	438.8	-	-	-	-	-	-	-	-		-	-	1,074.35	1,513.15
HQ Theatres Limited	B	222.72	1,189.26	4,856.04	-	-	-	-	-	-	-		-	-	19,058.50	25,326.52
Tommy Thumbs	C	455.16	-	-	-	-	-	-	-	-	4.87		-	-	1,700.69	2,160.72
Bulloughs - Collegiate	B	2,302.30	-	-	-	-	-	-	-	-	-		-	-	-	2,302.30
Compass (Chartwells Ltd)	B	1,003.18	-	-	-	-	-	-	-	-	-0.12		-	-	71.68	1,074.74

Employees Contributions																
Employer Name	Inv'ment Strategy	Up to £13,500	£13,501 - £21,000	£21,001 - £34,000	£34,001 - £43,000	£43,001 - £60,000	£60,001 - £85,000	£85,001 - £100,000	£100,001 - £150,000	£150,000 or more	Adj'ments (To be app'tioned)	Councillors (at 6%)	Added Years	ARC's	E'ers Contributions	Total
Adoption Matters NW	B	2,666.37	11,935.33	36,123.68	32,771.89	-	5,951.52	-	-	-	-0.28		2,778.75	-	303,296.08	395,523.34
Bulloughs - Brine Leas	B	2,066.35	-	-	-	-	-	-	-	-	-		-	-	8,941.72	11,008.07
Police & Crime Commissioner	B	66,074.96	409,145.63	1,300,312.85	226,146.63	114,810.40	31,514.57	15,837.12	2,031.24	-	-5,403.14		23,893.64	3,603.60	5,760,230.57	7,948,198.07
Warrington Borough Transport	B	-	2,284.90	8,895.08	3,580.24	-	9,334.05	-	-	-	-		-	-	90,166.13	114,260.40
Sir John Deane's College	B	5,451.19	8,308.71	5,548.96	4,162.30	-	3,027.40	-	-	-	-119.41		231	-	82,521.70	109,131.85
Mid-Cheshire College	B	33,400.68	46,571.32	53,402.11	10,500.45	20,722.43	14,551.20	-	-	-	80.95		1,796.40	2,514.24	668,273.54	851,813.32
Making Space	C	-	1,436.81	3,771.02	-	-	-	-	-	-	-		-	-	150,456.02	155,663.85
Vision Support	C	-	-	-	-	-	-	-	-	-	-		-	-	29,000.00	29,000.00
David Lewis Centre	C	-	290.04	-	-	-	-	-	-	-	-		-	-	753,047.04	753,337.08
Youth Federation	C	-	-	-	-	-	-	-	-	-	-		-	-	6,999.28	6,999.28
King's School	B	746.79	2,710.16	10,539.30	-	-	3,217.50	-	-	-	-		4,624.23	-	145,365.58	167,203.56
University College Chester	B	84,256.57	212,215.89	532,845.98	112,727.42	84,814.64	36,261.72	11,200.00	17,898.00	-	99.31		12,816.16	11,086.68	3,165,452.84	4,281,675.21
C L S Care Services	C	2,305.70	92.26	6,342.74	3,026.72	-	-	-	-	-	-6.74		-	-	564,767.14	576,527.82
Chester and District Housing Trust	C	6,839.58	47,434.91	215,142.04	27,211.89	21,813.78	18,920.27	-	1,140.00	-	-692.17		5,512.08	-	1,355,367.89	1,698,690.27
Weaver Vale Housing Trust	B	20,384.76	76,268.92	218,301.74	25,459.13	42,413.90	22,011.40	9,565.44	-	-	-56.4		2,906.13	-	1,450,830.25	1,868,085.27
BAM UK Ltd	B															-
Winsford Town Council	B	1,179.25	4,084.40	-	2,396.70	-	-	-	-	-	-		-	-	25,031.36	32,691.71
Halton Borough Council Councillors	B											-	1,050.43	-	3,606.38	4,656.81
Cheshire West Councillors	B											-	43,939.61	-	130,830.08	174,769.69
Cheshire East Councillors	A											-	44,458.82	-	176,860.09	221,318.91
Connexions Cheshire/Warr	A															-
Creative Support	D	-	-	-	-	-	-	-	-	-	-		-	-	22,999.90	22,999.90
Total		5,318,814.58	8,256,279.98	11,819,381.20	3,577,814.78	2,931,712.79	957,430.93	233,798.33	254,852.87	24,549.96	134,326.15	89,448.86	277,379.15	137,478.94	134,591,284.80	168,604,553.32



Funding Strategy Statement – January 2014



1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Cheshire Pension Fund ("the Fund"), which is administered by Cheshire West and Chester 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 adviser. It is effective from 31st March 2014.

1.2 What is the Cheshire 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 Cheshire Pension Fund, to ensure 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;
- the Fund's policies on admissions, cessations and bulk transfers;
- 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 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 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 and of the share of the Fund attributable to individual employers. 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;

- 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 including tax raising employers 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:

- the regulatory background, including how and when the FSS is reviewed,
- who is responsible for what,
- what issues the Fund needs to monitor, and how it manages its risks,
- some more details about the actuarial calculations required,
- the assumptions which the Fund actuary currently makes about the future,
- a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Nick Jones, Employer Liaison Manager in the first instance at nick.jones@cheshirewest.gov.uk.

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, in certain circumstances 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 31 March 2013 can be found in the formal valuation report dated 31st 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, is also considered when setting contributions: more details are given in Section 3.

Subject to the Administering Authority's approval it may be agreed to pool contributions for some employers, see 3.4.

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

Any costs of salary increases above that assumed at the formal valuation must be paid by the employer.

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. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

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, 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 – County or Unitary Councils, and other specified employers such as a Fire Authority, a Police and Crime Commissioner, an academy or a further/higher education establishment. 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.

The Administering Authority has no discretion over whether to admit Scheduled Bodies to the Fund, and the Scheduled Bodies have no discretion whether to continue to allow its non-teaching or non uniformed staff to join the Fund. All such bodies become separate new employers in the Fund.

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 the Fund's admissions policy 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 recognise 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 to the local community.

However, the Administering Authority must also recognise that:

- The Fund provides 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;
- The Fund seeks to reduce the risk of an employer defaulting on its pension obligations. In that situation, the resulting deficit would fall on the other employers and those employers' services could in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to balance 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 will permit greater smoothing (such as stabilisation or a longer deficit recovery) 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.

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). 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. 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
Sub-type	Local Authorities, Police, Fire	Further Education Establishments	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)	Move to gilts basis 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 and Attained Age approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	20 years	15 years	20 years	15 years	15 years	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount for 4 main Councils, % of payroll for P&TCs	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	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	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	None	None
Review of rates – Note (e)	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 three years of contract
New employer	n/a	n/a	Note (f)	Note (g)		Notes (g) & (h)
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 (i)			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 (i).		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 closed to new entrants)

The Administering Authority may vary the discount rate used to set employer contribution rate 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
- 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.

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	"Standard" Tax Raising or Precepting Body	"Mature" Tax Raising or Precepting Body	Higher/Further Education Establishments	Academy
Max cont increase	+0.5% of pay	+1.5%	+2.0%	Same as ceding LEA
Max cont decrease	-0.5% of pay	-0.5%	-0.5%	Same as ceding LEA

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

The Administering authority reserves the right to review the stabilisation criteria and limits at any point before 31 March 2016 if there are material events for example (but not limited to) significant reductions in active membership or changes in the nature of the employer (perhaps due to Government restructuring or policy changes).

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 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. This expectation does not apply to Transferee Admission Bodies.

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

For employers with no (or very few) 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, not to exceed 15 years.

Note (d) (Deficit Recovery Payments)

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 often be set as a monetary amount as default.

Note (e) (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, altering the stabilisation parameters and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (f) (Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- The 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;
- The 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 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;
- d) The academy's initial contribution rate will be as per the ceding Council's rate and the Council's stabilisation parameters will apply;
- e) Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to 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. In particular, policies (c) and (d) above will be reconsidered at each valuation.

Note (g) (New Admission Bodies)

With effect from 1 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 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, guaranteeing their liabilities and also providing a form of security as above.

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 (h) (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 (i).

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 two 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.

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a contractor. Accordingly any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place and as if they were any other employer within the Cheshire

Pension Fund. It will then be up to the awarding authority and the contractor to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly the contractor will be required to pay the certified employer contribution rate to the fund and any other contributions required e.g. early retirement strain costs, regardless of risk sharing arrangement in place

Note (i) (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;
- The body ceases to be an admission body under the relevant LGPS regulation;
- The expiry or termination of the services contract;
- 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 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 may at its absolute discretion agree deficit recovery payments (calculated on a "gilts cessation basis") for a period of time after the cessation event. The period of time will be at the sole discretion of the Administering Authority. This approach would be monitored on a regular basis (at a minimum at each triennial valuation) and the Fund reserves the right to revert and seek immediate payment of any funding shortfall identified.

3.4 Pooled contributions

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;

However, 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 and Transferee Admission Bodies are not permitted to participate in a pool.

With the advice of the Actuary the Administering Authority has allowed Parish and Town Councils to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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.

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

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 (but is not limited to) a reduced rate of contribution or an extended deficit recovery period.

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.

With the agreement of the Administering Authority the payment can be spread as follows:

Tax Raising and Precepting bodies	- up to 5 years
Higher and Further Education Establishments	- up to 5 years
Academies	- TBC
Admission Bodies	- payable immediately

The Administering Authority may permit alternative repayment terms for the most secure employers only (i.e. those who are pre-cepting and eligible for the stabilisation mechanism). In practice this will mean that additional liabilities are assessed in respect of such retirements and converted into an additional contribution payable over the deficit recovery period.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative amount of ill health retirement strains in any financial year exceeds the allowance at the previous valuation, the Fund will seek advice from the actuary as to whether the employer should pay additional contributions to the Fund.

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 amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

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

3.8 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
- In exceptional circumstances the Fund may at its absolute discretion permit an employer with no remaining active members to continue contributing to the Fund. Under this agreement the Fund may at its absolute discretion agree deficit recovery payments (calculated on a "gilts cessation basis") for

a period of time after the last remaining active member had left the Fund. The period of time will be at the sole discretion of the Administering Authority. This approach would be monitored on a regular basis (at a minimum at each triennial valuation) and the Fund reserves the right to revert and seek immediate payment of any funding shortfall identified.

3.9 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.



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 Fund has 4 broad investment strategies. Employers are allocated to the strategy that best suits their objectives.

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. An employer is only allocated to a lower growth investment strategy when there will be no material impact on the contribution required.

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

In the opinion of the Fund actuary, the current funding policy for each of the employer groupings 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 largestable 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 the 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 the current stabilisation mechanism is to remain in place until 2017, 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 regularly. It reports this to the regular Pensions Committee meetings on a quarterly basis, and also to employers through newsletters and Employers Forums.



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 on 16 January 2014 for comment;
- b) Comments were requested within 14 days;
- c) Following the end of the consultation period the FSS was updated where required and then published on 31 March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website http://www.cheshirepensionfund.org/?page_id=763
- A link to the website URL sent by e-mail to each participating employer in the Fund;
- A full copy is included in the annual report and accounts of the Fund;
- Copies sent to investment managers and investment 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 Pensions 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.cheshirepensionfund.org/?page_id=763.



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;
- 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, which could affect future funding.



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:

- financial;
- demographic;
- 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>Investment risk levels reduced when returns have exceeded pre-determined expectations as per a comprehensive risk management framework.</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 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Employer allocated to inappropriate long-term investment strategy.	<p>Administering authority monitors allocation to investment strategy and there is a formal review at least in line with every formal valuation date where allocation to strategy is agreed with the Fund's investment advisor.</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>
Active investment manager under-performance relative to benchmark.	<p>Robust selection process followed by 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 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> <p>Annual pay increase monitoring at employer level will identify pay award strains which can then be recharged to employers over a period not to exceed three years.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	<p>An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.</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 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<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>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<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>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 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>

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>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<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> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</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 Rate¹, 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.

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

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

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 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 overleaf.

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 accruals of benefits;
- 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. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

From 1 April 2014 onwards, the Administering Authority will track each employer's asset position, using an Employer Asset Tracking System. Full details are available on request.

Prior to this date, 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. The split is calculated using an actuarial technique known as "analysis of surplus".



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

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 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.55% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation) for the majority of employers. 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.

Where an employer is invested in a lower risk strategy, the asset outperformance assumption has been adjusted accordingly.

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 the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

The fund will monitor pay growth and put in place a recharge policy should there be a strain cost in respect of pay rises being higher than assumed.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than 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 31 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 propose 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 “medium cohort” 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 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 the majority of 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. For some employers the financial assumptions are altered to reflect that they have a different funding target e.g. full funding on a gilts basis.

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 cashflows (in and out of the Fund) are discounted to the present day. 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 Future service rate	The ratio of assets value to liabilities value: for further details (see 2.2). 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.

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 employers 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 large stable 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 31 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.

Statement of Investment Principles – January 2015

Introduction

The Cheshire Pension Fund (“The Fund”) is required to publish a Statement of Investment Principles (SIP) in accordance with the Local Government Pension Scheme (LGPS) Regulations. The SIP for the Cheshire Pension Fund is set out below and complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This Statement of Investment Principles was approved by the Pension Fund Committee on 9th July 2014.

The Regulations also set out the Fund’s requirement to maintain a Funding Strategy Statement (FSS). The FSS for Cheshire Pension Fund has been revised to take into account the results of the most recent actuarial valuation (31 March 2013) and was approved by the Pension Fund Committee on 10 January 2014.

The SIP is subject to review from time to time and always within six months of any material change in investment policy or other matters as required by law. In preparing this Statement the administering authority has taken and considered professional advice from Hymans Robertson LLP (the Fund’s actuary) and Mercer (the Fund’s strategic investment advisor).

For further information, please contact: **Steve Tranter**, Finance Manager - Investments, Cheshire West and Chester Council, Council Offices, 4 Civic Way, Ellesmere Port CH65 0BE.

Scheme Governance

Cheshire West and Chester Council (The Council) is the statutory administering authority for the Local Government Pension Scheme (LGPS) in Cheshire through the Cheshire Pension Fund (the Fund).

The Full Council of Cheshire West and Chester Council has delegated responsibility for the governance of the Fund to the Section 151 Officer. The Section 151 Officer therefore has ultimate responsibility for the Fund's investment strategy and is advised by The Pension Fund Committee and the Fund's strategic investment advisor (Mercer).

Investment Responsibilities

As stated the responsibility for the administration of the Pension Fund is delegated to the Section 151 Officer, advised by the Pension Fund Committee.

The Pension Fund Committee comprises 11 members (10 with voting rights) as follows:

Cheshire West and Chester Council	Four members
Cheshire East Council	Four members
Halton Borough Council	One member
Warrington Borough Council	One member
Employee representative (UNISON)	One member (non voting)

The Fund's governance structure also includes a Pensions Investment Sub Committee. The Sub Committee comprises 5 members of the Full Committee and ensures that the Fund's limited governance time is utilised in the most efficient manner by focussing on more complex investment issues.

The day to day responsibility for all investment strategy and monitoring activities is delegated to the Head of Finance after taking and considering expert advice from the Pension Fund Committee and the Fund's professional advisors.



The terms of reference in relation to investments for the Fund's Pension Committee and Investment Sub Committee are shown in the table below:

Terms of Reference (Investments)

Pension Fund Committee	Investment Sub Committee
1) Maintain and continually review the Fund's management and governance structure.	1) On a quarterly basis, review the performance of the Pension Fund and the Fund Managers against the objectives, benchmarks and targets set.
2) Formulate and continually review the Fund's investment policy and investment strategy including asset allocation strategy, setting target return and risk budgets.	2) Receive and consider any investment manager or service provider issues escalated to the Sub Committee by key officers.
3) Consider, agree and continually review an investment management structure for the Pension Fund and to be responsible for overseeing:- <ul style="list-style-type: none"> a. the appointment and termination of investment managers; b. the establishment of performance benchmarks and targets for investment managers; 	3) After taking appropriate advice, formulate and continually review a governance structure to ensure effective consideration, implementation and monitoring of investment opportunities for the opportunities fund
4) Oversee the appointment and termination of advisors and consultants to the Pensions Fund as required	4) After taking appropriate advice, identify and implement any tactical asset switches (within ranges prescribed by the Pension Fund Committee).
5) Formulate and review tolerance ranges to delegate to the Investment Sub Committee to allow them to implement tactical changes to the Investment Strategy or Asset Allocation	5) Receive reports from the Fund's investment managers and other service providers on issues that may impact the Fund's investment strategy and objectives and consider if, and to what extent, any recommendations to the Pension Fund Committee may be necessary to ensure the efficient and effective performance of the Pension Fund.

The responsibility for the day-to-day management of the Fund's assets is delegated to its appointed investment managers. Details of the Fund's current roster of investment managers are provided later in this document.

Investment Objectives

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

The Funding Strategy and Investment Strategy are intrinsically linked and together aim to deliver stable contribution rates for employers and a reduced reliance on employer contributions over time.

The investment objective is therefore to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme.

Investment Strategy

Translating the Fund's investment and funding objectives into a single suitable investment strategy is challenging. The key objectives often conflict. For example, minimising the long term cost of the scheme is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Additionally, the number of employers in the Fund has increased markedly since the 2010 valuation and stood at more than 170 at 1 April 2014. Each employer has different underlying characteristics and crucially, many have different long term funding objectives.

In order that the Fund delivers on its key objectives; ensuring that each employer takes the appropriate level of investment risk, giving each the best opportunity possible to achieve its long term funding objective whilst increasing certainty of cost, the Fund operates four distinct investment strategies.

The Fund has translated its objectives into four suitable strategic asset allocation benchmarks

for the Fund. The strategic benchmarks are reflected in the investment structure adopted by the Fund; this comprises a mix of segregated and pooled, and active and passive, manager mandates. The strategic benchmark is consistent with the Fund's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The Fund is required to monitor its investment strategy relative to the agreed asset allocation benchmark in order to ensure that it remains consistent with the overall objective. Historically the Fund has undertaken this review at least every three years following actuarial valuations of the Fund.

In addition to the required triennial review, the Fund has provided each employer with a 'flightpath', a clearly defined plan to achieve full funding over a defined period of time. The significance of the flightpath on the investment strategy is that as an employer's funding level improves, the Fund will reduce its allocation to growth assets and increase its allocation to matching assets (and vice versa). This ensures that investment strategies are closely aligned to the changing characteristics of scheme employers and strengthens the link between the investment strategy and the overall investment objective.

Funding Strategy Statement

There are close links between the SIP and the Funding Strategy Statement, which sets out the Fund's approach to funding its pension liabilities and the resulting impact on employer contribution rates. The FSS for Cheshire Pension Fund has been revised to take into account the results of the most recent actuarial valuation (31 March 2013) and was approved by the Pension Fund Committee on 10 January 2014.

The FSS is available on the Fund's website: http://www.cheshirepensionfund.org/?page_id=101

The types of investments to be held

The Fund operates within a regulatory framework set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This sets out the requirement to formulate the investment policy with a view to;

- the advisability of investing fund money in a wide variety of investments; and
- the suitability of particular investments and types of investment.

The Fund receives advice on the above from its Strategic Investment Advisor, Mercer.

The Fund invests primarily in equities (UK, overseas and global), fixed interest securities (government and corporate), private equity, secured loans, index linked securities, property, absolute return mandates, cash (and money market funds), either directly or through pooled funds.

The Fund may also make use of derivatives such as equity index futures, contracts for differences, foreign currency forwards and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management, generating returns or to hedge specific risks. The Fund's use of such derivatives is subject to the restrictions in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

Limits on Investments

Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 set statutory limits for different types of investments.

In November 2005, the Fund exercised its discretion under the Regulations to permit up to 35% of the Fund to be invested in insurance contracts. Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP.

Similarly, in September 2012 the Pensions Committee exercised its discretion to increase the limit on the level of Fund assets invested in partnerships to 10% (maximum permitted under Regulations 15%) for a period of 5 years. Before taking this decision, the Committee took proper advice from its investment adviser, Mercer.

Balance between different kinds of investments

The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

The Fund's initial strategic benchmark following the 2013 valuation and investment strategy review is set out below. As stated this strategic benchmark may change over time in line the Fund's investment risk management framework and employer flightpaths. Any changes to the strategic benchmark require the approval of the Pension Fund Committee.

Strategic Benchmark

	Investment Strategy (%)				Benchmark Index
	Growth A	Growth B	Medium Growth	Gilts	
GROWTH PORTFOLIO	80.0	70.0	50.0	-	
Equities	50.0	40.0	20.0	-	
Global (unconstrained)	12.0	12.0	8.0	-	MSCI World
Global (unconstrained)	10.0	10.0	4.0	-	MSCI All Country World
Global (unconstrained)	8.0	8.0	4.0	-	FTSE All World
UK	10.2	5.2	2.0	-	FTSE All-Share
North America	3.4	1.7	0.7	-	FTSE All World North America
Europe (ex UK)	2.4	1.2	0.5	-	FTSE World Europe Ex-UK
Emerging Markets	1.5	0.7	0.3	-	MSCI Emerging Markets
Pacific (ex Japan)	1.5	0.7	0.3	-	FTSE Developed Asia Pacific
Japan	1.0	0.5	0.2	-	FTSE Japan Index
Absolute Return	15.0	15.0	15.0	-	
Fund of Hedge Funds	6.0	6.0	6.0	-	UK Consumer Price Index (CPI)
Multi Strategy	6.0	6.0	6.0	-	UK Consumer Price Index (CPI)
Commodity Trading	3.0	3.0	3.0	-	UK Consumer Price Index (CPI)
Property	7.0	7.0	7.0	-	CAPS Property
Private Equity	5.0	5.0	5.0	-	LIBOR BBA GBP 1 Month
Opportunities Fund	3.0	3.0	3.0	-	LIBOR BBA GBP 1 Month
MATCHING PORTFOLIO	20.0	30.0	50.0	100.0	
Fixed Income	20.0	30.0	50.0	100.0	
Corporate Bonds	7.0	7.0	7.0	-	BofA ML Sterling Broad
Multi Asset Credit	8.0	8.0	8.0	-	LIBOR BBA GBP 1 Month
Index Linked Gilts	-	10.0	30.0	100.0	FTA Over 5 Year Index Linked
Secured Loans	5.0	5.0	5.0	-	LIBOR BBA GBP 1 Month
Total	100.0	100.0	100.0	100.0	



In addition to the strategic benchmark for each investment strategy, the Pension Fund Committee sets appropriate tolerance limits for each asset manager and asset class. Actual asset allocations are monitored against these tolerance limits on a quarterly basis by the Investment Sub Committee in order that rebalancing can occur if required. Tolerance ranges approved by the Pension Fund Committee on 28 March 2014 are shown in the table below:

Asset Class	Growth Strategy A and Growth Strategy B	Medium Growth Strategy
Equities	Manager +/- 5% Aggregate +/- 5%	Manager +/- 5% Aggregate +/- 2.5%
Fixed Income	Manager +/- 2.5% Aggregate +/- 2.5%	Manager +/- 2.5% Aggregate +/- 5%
Absolute Return	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)
Illiquid Portfolio	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)	Aggregate +/- 2.5% (rebalancing dependant on magnitude, cost and liquidity)



Risk and diversification of investments

The Fund is exposed to a number of investment risks which pose a threat to the Fund meeting its objectives. It is the Pension Fund Committee's policy to invest the assets of the Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Committee reviews the asset allocation of the Pension Fund on a quarterly basis. The principle investment risks that the Fund is exposed to are set out in the table below:

Risk	Mitigating Actions
Asset Risks	The Pension Fund Committee sets investment guidelines at a strategic, asset class and individual manager level. These guidelines act to mitigate key asset risks and include:
Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.	<ul style="list-style-type: none"> • Diversification guidelines • Asset class and manager control ranges • Clearly defined objectives for each investment mandate which are reviewed and monitored by the Committee on a quarterly basis
Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.	<ul style="list-style-type: none"> • Active management of Fund liquidity to ensure the Fund can meet its short term cash flow requirements
Currency risk that the currency of the Fund's assets underperforms relative to sterling (i.e. the currency of the liabilities).	<ul style="list-style-type: none"> • The appointment of a range of investment managers provides protection against the underperformance of one manager
Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.	
Operational Risks	When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers.
Transition risk of incurring unexpected costs in relation to the transition of assets among managers.	Custody risk is managed by:
Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.	<ul style="list-style-type: none"> • The use of a global custodian for custody of assets. • The use of formal contractual arrangements for all investments. • Maintaining independent investment accounting records.
Credit Risk relates to The possibility of default of a counterparty in meeting its obligations.	Custody risk is managed by:
	<ul style="list-style-type: none"> • Maintaining a comprehensive risk register with regular reviews. • Operation of robust internal compliance arrangements. • In-depth due diligence prior to making any investment.

Expected return on investments

The actuarial valuation, at 31 March 2013, was prepared on the basis of an expected real return on assets of 2.1% over the long term, a nominal return of 4.6% assuming inflation to be 2.5%. This can also be expressed as 1.55% above gilt yields at the time of the valuation, an outperformance assumption that in the opinion of the actuary is within a range that would be considered acceptable for the purposes of the funding valuation.

Where an employer is invested in a lower risk strategy, the asset outperformance assumption has been adjusted accordingly.

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund.

Realisation of investments

The Fund's investment managers have discretion as to the timing and amount of the realisation of investments. The majority of assets held within the Fund may be realised quickly if required by the Fund. The exception to this is the Fund's portfolio of illiquid investments including Private Equity and Property, the Fund does however expect to be rewarded for holding illiquid assets by earning an 'illiquidity premium'.

Compliance with Myners principles

In 2000, UK government commissioned Paul Myners to undertake a review of institutional investment, publishing a report in 2001 which became established as the Myners' Principles on Good Investment Governance. The principles were updated through a Treasury report in October 2008, 'Updating the Myners' Principles: A Response to Consultation'.

Local government pension funds are required, by regulation, to produce a statement on their

compliance with the Myners' Principles on the basis of 'comply or explain', including the statement in their annual report. CIPFA produces guidance and advises on the application of the Myners' Principles to local government pension funds. This guidance (Investment Decision Making and Disclosure 2009) has been followed in the production of this statement.

The Fund's self-assessment of adherence to the principles are attached as an Appendix 1 to this statement.

Responsible Investment

The Cheshire Pension Fund adopts a long term approach to responsible investment. The Pension Fund Committee recognise their full responsibility for the oversight of assets and are charged with determining the overall investment strategy and the type of investment management used. The investment strategy is aimed at achieving best returns whilst minimising risk and overall variability in future employers' contribution rates. Environmental, social and governance (ESG) issues will be taken into account where these are considered likely to impact on returns.

The Fund supports best practice in corporate governance and adopts the Stewardship Code as recommended by the revised Myners Principles. The Code states that institutional investors should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities.
- have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
- monitor their investee companies.
- establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.
- be willing to act collectively with other investors where appropriate.

- have a clear policy on voting and disclosure of voting activity.
- report periodically on their stewardship and voting activities.

The Fund has adopted a number of specific policies to implement its approach to long term responsible investment and its responsibilities under the Stewardship Code.

Policies Adopted

The Fund adopts a policy of positive engagement with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the best long term interests of the Fund, its beneficiaries and other stakeholders.

Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Fund actively supports the work of LAPFF and sees this as an important element of its stewardship responsibilities.

The Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds. The Fund delegates responsibility for voting to its appointed investment managers who are required to vote wherever the Fund has a voting interest. Wherever practicable, votes must be cast in accordance with industry best practice as set out in the Combined Code of Corporate Governance with a clear focus on enhancing long term shareholder value.

In order to ensure that the governance practices employed by the Fund's investment managers are aligned to that of the fund, investment manager's quarterly performance reports are required to include a specific briefing on corporate governance, detailing all votes cast on the Fund's behalf. This is reported to the Investment Sub Committee on a quarterly basis and any exceptions or examples non-compliance are addressed directly with the Fund's managers.

Stock Lending

The Fund allows stock held within its segregated portfolios to be lent out to market participants through a stock lending programme managed by its custodian, the Bank of New York Mellon. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund consider it appropriate.

The stock lending policy on pooled funds is determined by the individual investment manager. Any income from such a policy is incorporated in the net asset values of the pooled fund.

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the securities that are transferred under stock lending arrangements do not exceed 25% of the total value of the investment portfolio.



Appendix 1 – Myners Principles

Principle	Evidence of Compliance
<p>Principle 1 Effective Decision Making:</p> <p>Administering authorities should ensure:</p> <ul style="list-style-type: none"> • 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 • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>Compliant</p> <p>Decisions are taken by the Pension Fund Committee which is responsible for the management of the Cheshire Pension Fund.</p> <p>The Committee has support from Council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.</p> <p>The Committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.</p>
<p>Principle 2 Clear objectives:</p> <p>An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</p>	<p>Compliant</p> <p>The Committee has established objectives for the Fund which take account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers.</p> <p>There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.</p>
<p>Principle 3 Risk and liabilities:</p> <ul style="list-style-type: none"> • 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. 	<p>Compliant</p> <p>The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity.</p> <p>The Committee and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.</p>

Principle

Evidence of Compliance

Principle 4 Performance assessment:

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

Partially compliant

The performance of the Fund and its individual managers are monitored on a regular basis.

The quality of advisers is assessed on a qualitative basis and is subject to periodic retender in order to ensure value for money.

The Pension Fund Committee does not yet have a formal process in place to measure its own effectiveness.

Principle 5 Responsible Ownership:

Administering authorities should

- adopt, or ensure their investment managers adopt, the Financial Reporting Council's (FRC) Stewardship Code 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.

Partially compliant

The Pension Fund Committee encourages its investment managers to adopt the Financial Reporting Council's (FRC) Stewardship Code on the responsibilities of shareholders and agents on the Fund's behalf but not all of the managers comply fully with the ISC Principles.

This Statement of Investment Principles includes a statement on the Fund's policy on responsible ownership.

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.
- should provide regular communication to scheme members in the form they consider most appropriate.

Compliant

The Pension Fund Committee maintains minutes of meetings which are available on the Council website.

The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Committee meetings.

The Statement of Investment Principles is published on the Fund's website and is available to members on request. Other information on the Scheme is available to members on the Fund's website.

Communications Policy Statement

Introduction

This is the Communications Policy Statement of the Cheshire Pension Fund (the Fund), administered by Cheshire West and Chester Council (the Administering Authority).

This Statement provides an overview of how the Fund will communicate with its customers (members and employers) and stakeholders. An effective communications strategy is vital for the Fund to meet its objective of providing a high quality and consistent service.

Scheme communications are a critical activity; they are the external face of the Fund and provide a key link with its customers and stakeholders.

The Fund continuously looks at ways to enhance its communication offering to the various audiences and this Communication Policy Statement will be reviewed annually and a revised version will be published following any material change.



Regulatory Framework

This Statement has been produced in accordance with Regulation 61 of the Local Government Pension Scheme Regulations 2013. This Regulation states that:

61.(1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers

(2) In particular the statement must set out its policy on—

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

Minimum standards

Under the Occupational Pension Schemes (Disclosure of Information Regulations) 1996, administrators of the Local Government Pension Scheme (LGPS) are required to provide the following:

- A copy of the scheme regulations and any overriding legislation, on request, – either through providing a personal copy, a copy for inspection or details of how to obtain a copy; members, prospective members, their spouses, beneficiaries and recognised trade unions are entitled to this information.
- Basic information about the scheme must be given automatically to every prospective member before starting, or, if this is not practical, within two months of joining. This information must also be provided on request – unless issued within the previous 12 months – to current members, prospective members, spouses, beneficiaries and recognised trade unions within two months of receipt of a written request.
- Details of any material changes to the LGPS notified to all members and beneficiaries (except excluded persons, that is, deferred pensioners whose present address is unknown) where possible before the change takes effect. Otherwise the change must be notified not later than three months after it has taken effect.
- an annual benefit statement to all active, deferred and pension credit members.



Key Objectives

The Cheshire Pension Fund recognises that communicating with scheme stakeholders and customers is a critical activity for the Fund and has established communication practices that exceed the minimum standards required by legislation and include these in our communication strategy.

The Fund has identified the following key objectives of its Communications Policy Statement:

- Provide clear, jargon free and timely communication to its customers and stakeholders
- Recognise that different styles and methods of communication suit different customers and stakeholders
- Use the most effective communication medium for the audience receiving the information
- Adapt its communication where possible following feedback from customers and stakeholders
- Seek continuous improvement in the way it communicates
- Inform its customers and stakeholders to enable them to make the decisions they need to make regarding pensions.
- Inform customers and stakeholders about the management and administration of the Fund
- Consult major stakeholders on changes to regulations, policies and procedures that affect the Fund and its stakeholders
- Promote the LGPS as an attractive benefit to scheme members and an important tool in recruitment to employers
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the Scheme.

- Deliver the communication policy in a cost effective way and encourage the use of electronic/online/ multimedia communication and information sharing
- Evaluate the effectiveness of the communication objectives
- Treat information security with the upmost importance.

This comprehensive list of objectives have been distilled into one underlying core value statement which is employed when considering every piece of communications the Fund delivers:

The Cheshire Pension Fund's communication objective is to deliver:

- the **Right Message**
- at the **Right Time**
- to the **Right Customer**
- using the **Right Media**
- at the **Right Cost**

Key Audience Groups

The Fund communicates with a diverse group of different customers and stakeholders. For the purposes of this communications policy statement, we have categorised these into key audience groups.

The Communication Policy recognises that the objectives and key messages to these groups may differ and also recognises that different styles and methods of communication will suit the different audience groups.

The Fund will use the most effective communication medium for each audience group and will adapt its communication where possible following feedback from its audience.

Cheshire Pension Fund – Key Audience Groups



Objectives and Key Messages

The Fund has identified a number of core objectives and key messages for the following key audience groups that will provide a framework and consistent 'theme' for all communication to each of the groups. The Fund recognises that the objectives and key messages to the audience groups may change over time and may be reactive to events for example a change in the regulations or the benefits package. The Communications Policy Statement and its objectives will be reviewed and updated at least annually and when there is a material change.

Audience Group	Objective	Message
Active Members	<ul style="list-style-type: none"> Promote the LGPS as an attractive benefit to members Improve the understanding of how the LGPS works Inform scheme members of their pension rights and benefits Improve business efficiency and reduce queries and complaints through improved communication Comply with statutory obligations 	<ul style="list-style-type: none"> The full benefit package the LGPS offers in addition to the basic pension Difference between post and pre 2014 scheme and benefits Pre 2014 benefits remain unchanged What it costs Retirement Age 50:50 contribution option Employer also pays in to the scheme on the members behalf Impact of any changes in legislation The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues The Pension Fund is managed and administered efficiently within a robust governance framework
Prospective Members	<ul style="list-style-type: none"> Improve take up of the LGPS, but acknowledging and respecting that prospective scheme members have the right to choose whether they join or not; Promote the LGPS as an attractive benefit to members Improve the understanding of how the LGPS works Inform employees of their prospective pension rights and benefits 	<ul style="list-style-type: none"> The full benefit package the LGPS offers in addition to the basic pension Opt outs can re-join the scheme What it costs 50:50 contribution option Employer also pays in to the scheme on the members behalf Impact of auto-enrolment Understand the impact of any changes in legislation The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues The Pension Fund is managed and administered efficiently within a robust governance framework

Audience Group	Objective	Message
Deferred Members (including opt outs)	<ul style="list-style-type: none"> • Inform scheme members of their pension rights and benefits • Promote the LGPS as an attractive benefit to members • Improve the understanding of how the LGPS works • Improve business efficiency and reduce queries and complaints through improved communication • Comply with statutory obligations 	<ul style="list-style-type: none"> • The full benefit package the LGPS offers in addition to the basic pension • Opt outs can re-join the scheme • Difference between post and pre 2014 scheme and benefits • Pre 2014 benefits remain unchanged • What it costs • Retirement Age • 50:50 contribution option • Employer also pays in to the scheme on the members behalf • Impact of auto-enrolment • Keep personal details up to date • Understand the impact of any changes in legislation • The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues • The Pension Fund is managed and administered efficiently within a robust governance framework
Pensioner Members	<ul style="list-style-type: none"> • Reaffirm pensioners of their pension rights and benefits • Improve business efficiency and reduce queries and complaints through improved communication 	<ul style="list-style-type: none"> • Benefits remain unchanged • Pensions Increase • Pay Dates • Keep personal details up to date • Dependants pension and nomination process • Contact Tax Office with tax queries • Impact of any changes in legislation • The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues • The Pension Fund is managed and administered efficiently within a robust governance framework
Employing Authorities	<ul style="list-style-type: none"> • Employers understand how the scheme works • Ensure employers have the necessary information to provide their employees with information about the LGPS • Employers actively promote the LGPS as an important tool in the attraction and retention of employees • Raise employers knowledge and awareness of the key drivers of changes to their pension liabilities and the strategy to fund these liabilities • Inform employers about the management and administration of the Fund • Employers understand their roles and responsibilities and comply with their statutory obligations as a scheme employer • Improve working relationships and data flows • Employers deliver accurate and timely data within the published employer targets 	<ul style="list-style-type: none"> • Employers have a responsibility to provide employees with information about the LGPS. • Employers should promote the LGPS • Employers should understand how the Scheme works • Employers should understand the impact of any changes in legislation • Employers must deliver their LGPS responsibilities and comply with their statutory obligations as a scheme employer • Employers have a responsibility to provide accurate and timely data • Employers should engage with the Pension Fund as earlier as possible if outsourcing any staff • The Pension Fund is a centre of excellence for technical and strategic advice on LGPS pension issues • The Pension Fund is managed and administered efficiently within a robust governance framework

Communication deliverables

Media, tools and channels of communication

The Fund will provide its customers and stakeholders with a comprehensive range of communication deliverables and will strive to use the most effective communication medium for each audience group and will adapt its communication where possible following feedback from its audience.

How the Fund will communicate with Active Members

Description	Service
Scheme Booklet	A booklet called "Cheshire Pension Fund – Looking After Your Future" describing scheme benefits with explanatory notes. It is provided by employers to all new starters. The booklet is revised to reflect legislation changes and all new active members receive a copy from their employer. The booklet is available on the website.
Employee Factsheets	The booklet is supported by a range of Employee Factsheets that provide more detail on topics such as increasing benefits and making nominations. These factsheets can be sent out to individual members and are also available to download from our website.
Annual Benefit Statements	Once a year we send all members a benefit statement direct to their home address. This summarises the basic information we hold about them such as date of birth, hours of work, pay for pension purposes and gives estimates of the current and future value of the member's benefits.
Newsletter – Your Pension	Each year to accompany the Annual Benefit Statement a newsletter is produced which keeps the members updated on the LGPS and gives information about their Annual Benefit Statement.
Website	The core information about the Scheme is held on our website: www.cheshirepensionfund.org There is a dedicated area for active members. We also publish news updates as soon as is practical. This enables members to gain information as it becomes available. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download. Plus links to other organisations e. g. AVC providers.
Pension Road shows	We run information sessions in members' places of work. These are run on request in conjunction with employers. These Road shows can be run on a surgery basis with appointments for members and prospective members. This is particularly useful for employers with small numbers of staff. We run more specialist sessions for members that may be affected by issues such as restructure and the effect this could have on their pension benefits.
Pre-Retirement Courses	Attendance at Face to face meetings, organised by a number of our employers that aim to explain the options available for members approaching retirement.
Ad Hoc Meetings	Ad hoc meetings will be held from time to time for various groups of members. These may be defined by type of member (contributor or retired) or location (for a specific employer or group of employers). The timing of these meetings will be dictated either by requests from employers or the need to consult and notify members of any changes that occur.
Helpdesk	A dedicated helpdesk for scheme members is operated by experienced staff of the Cheshire Pension Fund administration team. The team offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.
Requests for information	Respond to requests for information providing accurate, timely and informative details of the Local Government Pension Scheme in the most appropriate method.
Annual Reports and Accounts	The audited accounts of the Cheshire Pension Fund are prepared as at 31st March each year and are published on the website. A summary of the Funds Report and Accounts is issued to all active scheme members on an annual basis.

How the Fund will communicate with Deferred Members

Description	Service
Annual Benefit Statement	A yearly summary of each member's details held including a current valuation of their deferred pension benefits. This is sent by post to their home address. This also acts as a prompt for members to notify us on any changes in circumstances including current nominations. Undelivered statements which are returned to the Fund allow us to trace missing members before their benefits are due for payment.
Newsletter – Pension Pending	An annual newsletter "Pension Pending" also sent by post accompanies the Benefit Statement. This provides members with any relevant changes to legislation and other news including how to contact the Fund.
Website	A dedicated section on the Funds' website is available for deferred members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. A quick link allows all members to contact the Fund using an electronic form.
Helpdesk	Deferred members can contact the Fund helpdesk to discuss any issues or specific points regarding their membership. The team offer information on all aspects of scheme membership and benefits for all active, deferred and pensioner members.
E-mail, Fax and Post	The Fund readily accepts written correspondence received by E-mail, Fax and Post. It has a designated fax number, e-mail account with automatic acknowledgement and postal address.
Retirement Packs	A retirement pack consisting of an information factsheet, a statement of benefits and forms for completion and return is sent within six weeks of retirement to the member's home address. This provides all relevant information to allow a smooth transition from Deferred Membership to Pensioner.

How the Fund will communicate with Pensioner Members

Description	Service
Pay Advice and P60	Pay advices are issued at least three times per year in March, April and May. This coincides with the annual pensions increase and the annual HMRC tax notification changes. Throughout the rest of the year, a pay advice is only sent if the net pension changes by more than £1. Returned pay advice alerts the Fund to a change in circumstances, allowing us to trace missing members. Each member will receive a P60 by post by the end of May each year.
Newsletter – Cheshire Chat	An annual newsletter "Cheshire Chat" is also sent by post at the start of the new financial year. This provides pension members with details such as the annual rate of pensions' increase, relevant changes to legislation, National Fraud Initiative and other news including how to contact the Fund or pensioner payroll contacts.
Website	A dedicated section on the Funds' website is available for pension members. This provides detailed and informative links allowing members to be kept up to date with the latest news and changes. A quick link allows all pensioner members to contact the Fund using an electronic form.
Pension Helpdesk	Pensioners can contact the Fund helpdesk to discuss any issues or specific points regarding their pension. A dedicated payroll helpline is also available allowing pensioners to make tax and pay enquiries.
E-mail, Fax and Post	Pensioners can also send correspondence including changes of details such as address or bank details to both the Fund and the pension payroll by E-mail, Fax and Post.

How the Fund will communicate with Pension Fund Staff

Description	Service
Induction	All new members of staff attend a Pensions induction course. Individual development plans are in place.
Training	Staff have individual Personal Development Plans and regular appraisals. They also attend internal, and where appropriate, external courses.
Performance Management	All Cheshire West and Chester Council employees are subject to the Council's performance management framework. Within this framework each employee is set an individual performance plan with objectives and competencies to be achieved, Measurement of performance/ratings, Development plan, Career Aspirations.
Pensions Qualifications	All staff are encouraged and supported to attain professional qualifications.
Service Plan	The Pensions Section has an Operational Plan which is actively managed and discussed in regular Management Team meetings. The plan includes key performance indicators and progress against the plan is reviewed monthly.
Pensions Management Team	Monthly meetings to discuss strategic plans and operational issues.
Section and Team Meetings	All members of staff attend regular Section and Team Meetings.
Intranet	All Pensions staff have access to the intranet containing procedure instructions, regular briefings, newsletter etc. Thus ensuring that information is available to all staff at their work location in a timely and efficient way.
Internet	Staff have access to the internet where this is required as part of their job.
Email	All members of the Team have an individual email account, allowing us to communicate efficiently and effectively.



How the Fund will communicate with Employing Authorities

Description	Service
Pensions Consultative Forum	The Pension Consultative Forum is a body representative of the major employers in the Fund, the Councils, Police, Fire and Rescue, Colleges and Housing Trusts. Meetings are held at least twice a year with the primary focus on reviewing how the Administration Authority is delivering its administration and management responsibilities.
Website	A password protected section on the Funds website is available for our employers. This provides detailed and informative links allowing employers to be kept up to date with the latest news and changes. Electronic copies of all relevant forms, scheme literature, policies and reports are also available to download, along with training documentation and tools. Plus links to other organisations e. g. Local Government Employers.
Employers Guide	An administration manual is issued to all employers and provides all the information needed to take part effectively in the scheme. Regular updates to this manual are provided as the scheme rules change.
Employer Newsletter	A periodical newsletter providing legislation, operational items, technical updates and support is issued to Employers.
Employer Welcome Pack	Employer "Welcome" pack setting out details of the process for joining the Fund is issued to all new Employers.
Employer Training	Training covers the full range of administrative and Regulatory activities and is tailored to the needs of the particular employer.
Employer Meeting	A forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters annually plus ad hoc meetings where business warrants.
Scheme Literature	A range of publications for use by employers and scheme members including the scheme booklet and additional information leaflets.
Administration Forms	Standard forms with guidance notes to notify the Fund of key events affecting pension benefits.
Annual Report and Accounts	The audited accounts of the Cheshire Pension Fund are prepared as at 31st March each year and every employer receives a copy. They are also published on the website.



Communication with other organisations

The Fund regularly needs to communicate effectively with its partners and other organisations.

Description	Service
Prospective Employers	The Fund provides information to prospective Employers to ensure they understand the LGPS Regulations, their implications and the role of a Scheme Employer. The Fund will provide information required to facilitate a smooth transition in respect of prospective Employers to which LGPS Members may TUPE transfer, such as contractors providing a service to a Scheme Employer.
Pension Fund Committee	<p>The Pension Fund Committee meet at least quarterly and the Fund supports the Committee's governance responsibilities by producing agendas, agenda Items, minutes, discussion papers and briefing notes. All Committee papers are distributed one week before the Committee meeting.</p> <p>Topics regularly communicated to the Committee are Investment issues, Funding Level updates, Administration, Governance, Business Plan and Risk management and Audit.</p> <p>The Fund has developed an electronic decision making approval protocol to expedite decision making outside of the quarterly meeting cycle.</p> <p>The Fund publishes a Committee members training plan and members receive formal training at least four times a year, as well as attending a number of national conferences and seminars to ensure that they are fully informed to fully undertake their responsibilities.</p> <p>The Head of Finance and Senior Manager, Corporate Finance are in regular contact with the Chair of the Committee outside of the formal meetings, and ensure that the Committee are kept informed of issues that affect the Fund.</p>
Administering Authority's Senior Management	<p>The Senior Manager, Corporate Finance meets the Head of Finance on a weekly basis to provide information to evaluate the administration, management and governance of the Pension Fund.</p> <p>The Director of Resources and the Head of Finance receive the quarterly Committee minutes, agenda and agenda items as a matter of course.</p> <p>The Fund communicates and consults with senior management on changes to regulations, policies and procedures that affect the Pension Fund, employers and the Administering Authority.</p>
Professional Advisors	The Fund's management team meets with and has regular dialogue with its advisers (such as actuarial and investment advisers) to secure information and advice over a wide range of issues relating to the Fund.
Department of Communities and Local Government (CLG)	The owners of the LGPS, responsible for drafting and laying the LGPS regulations before Parliament. Cheshire Pension Fund responds to consultations and draft legislation and shares its response with employers and scheme members via the website.
Department for Work and Pensions (DWP)	Communication in relation to the contracting out details of scheme members and combined pension benefit forecasts.
Trade Unions (TU)	A TU representative attends both the Pension Fund Committee and the Pension Consultative Forum in a non-voting capacity to represent employees.
HM Revenue and Customs (HMRC)	Cheshire Pension Fund ensures it pays all benefits in compliance with both the Lifetime Allowance and Annual Allowance.
Regional Pension Officers Group	The Fund is represented at the Shrewsbury Pension Officers Group (SPOG) which meets quarterly to discuss all aspects of the LGPS. Knowledge sharing and collaborative working are key features of this groups discussions.
North West and Wales Pensions Officers Group	The Fund is represented at the NWWPAG which meets every six months to discuss financial and investment issues relating to the LGPS.

In addition to the range of documents produced by the Fund explaining the benefits of the LGPS, for Scheme members and employers the Fund publishes a number of other key documents relating to the administration and governance of the Fund. These are as follows -

Funding Strategy Statement

LGPS Regulations require that all Administering Authorities publish a Funding Strategy Statement (FSS). The Fund's FSS sets out our commitment to meeting our liabilities while at the same time maintaining stable employer rates.

Governance Policy Statement

LGPS Regulations require all Administering Authorities to publish a Governance Policy Statement. The Funds Policy sets out how it delegates its responsibilities including duties and terms of reference and stakeholder representation.

Governance Compliance Statement

LGPS Regulations require that all Administering Authorities publish Governance Compliance Statement. The Policy defines to what extent the Fund complies with the best practice governance arrangements laid down by central government, including voting rights, stakeholder representation, and frequency of meetings, access to papers and any areas of non-compliance.

Statement of Investment Principles

LGPS Regulations require that all Administering Authorities publish a Statement of Investment Principles. A Statement of Investment Principles details the policy controlling how a pension fund invests and covers the following:

- Effective Decision Making
- Clear Objectives
- Focus on Asset Allocation
- Expert Advice
- Explicit Mandates
- Activism
- Appropriate Benchmarks
- Performance Measurement
- Transparency
- Regular Reporting

All of the documents are available on the Fund's website:

www.cheshirepensionfund.org/?page_id=763

Data Protection

To protect personal information held in relation to Scheme members, the Fund is registered under the Data Protection Act 1998 as part of Cheshire West and Chester Council. This allows members to check that their details held are accurate. The fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection grounds should contact the Cheshire Pension Fund on **01244 976000** or via e-mail at **pensions@cheshirewestandchester.gov.uk**

This authority is under a duty to protect the public fund it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

For queries relating to the Communication Strategy, or for more information regarding the Cheshire Pension Fund, please contact our helpdesk as follows:

Tel: **01244 976000**

Email: **pensions@cheshirewestandchester.gov.uk**

Visit our website:

www.cheshirepensionfund.org

Write to us at:

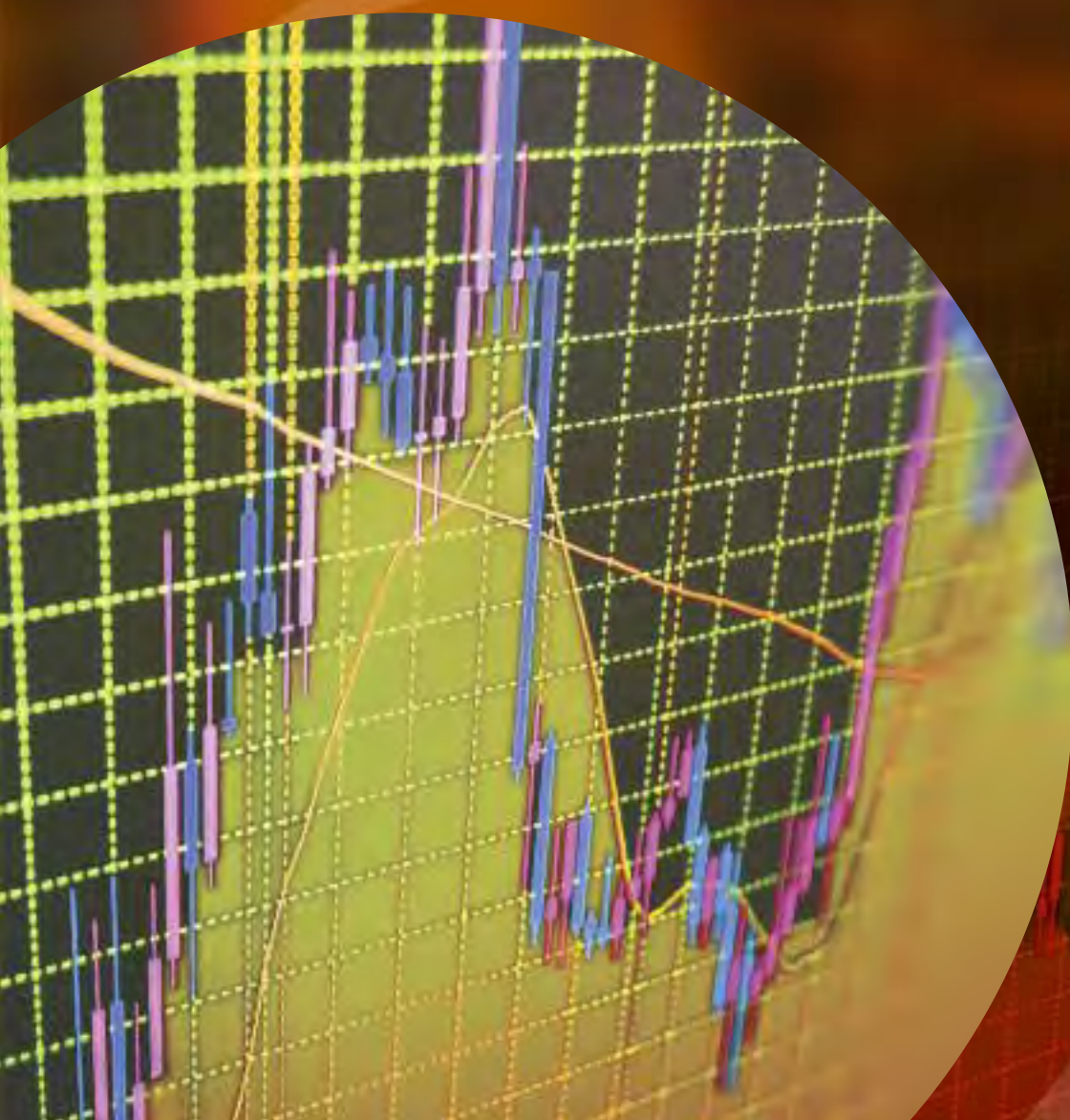
**Cheshire Pension Fund,
Cheshire West and Chester Council,
Council Offices, 4 Civic Way,
Ellesmere Port CH65 0BE.**

Auditor Report

Independent auditor's statement to the members of Cheshire West and Chester Council on the pension fund financial statements included in the pension fund annual report

We have examined the pension fund financial statements of Cheshire West and Chester Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Cheshire West and Chester, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement 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 work, for this report, or for the opinions we have formed.



Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, set out on page 116 of the audited financial statements of the Council, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts of Cheshire West and Chester, which include the pension fund financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Cheshire West and Chester Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the Introduction, Management and Financial Performance, Investment Policy and Performance, Scheme Administration Report, Governance Arrangements, Actuarial Statement, LGPS Contributions Breakdown, Funding Strategy Statement – January 2015, Statement of Investment Principles – January 2015 and the Communication Policy Statement.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinions on those financial statements.

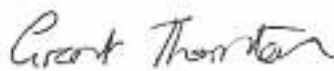
CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 .

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the Introduction, Financial Performance, and Investment Policy & Performance sections of the annual report.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Cheshire West and Chester Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.



Grant Thornton UK LLP

Chartered Accountants, Grant Thornton,
4 Hardman Square, Spinningfields,
Manchester M3 3EB

16th September 2015



Contacts and Further Information

For more information about the Cheshire Pension Fund, please contact our helpdesk as follows:

Tel: **01244 976000**

Email: **pensions@cheshirewestandchester.gov.uk**

Alternatively, you can contact a member of the Pensions Management Team as follows:

Head of Finance Mark Wynn Tel: 01244 972537

Pensions Development Manager Mark Futter Tel: 01244 972963

Employer Liaison Manager Nick Jones Tel: 01244 972652


Finance Manager, Investments Steve Tranter Tel: 01244 972533

Fund Accountant Heidi Catherall Tel: 01244 972665

Our website contains all up to date information relating to the LGPS.

The address is **www.cheshirepensionfund.org**

To promote accessibility for all, this document can be made available in other formats upon request.





www.cheshirepensionfund.org