

contents

Leicestershire County Council Pension Fund (reference number 00328856RQ)

Management Structure	2
Summary	3
Management Report	4 – 9
Governance Compliance Statement	10 -12
Investment Report	13 -19
Actuary's Statement	20 -21
Annual Accounts 2013/2014	
Fund Account and Net Assets Statement	22
Notes to the Accounts	23 – 38
Additional Reporting Requirement	39 – 40
Report of the Auditor	41 – 42
Statement of Responsibilities	43
Analysis of Investments	44

Pension Fund Management Board

County Council Representatives

Mr M B Page (Chairman, to May 2013)
Mr G A Hart (Vice Chairman to May 2013. Chairman from May 2013)
Mr J Coxon (to May 2013)
Mrs J Fox (from May 2013)
Mr M Griffiths (to May 2013)
Mr W Liquorish (from May 2013)
Mr K W P Lynch
Mr J B Rhodes (member for whole year. Vice Chairman from May 2013)

Representatives of Other Bodies

Mr A Stephens
Cllr P Kitterick
Cllr A Connelly (to November 2013)
Cllr D Bajaj (from November 2013)
Cllr P Osborne
Cllr M Graham

Staff Representatives

Ms L Bateman
Mr R Bone
Ms L Signorato (to November 2013)
Mr N Booth (from November 2013)

Treasurer

Mr B D Roberts, CPFA, - Director of Corporate Resources, Leicestershire County Council

Investment Managers

Adams Street Partners, Chicago
Aspect Capital, London
Aviva Investors, London
BNY Mellon Global Investments, London (to February 2014)
Capital International, London
Catapult Venture Managers, Leicestershire
Colliers Capital, London
Delaware Investments, Philadelphia
IFM, London
Investec Asset Management, London
JPMorgan Asset Management, London
Kames Capital, Edinburgh
Kempen Capital, Amsterdam
Kleinwort Benson Investors, Dublin
Kohlberg Kravis Roberts, London
Legal & General Investment Management, London
M & G Investment Management, London
Millennium Global Investments, London
Pictet Asset Management, London
Permal Investment Management, London (formerly called Fauchier Partners)
Ruffer LLP, London
Stafford Timberland, London

Legal Adviser

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

Actuary and Investment Consultant

Hymans Robertson LLP, Glasgow

Auditor

PricewaterhouseCoopers LLP, Birmingham

This report provides information on the major events which had an impact on the Leicestershire County Council Pension Fund during the Financial Year 2013/2014. Most of these events are covered in more detail in the main body of the report, but can be summarised as follows:-

- A new Local Government Pension Scheme became effective on 1st April 2014. For many employees, particularly part time workers and those who will not enjoy much career progression, the new scheme will give a much better pension outcome in terms of the level of the pension payable. Normal Retirement Age has, however, changed from 65 to State Pension Age.
- Equity markets produced reasonable returns to a sterling investor over the course of the year, but there were large variances between the different regional markets. UK equities returned almost 9%, North America a little more and Continental Europe over 18%. On the negative side Japan produced a marginally negative return (due to currency weakness), the remainder of the Pacific region fell by over 6% and emerging markets were down by 10%.
- Within the other mainstream asset classes, UK commercial property produced a return of 14% as confidence returned to the market, but bonds produced small negative returns as investors began to look forward to the possibility of rising interest rates and an increase in bond yields from multi-generational lows.
- Active membership of the Fund increased for the second consecutive year, following falls in the previous two. The reasons for such a large increase are not immediately obvious, but the impact of Auto Enrolment at some employers will have had some impact. Give that many of the major employing bodies remain under intense financial pressure, there is a possibility that active membership may trend down in future years. Pensioner and deferred membership numbers continued to rise at steady rates and this is something that can confidently be expected to continue for many years to come.
- There were two major consultations undertaken in respect of the Local Government Pension Scheme during the year – one into governance arrangements and one into the structure of the Funds (which included the possibility of merging Funds into a much smaller number). Subsequent to the year end it has become clear that forced Fund mergers are no longer being considered by Central Government, although improving net returns at an aggregate level by reducing investment management fees remains a major topic of conversation. New governance arrangements have to be in place by 1st April 2015 and the setting up of a local pensions board, tasked in providing assistance and scrutiny of the administering authority, looks highly likely.
- At the January 2014 Annual Strategy Meeting of the Pension Fund Management Board it was agreed to terminate the currency mandate of BNY Mellon and the asset allocation mandate of Kames Capital, and these portfolios had been wound-up before the year end. Kames Capital continues to manage a portfolio of global index-linked bonds and a currency hedging programme for the Fund.
- At the year end there was ongoing work being carried out by the Investment Subcommittee in respect of appointing a credit manager that would be able to benefit from the expected opportunities created by the reduction in the aggregate amount of capital available for lending by banks. A search for a manager for an Emerging Market Debt portfolio – the Fund's first strategic investment in this asset class – was also progressing. Both of these changes were approved as part of the January 2014 Annual Strategy Meeting.

Scheme Arrangements

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

Both employees and employers make contributions to the Scheme. From 1st April 2008 employee contributions became tiered, based generally on full-time equivalent salary, and varied between 5.5% and 7.5% with an average contribution rate for the Scheme of about 6.5%. The new Local Government Pension Scheme Regulations that became effective on 1st April 2014 retain tiered contribution rates (of between 5.5% and 12.5%) but the relevant employee contribution rate switched to being based on actual pay earned. Despite the contribution tiers supposedly being designed in such a way as to maintain the average employee contribution rate at 6.5%, the Fund's actuary calculates that the average rate within the Leicestershire Fund will drop to 6.1% - many members (particularly part time workers) will see a reduction in their rate, and this drop in income will not be offset by the increases for higher paid employees.

The 2014 Local Government Pension Scheme, which was agreed by unions, employers and the Government following a review of Public Sector Pensions, became effective on 1st April 2014. Pension accrual after this date will be based on a Career Average Revalued Earnings (CARE) basis, although any pay growth will continue to be relevant for service accrued prior to the new scheme. The accrual rate improved very significantly (from a pension based on 1/60th of earning for each year of service to one based on 1/49th), and Normal Retirement Age will in future be linked to State Pension Age.

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

For new starters from 1st April 2004 entitlement to benefit occurs after contributing to the scheme for three months, although between 1988 and 2004 the 'vesting' period was two years (and a two year vesting period was reintroduced as part of the 2014 scheme). The level of benefits due is calculated by reference to the length of reckonable service a member and pensionable pay received. All members who have contributed to the Scheme for at least the minimum relevant vesting period are entitled to an immediate pension benefit, a preserved benefit or a transfer value payment to an occupational pension scheme or personal pension when they leave the Scheme. If a member has contributed to the scheme for less than the vesting period they have the option of a transfer value or a refund of contributions.

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

April 2014	2.7%
April 2013	2.2%
April 2012	5.2%
April 2011	3.1%
April 2010	0.0%

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

Scheme Membership

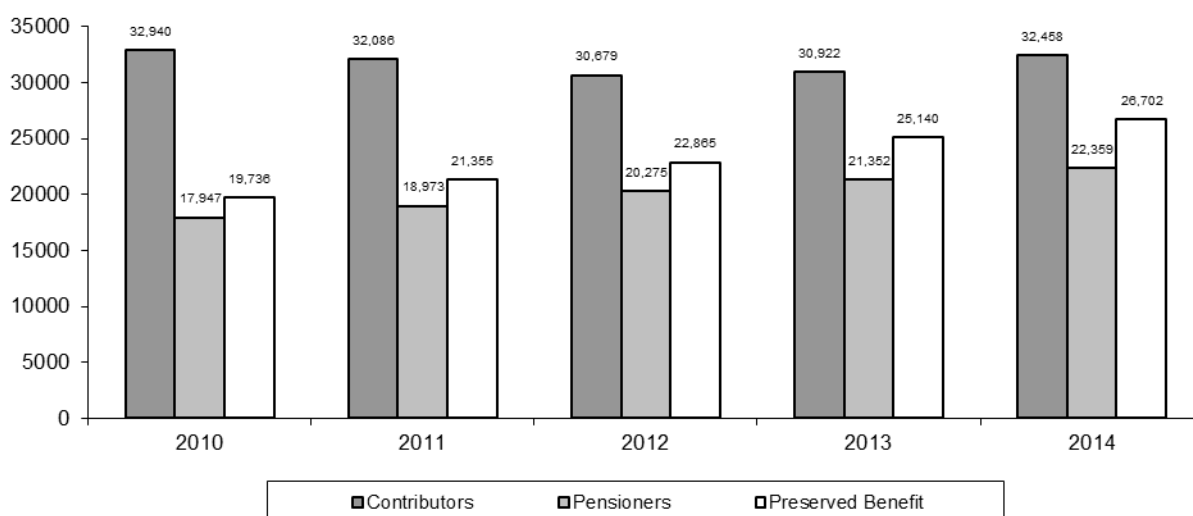
The number of scheme members who are either receiving a benefit or who have a future entitlement to one increased by over 4,100 (5.3%) over the course of the year, to 81,519. This figure excludes the 3,000 members who have no entitlement to a benefit from the fund but do retain the right to either a refund of contributions or a transfer to an alternative pension arrangement.

Active membership increased quite substantially, from 30,922 to 32,458. It is difficult to be overly precise about the reasons for such a large increase, but it is likely that the commencement of auto-enrolment (which forces employing bodies to bring almost all employees who are not currently scheme members into the LGPS) has had the most significant impact. Although the vast majority of those who are auto-enrolled have previously opted out of the scheme, it is clear that a reasonable proportion do not then exercise their option to opt out again. The two largest employers – the City and County Councils – delayed the implementation of auto enrolment, which they are entitled to do.

The net increase (i.e. new pensions commenced less those ceasing) in pensioner members was 1,007, or 4.7%, and it is likely that pensioner numbers will continue to increase at a steady pace for a number of years. In recent years the number of new pensioners has outstripped pensions ceased due to death by a factor of about 4:1.

The number of members with deferred benefits (an entitlement to a benefit from the scheme at some later date, but not an active member at the year end) continued to show a significant increase. Deferred membership increased by over 6% over the year (from 25,140 to 26,702) and it is expected that it will continue to grow for many years to come; although some deferred members will reach their normal retirement age and start to receive a pension, there are likely to be many more current active members who will leave the scheme and become deferred members. Many deferred members will receive very low levels of future benefits.

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



Membership Statistics

Employing body	Contributors 31 March '14	Contributors 31 March '13	Employers' Contribution Paid 2013/14 (% of pensionable pay)	Full Rate set in 2013 Actuarial Valuation* (% of pensionable pay plus cash)
Leicester City Council	9,463	9,029	18.7	21.7
Leicestershire County Council	8,204	8,954	19.3	22.3
Office of the Police and Crime Commissioner	1,415	1,340	15.7	18.7
De Montfort University	1,234	1,060	16.1	16.5 + £735k
Loughborough University	1,120	1,023	17.9	18.9 + £408k
Rutland County Council	494	547	17.7	20.7
Charnwood Borough Council	472	473	23.0	18.4 + £1,046k
North West Leicestershire DC	471	468	19.4	18.0 + £479k
Leics & Rutland Probation Board	428	424	16.8	19.8
Hinckley & Bosworth BC	314	308	20.1	17.3 + £468k
Blaby District Council	257	247	19.3	18.0 + £300k
Harborough District Council	186	175	20.0	16.4 + £472k
Melton Borough Council	176	168	20.5	17.2 + £256k
Leics Combined Fire Authority	168	173	16.9	16.9 + £141k
Oadby & Wigston BC	144	137	22.5	18.7 + £345k
Academies, Free and Studio Schools (a)	5,352	4,312	12.7 - 21.2	17.0 – 22.3
FE and Sixth Form Colleges (b)	1,773	1,585	14.9 - 16.4	17.9 - 19.9
Other Employers (c)	706	431	13.6 - 23.0	15.0 – 29.7
Parish and Town Councils (d)	81	68	15.5 - 21.9	15.0 – 27.5
Total	32,458	30,922		

- (a) Consisting of: Abington, Asfordby Hill, Ashby Hill Top, Ashby School, Ash Field, Barwell C of E, Battling Brook, Beauchamp College, Beacon Academy, Belvoir & Melton Academy, Birkett House, Blessed Cyprian Tansi MAT, Bosworth Academy, Bottesford, Brockington, Brocks Hill, Brooke Hill, Brookvale High, Broomfield, Broom Leys, Bushloe, Captain's Close, Casterton Business and Enterprise College, Castle Donington College, Castle Rock, Catmose Federation, Church Hill Infant, Church Hill Junior, Cobden, Corpus Christie MAT, Cosby, Countesthorpe Community College, Discovery Schools, Dorothy Goodman, Eastfield, Fairfield, Farndon Fields, Forest Way, Frisby, Gaddesby, Gartree, Gilmorton Chandler, Glen Hills, Glenmere Langmoor, Great Bowden, Great Dalby, Groby Community College, Guthlaxton, Hall Orchard, Hastings High, Heathfield, Holywell, Humberstone Junior, Humphrey Perkins, Huncote, Ibstock Community College, Ivanhoe College, Ivanhoe under 5s, John Cleveland College, John Ferneley, Kibworth High, King Edward VII, Kirby Muxloe, Krishna Avanti Free School, Lady Jane Grey, Langham, Launde, Leicester Academies Charitable Trust, Leighfield, Leysland High, Limehurst, Long Field, Lubenham All Saints, Lutterworth College, Lutterworth High, Manor High, Market Bosworth High, Martin High, The Meadow, Meadowdale, Measham, Mercenfeld, Merton, Millfield LEAD, Mountfields Lodge, Mount Grace, Newbridge, Old Dalby, Outwoods Edge, The Pastures, Pochin School, Queensmead, Queniborough, Ratby, Rawlins, Red Hill Field, Redmoor High, Rendell, Ridgeway, Robert Bakewell, Robert Smyth, Rothley, Roundhill, St Dominics Catholic MAT, St. Gilbert of Sempringham, St. Michael & All Angels, St Peters C of E, Samworth Enterprise Academy, South Charnwood, South Wigston High, Stafford Leys, Stanton under Bardon, Stephenson Studio School, Stonebow, Swallowdale, Thomas Estley, Thornton, Thringstone, Thrussington, Uppingham Community College, Welland Park, Winstanley, Woodbrook Vale, Wreake Valley.
- (b) Consisting of Brooksby Melton College, Gateway Sixth Form College, Leicester College, Loughborough College of FE, Regent College, South Leicestershire College, Stephenson College, Wyggeston QEI College.
- (c) Consisting of: ABM Catering, Age Concern, Aspens Services, Bradgate Park Trust, Capita Business Services, Capita Managed IT Solutions, Children's Links, Connexions Trading, East Midlands Shared Services, East West Community Project, Eastern Shires Purchasing Organisation, EMH Homes, Family Action, Fusion Lifestyle, G4S, G Purchase, Highfields Community Association, ICare, Melton Learning Hub, National Youth Agency, Rushcliffe Care, Seven Locks Housing, SLM Community Leisure, Spire Homes, VISTA, Voluntary Action Leicester.
- (d) Consisting of: Anstey PC, Ashby TC, Ashby Woulds TC, Barrow Upon Soar PC, Barwell PC, Blaby PC, Braunstone TC, Broughton Astley PC, Countesthorpe PC, Glen Parva PC, Leicester Forest East PC, Lutterworth TC, Market Bosworth PC, Mountsorrel PC, Shepshed TC, Sileby PC, Syston TC, Thurmaston PC, Whetstone PC.
- Bradgate Park Trust, Leicester and County Mission for the Deaf, SLM Community Leisure, Spire Homes and VISTA made an actuarially certified cash payment in 2013/14, on top of any other contributions. Between 2014/15 and 2016/17 these employers plus Ashby Town Council, National Youth Agency and Seven Locks Housing will all pay an actuarial certified cash amount on top of any other contributions.

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

Management of the Fund

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

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

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

Activity in respect of individual investment portfolios was relatively modest during 2013/14, particularly in comparison to the number of changes that had been made in the previous year. At the January 2014 Annual Strategy meeting it was agreed that the currency mandate of BNY Mellon and the asset allocation mandate of Kames Capital would be terminated, although Kames Capital continue to manage currency hedging and global index-linked bond portfolios for the Fund. Neither of the terminated portfolios was 'funded' (i.e. there was little-or-no cash invested in them).

At the Annual Strategy meeting it was also agreed that the Fund would look into whether its current investment in global bonds and credit could be reinvested in a more optimal manner, particularly in light of the expectation that banks would need to reduce their lending activities as a result of new regulations and capital adequacy guidelines. This 'deleveraging' of bank balance sheets may well present opportunities for investors that have not been previously available, particularly within Europe.

The Board also agreed to consider a strategic allocation to emerging market debt, and it expected that a manager appointment in this asset class will be made during the 2014/15 financial year. Any investment into emerging market debt will be funded by a reduction in the size of assets managed by Pictet.

During the year Aviva 'wound up' the G7 hedge fund in which the Leicestershire Fund had an investment of £31m, and the proceeds were deployed within other portfolios. Other activity can be categorised as 'care and maintenance', including filtering cash flows into the portfolios of managers who were below their target weighting and managing the drawdowns of capital to fund new investment in areas such as private equity, infrastructure and timberland.

Investment Management Arrangements

At the January 2014 Annual Strategy meeting of the Pension Fund Management Board there were a number of relatively minor changes made to the Fund's strategic asset allocation benchmark. At the year end the benchmark in place was:

Equities	50% - 52%
Alternative Assets:	22.5% - 24.5%
<i>Targeted Return</i>	11%
<i>Credit</i>	5%
<i>Emerging Market Debt</i>	2.5%
<i>Other</i>	4% - 6%
Property	10%
Commodities	3%
Inflation-Linked	12.5%

Other than the introduction of a modest investment into emerging market debt into the strategic benchmark, the most meaningful changes involved the narrowing of the target range for 'other' alternative assets (previously 0% – 10%) and the decision that it would be targeted return investments that would fund most of these investments.

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

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

Equities

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

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

Alternative Assets

The Fund's targeted return exposure can generally be categorised as investments that are seeking to make a return of 3 – 4% p.a. more than could be achieved by an investment in cash (i.e. only slightly below the expected long-term return from equities), and with the expectation that the return will be achieved with relatively low volatility. There are many different ways of achieving this goal and the Fund has three different managers in this area - namely Aspect Capital Partners, Ruffer and Pictet Asset Management. The Pictet portfolio will be used to provide the funding for the emerging market debt portfolio once a manager has been appointed and also for any investment into 'other' alternative assets, and will eventually be reduced to nil.

Within 'Credit', JPMorgan manage a global credit portfolio which has freedom to invest in any attractive credit opportunities that are available. It is this portfolio that is likely to be replaced in 2014/15 by one that is considered to be more optimal given the changing financial environment. At the year end the Fund also had an investment of £44m in the Prudential/M&G UK Companies Financing Fund, which

lent directly to secure UK mid-sized companies at attractive rates of interest. This fund has been fully committed and repayments of capital have already commenced and will accelerate in the years ahead.

At the year end the Fund's only investment in 'other' alternative assets was in the M & G Debt Opportunities Fund, and £31m of a £35m commitment had been invested. Just before the year end it was agreed to commit a further £40m to a second Debt Opportunities Fund being raised by M & G and also £25m to an undervalued UK property fund managed by Kames Capital, although no money had been invested in these by the year end.

Property

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

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

Commodities

Investec Asset Management manages a specialist commodity portfolio. This portfolio includes investment in listed commodity companies, together with commodity futures which gain exposure to the price movement of certain commodities. Commodities are an attractive asset class for the Fund as there are constraints on the ability to produce them and the outlook for demand, particularly from the developing world, is strong. Because of the direct correlation between many commodity prices and inflation, they also act as something of a 'hedge' against higher levels of inflation that will impact negatively on the benefits paid by the Fund.

Inflation-linked

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

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

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

Other portfolios

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

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

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

1.0 INTRODUCTION

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

2.0 FUNCTIONS AND RESPONSIBILITIES

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

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

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

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

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

3.0 REPRESENTATION

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

4.0 STAKEHOLDER ENGAGEMENT

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

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

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

5.0 REVIEW AND COMPLIANCE WITH BEST PRACTICE

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

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

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

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

Investment Markets 2013/2014

- For the first half of the year Global Stock Markets generally trended downwards and volatility was modest. As markets became more comfortable that economic growth in certain areas was becoming self-sustaining – and that things had stopped getting worse in the Eurozone – the second half saw a recovery in equity markets. Over the year as a whole there were very reasonable returns achieved by markets in Europe, North America and the UK but negative returns to a sterling investor were produced in the Pacific region and within emerging markets. The Japanese stock market actually made very good returns but the weakness of the Yen – a deliberate policy of the government of Prime Minister Abe’s – meant that returns to a sterling investor were marginally negative.
- The performance of emerging market equities was particularly poor, as evidence of financial issues within the important Chinese economy became more prominent. Emerging market economies did exceptionally well in comparison to developed economies in the aftermath of the Global Financial Crisis but a number have recently shown signs of strain and investors have retrenched to safer areas. In the longer term emerging market economies are likely to exhibit much higher rates of economic growth than those of developed countries, but they will inevitably be more volatile. The tendency for fear and greed to play a part in investment decisions will mean that volatility in equity prices within emerging markets is likely to be a continuing story, and given their status as higher return but higher risk assets this higher volatility is expected.
- European equities were the best performing region and were helped by the European Central Bank’s clear signal – backed up by action – that it would do whatever was necessary to protect the Eurozone. European equity markets underperformed quite significantly during the period of the Eurozone crisis but have subsequently recovered very well, but economic growth within the region is still quite fragile.
- For the first time in a number of years bond yields increased and, as a result, returns from UK government bonds (gilts) were negative over the year. The returns would have been considerably worse if it had not been for a modest recovery in the asset class during the last quarter. With the Bank of England’s Quantitative Easing activities having stopped and with short-term interest rates likely to increase gradually over the years ahead, the outlook for future returns from gilts is at best moderate and may be quite poor if a period of higher-than-expected inflation or base rates happens.
- Index-linked bonds also produced negative performance as investors became more relaxed about the outlook for future inflation, probably in part as a result of falling current inflation within the UK.
- The UK commercial property market produced a return of 14%, with Central London seeing particularly strong performance due to rising investor demand (much of it from foreign investors) and strong tenant demand that was no doubt helped by the recovery being experienced within the economy. Outside the South East many properties struggled to perform, particularly where the location was not considered to be prime. The difference in pricing between prime and non-prime and the South East and elsewhere has become very significant and there is evidence that a number of investors are becoming extremely interested in unloved assets that appear to be undervalued relative to their long term prospects.

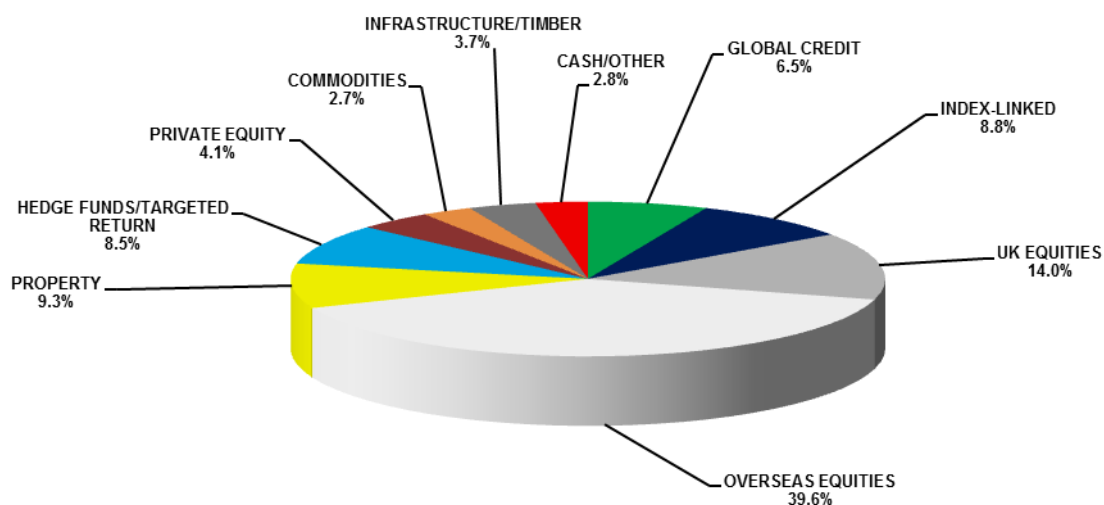
Investment Returns

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

	Year to 31 March 2014 %	Year to 31 March 2013 %
UK Government Bonds	-2.6	+5.2
UK Index-Linked	-3.8	+4.5
Overseas Bonds	+1.5	+10.2
UK Equities	+8.8	+16.8
North America Equities	+10.3	+19.3
European (Ex UK) Equities	+18.3	+18.0
Japanese Equities	-1.6	+14.3
Pacific (Ex Japan) Equities	-6.6	+18.1
UK Property	+14.0	+2.5
Cash	+0.4	+0.4

Value of Investments

The value of the Fund at 31st March 2014 was £2,739.9m, which was £112.8m more than the value a year earlier. The analysis of investments, in summary form, is shown below:-



Investment Performance

Returns within different investment markets were varied in 2013/14, with global equities producing returns to a sterling investor that were in line with long term expectations. Within equities Europe, North America and the UK produced above-average returns and Japan, the rest of the Pacific region and emerging markets all produced negative performance that brought the average return down. The second half of the financial year saw a good rebound from the downward movement of prices that occurred in the first half.

UK Government bonds saw falls in value, as did their index-linked (i.e. inflation-protected) equivalent. An end to quantitative easing, stronger-than-anticipated economic growth and the realisation that base rate increases from historically low levels might happen sooner than was previously thought likely all had an impact on the poor performance of UK Government bonds. A fall in current inflation and a more relaxed attitude to the outlook for future inflation hurt index-linked bonds.

UK commercial property performance was strong, with most of the performance being generated in London and the rest of the South East. There were, however, signs towards the end of the year that the rise in prices was beginning to be replicated elsewhere within the country.

The Fund removed two investment mandates in the final quarter of the financial year. BNY Mellon's active currency portfolio and Kames Capital's asset allocation mandate were both closed, in part as a result of poor investment performance but also as it was felt that the outlook for investment markets in the years ahead was unlikely to present opportunities for them to recoup the underperformance. Neither of these mandates was 'funded' as they used financial derivatives to gain exposure to markets, so there was no need to redeploy the monies released elsewhere.

Over the year the Fund's investment performance was +3.9%, which was 1.5% worse than the benchmark against which the performance is measured and cancelled out the outperformance achieved in the previous year. Individual manager performance was variable, as is almost inevitable when there are a large number of investment managers, and the Pension Fund Management Board and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate. The Fund is, however, a long-term investor and recognises that individual managers have certain style tilts that will not always be rewarded in the short or medium term, but are expected to be rewarded in the long-term. Decisions are, therefore, not generally based on short-term investment performance and if a manager is still considered to be fundamentally sound they have a high chance of being retained. Structural changes to markets or personnel changes within managers are part-and-parcel of a decision on whether to retain a manager.

Some investment managers have fees that are paid from within the pooled funds in which an investment is held and some have their fee paid separately. The managers whose fees are taken within the pooled fund, and where the costs are implicit within the unit price, are Adams Street Partners, Kempen Capital, Delaware Investments, Aspect Capital, Prudential/M&G, Industry Funds Management, Capital International, Stafford Timberland and Catapult Venture Managers.

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

- **Capital International**

During a year in which emerging market equity markets performed poorly, Capital International's pooled emerging market equity portfolio outperformed the benchmark index by a modest amount.

- **Aviva Investors**

The Aviva G7 fund, in which an investment of just over £30m was held, was wound up during the year and the Fund received redemption proceeds in December 2013. Performance for the part-year in which the investment was held had been disappointing – as it had been for a couple of years prior to the redemption – but over the 7 years since the original purchase performance was very acceptable.

The pooled property fund portfolio produced an excellent level of outperformance against its benchmark (+15.0% vs. +11.9%), with the exceptional performance of a large holding in a London office fund and the unexpectedly high level of proceeds received from a regional office fund that is in the process of being wound up being influential.

- **Colliers Capital UK**

Colliers' portfolio, which comprises both direct and pooled property holdings but is weighted 75:25 in favour of direct holdings, outperformed its benchmark over the year (15.2% vs. 14.0%). The direct element of the portfolio actually marginally underperformed the benchmark but the direct portfolio produced significant outperformance. The near-30% performance of a London office fund – the same one that was held by Aviva within their portfolio – was a crucial factor in the outperformance.

- **Millennium Asset Management**

The active currency managed by Millennium lost money over the year, which was extremely disappointing. Since their appointment in 2006 they have added £8.6m in value (gross of fees), but this is a disappointing outcome in comparison to their performance objective.

- **JP Morgan Asset Management**

Approximately 3½% of the total Fund is invested in the JPMorgan Strategic Bond Fund, which seeks to find the most attractive opportunities within the global bond/credit markets and to take advantage of them.

During 2013/14 the fund achieved a marginally positive return, which was actually quite impressive when judged against the negative return of the relevant benchmark return. The portfolio outperformed the benchmark by 3.5%.

- **Kohlberg Kravis Roberts (KKR)**

The Fund has committed to invest \$56m in the KKR Global Infrastructure Fund and this will be 'drawn down' as-and-when KKR source new investments. The first drawdown occurred in December 2011 and by the end of 2013/14 a total of \$40.8m had been invested.

The performance of illiquid investments such as infrastructure can only really be judged over the medium-to-long-term, but the portfolio has begun to produce impressive dividend distributions and capital values have also increased so the signs are encouraging.

- **Legal & General**

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

In November 2012 the Fund switched half of its North American and Continental European passive exposure from market-capitalisation weighted indices (where the value of a company dictates its weighting within the index) into fundamental indices (which take account of matters such as dividends, sales and free cash flow

in the calculation of the benchmark weighting of each company). The expectation is that the fundamental indices will produce modest outperformance over the long-term and that they will also provide some diversification of returns within equities. In the relatively short period since the use of fundamental indices commenced, by the year end they had outperformed market capitalisation indices by 5% in North America and 10% in Continental Europe. This level of outperformance is pleasing but somewhat surprising, even after taking into account the fact that the switch was made after a prolonged period of underperformance by fundamental indices.

Legal & General continue to track the indices exceptionally accurately.

- **Adams Street Partners**

Adams Street Partners manage the Fund's global private equity (i.e. unquoted company) exposure, and over the course of the year significant cash sums (£22.5m) were received from successful realisations of investments. The performance of their portfolio over the year was broadly in line with quoted equity markets, but over the long-term the portfolio has produced a meaningful level of outperformance.

Much of the private equity portfolio is quite mature and further commitments have been made in recent years to ensure that the Fund's target weighting (4%) within the asset class is maintained as far as is possible.

- **Ruffer LLP**

Ruffer manages a targeted return portfolio for the Fund and underperformed their benchmark for the year (+1.8% vs. +4.4%). Their investments in areas of the market that are felt to offer great protection against the potential for equity market falls – index-linked gilts and gold – performed poorly over the course of the year, and this offset most of the gains made within their equity holdings. Ruffer's whole investment philosophy is based on balancing investments in 'fear' (the risk of markets falling) with investments in 'greed' (generally equities) and arriving at a portfolio that is well protected from loss of capital, whilst still being capable of gaining when markets are buoyant.

Their performance since appointment in June 2009 has been over 4% p.a. above their benchmark, at 8.9% p.a.

- **Pictet Asset Management**

Pictet was appointed as a targeted return manager at the same time as Ruffer, and Leicestershire's investment is within a pooled fund. This fund attempts to add value from 2 different and uncorrelated sources – the stock selection skill of Pictet's in-house investment funds (by investing in specific funds and then hedging out the market exposure) and by taking a view on the direction of key asset markets.

Their performance in 2013/14 was extremely disappointing (-2.4% vs. +4.4%), which was mainly as a result of their significant exposure to bond assets that fell in value during the year.

- **Delaware Investments**

Delaware's emerging market equity portfolio produced a return of -0.8% over the year, but this was over 9% above the sharply-negative return achieved by their benchmark. Their portfolio is relatively concentrated and this is always likely to lead to performance that is significantly different to the benchmark, but the protection of value during down markets was one of the main factors of their appointment in 2011 and it was pleasing that this actually occurred.

- **Investec Asset Management**

The Fund's investment with Investec is in a commodity fund, and commodity markets produced very poor returns (-10.8%) during the year as the slowdown in Chinese growth reduced the outlook for demand. Investec's performance was marginally below the benchmark, although they have outperformed the relevant commodity index by about 1% p.a. since the inception of the portfolio in December 2010.

Overall, however, their performance since inception is disappointing as the portfolio is run to achieve absolute positive returns, and this has not happened.

- **Kleinwort Benson**

Kleinwort Benson manages a 'dividend focused' global equity portfolio, which marginally underperformed its benchmark in 2013/14. Given that high yielding stocks underperformed the general market by a relatively substantial amount over the year, this performance was actually quite impressive and their performance is meaningfully ahead of its benchmark since the portfolio commenced in November 2012.

- **Kempen**

Kempen also manages a 'dividend focused' portfolio but the performance was disappointing against the broad equity market (-4.3% in relative terms), and more representative of the weakness of high yielding stocks. Their portfolio is less diversified at stock, sector and country level than Kleinwort Benson's and suffered more as a result of individual company issues.

- **Aspect Capital**

Aspect were appointed in November 2012 and are a manager who uses computer modelling to generate returns by identifying market trends and exploiting them via the use of financial futures. During 2013/14 there were some trends that reversed quite sharply, which led to a negative performance of -11.5% over the year. Whilst this is exceptionally disappointing, the market circumstances were such that almost all managers operating in this market sector produced similar negative performances. The poor performance was more to do with the market than it was due to manager failings.

- **IFM**

A \$56m investment was made into the IFM Global Infrastructure Fund in February 2013. The portfolio includes 8 underlying assets and despite problems at one of these assets, performance was still acceptable. Infrastructure is a very long-term asset and performance cannot really be judged over such a short period.

Five Year Returns		
	Returns	
	LCC %	Benchmark %
2009/10	+37.6	+37.5
2010/11	+8.5	+8.1
2011/12	+0.8	+1.0
2012/13	+12.4	+11.0
2013/14	+3.9	+5.4
Average Annual Return Over 5 years	+11.9	+11.9
Investment returns for managers employed for more than 5 years		
Colliers CRE	+11.6	+9.9
Millennium	0.0	+1.5
Aviva Investors (property only)	+8.3	+7.5
Legal & General	+15.7	+15.6

Major Shareholdings

Most of the investments are held within pooled investment vehicles and the Fund has very few individual shareholdings. Almost all of these are within the targeted return portfolio managed by Ruffer. The largest of these shareholdings (BP) is valued at £4.2m (0.15% of total fund assets), so this information has been omitted from the report.

**Leicestershire County Council Pension Fund ("the Fund")
Actuarial Statement for 2013/14**

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

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

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

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

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,628 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £1,024 million.

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

Principal Actuarial Assumptions and Method used to value the liabilities

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

Method

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

Assumptions

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

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

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

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

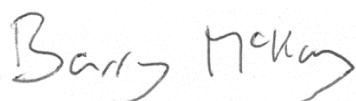
	Males	Females
Current Pensioners	22.2 years	24.3 years
Future Pensioners*	24.2 years	26.6 years

*Currently aged 45

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

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen but asset returns have been less than expected meaning that funding levels are likely to have improved slightly since the 2013 valuation.



Barry McKay

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
23 May 2013

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Fund Account

	Notes	2013-14 £000	2012-13 £000
Contributions and Benefits			
Contributions	3	139,320	133,536
Transfers in	4	4,308	8,858
		143,628	142,394
Benefits	5	121,029	120,550
Payments to and on account of leavers	6	6,115	8,036
Administrative expenses	7	1,487	1,249
		128,631	129,835
Net additions from dealings with members		14,997	12,559
Returns on investments			
Investment income	8	24,533	19,414
Change in market value of investments	9	80,168	265,571
Investment management expenses	11	(6,952)	(7,012)
Net returns on investments		97,749	277,973
Net increase in the fund during the year		112,746	290,532
Net assets of the Fund at 1 st April		2,627,107	2,336,575
Net assets of the Fund at 31 st March		2,739,853	2,627,107

Net Assets Statement

	Notes	31 March 2014 £000	31 March 2013 £000
Investment assets	9	2,736,440	2,625,885
Investment liabilities	9	(2,791)	(5,482)
		2,733,649	2,620,403
Current assets	13	9,944	9,473
Current liabilities	13	(3,740)	(2,769)
Net assets of the Fund at 31st March		2,739,853	2,627,107

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

The notes on pages 23 – 38 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial statements have been prepared in accordance with the provisions of International Financial Reporting Standard (IFRS) and the Code of Practice on Local Authority Accounting issued by Chartered Institute of Public Finance and Accountancy.

2. Accounting policies

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

Investments

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

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

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

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

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

Investment income

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

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

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

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

Foreign currencies

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

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

Contributions

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

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

Benefits payable

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

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

Transfers to and from other schemes

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

Other expenses

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

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

3. Contributions

	2013-14 £000	2012-13 £000
Employers		
Normal	101,276	94,573
Termination valuation payments	0	475
Additional payments for early retirements	1,796	3,911
Additional payments for ill-health retirements	1,089	275
Members		
Normal	34,690	33,803
Purchase of additional benefits	469	499
	139,320	133,536

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

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

	2013-14 £000	2012-13 £000
Leicestershire County Council	36,571	40,302
Scheduled bodies	96,829	87,440
Admitted bodies	5,920	5,794
	139,320	133,536

4. Transfers In

	2013-14 £000	2012-13 £000
Individual transfers in from other schemes	4,308	8,858
	4,308	8,858

5. Benefits

	2013-14 £000	2012-13 £000
Pensions	93,479	87,599
Lump sum retirement benefits	24,705	29,266
Lump sum death benefits	2,845	3,685
	121,029	120,550

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

	2013-14 £000	2012-13 £000
Leicestershire County Council	45,651	47,982
Scheduled bodies	66,309	67,387
Admitted bodies	9,069	5,181
	121,029	120,550

6. Payments to and on account of leavers

	2013-14 £000	2012-13 £000
Refunds to members leaving scheme	15	19
Payments for members joining state scheme	(2)	1
Individual transfers to other schemes	6,102	8,016
	6,115	8,036

7. Administration expenses

	2013-14 £000	2012-13 £000
Administration and Processing	1,030	1,051
Actuarial fees	201	79
Legal and other professional fees	25	25
Computer system costs	231	94
	1,487	1,249

8. Investment income

	2013-14 £000	2012-13 £000
Income from fixed interest securities	0	118
Dividends from equities	2,444	2,431
Income from index-linked securities	3,631	2,230
Income from pooled investment vehicles	13,324	10,285
Net rents from properties	4,977	5,312
Interest on cash or cash equivalents	201	215
Net currency profit/(loss)	(83)	(1,226)
Securities lending commission	7	19
Insurance commission	32	30
	24,533	19,414

9. Investments

	Value at 31.3.13 £000	Purchases at Cost and Derivatives Payments £000	Sale Proceeds and Derivative Receipts £000	Change in Market Value £000	Value at 31.3.14 £000
Equities	89,239	51,929	(55,310)	1,557	87,415
Index-linked securities	245,364	118,070	(81,535)	(42,721)	239,178
Pooled investment vehicles	2,158,470	173,664	(178,236)	102,650	2,256,548
Properties	66,505	8,832	(75)	3,678	78,940
Cash and currency	54,101	15,867	0	0	69,968
Derivatives contracts	2,573	27,123	(42,805)	15,004	1,895
Other investment balances	4,151	0	(4,446)	0	(295)
	2,620,403	395,485	(362,407)	80,168	2,733,649

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

9. Investments (continued)

The Fund has investments of £180.680m in the Legal & General UK equity index fund (31/3/13, £178.897m), £153.869m in the Legal & General UK Core UK equity index fund (31/3/13, £147.299m), £183.138m in the Legal & General North America index fund (31/3/13, £169.510m), £185.011m in the Legal & General FTSE RAFI North America fund (31/3/13, £134.411m) and £139.887m in the Pictet Absolute Return Global Diversified Fund (31/3/13, £130.800m) that exceed 5% of the total value of net assets.

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

	31 st March 2014	31 st March 2013
	£000	£000
<i>Equities</i>		
UK quoted	24,409	20,769
Overseas quoted	63,006	68,470
	87,415	89,239
<i>Index-linked securities</i>		
UK Government quoted	43,097	99,833
Overseas government quoted	196,081	145,531
	239,178	245,364
<i>Pooled investment vehicles</i>		
Property funds	176,382	172,366
Private equity	111,307	113,350
Corporate bond funds	178,748	145,578
Hedge funds	4,368	46,022
Equity-based funds	1,381,412	1,298,675
Commodity-based funds	75,320	82,123
Timberland fund	38,175	34,069
Managed futures fund	87,838	82,942
Targeted return fund	139,887	130,800
Infrastructure funds	63,111	52,545
	2,256,548	2,158,470
<i>Properties</i>		
UK (note 11)	78,940	66,505
Cash and currency	69,968	54,101
<i>Derivatives contracts</i>		
Forward foreign exchange assets	1,603	4,891
Currency option assets	978	805
Other option assets	2,105	1,505
Other futures assets	0	854
Forward foreign exchange liabilities	(2,716)	(4,848)
Currency option liabilities	(75)	(93)
Other futures liabilities	0	(541)
	1,895	2,573
Other investment balances	(295)	4,151
Total Investments	2,733,649	2,620,403

Pooled investment vehicles include investments in fund-of-funds which have an underlying value of £108.571m in private equity, £8.248m in corporate bonds and £38.175m in timberland.

10. Derivatives

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

10. Derivatives (continued)

Forward Foreign Exchange Contracts

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

	2013-14 £000	2012-13 £000
Active currency positions (those whose purpose is solely to seek economic gain)	243	(1,016)
Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	(1,356)	1,059
	(1,113)	43

Options

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

	2013-14 £000	2012-13 £000
Commodity-based	0	187
Currency-based	903	712
Interest rate-based	0	206
Equity market-based	2,105	1,112
	3,008	2,217

Futures

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

	2013-14 £000	2012-13 £000
Commodity-based	0	0
Bond-based	0	151
European dividend-based	0	(147)
Equity market-based	0	309
	0	313

11. Investment management expenses

	2013-14 £000	2012-13 £000
Administration, management and custody	6,874	6,889
Performance measurement services	16	12
Other advisory fees	62	111
	6,952	7,012

12. Property investments

	31st March 2014 £000	31st March 2013 £000
Freehold	58,505	51,860
Long leasehold (over 50 years unexpired)	9,985	8,755
Short leasehold (under 50 years unexpired)	10,450	5,890
	78,940	66,505

All properties, except the Fund's farm investment, were valued on an open market basis by Nigel Holroyd and Adrian Payne of Colliers Capital UK at 31st March 2014. The Fund's farm was valued on an open market basis by James Forman of Leicestershire County Council. All valuers are Members of the Royal Institute of Chartered Surveyors.

13. Current assets and liabilities

	31 March 2014 £000	31 March 2013 £000
Contributions due from employers	7,393	6,064
Cash balances	87	446
Other receivables	274	408
Due from Ministry of Justice	2,190	2,555
Current assets	9,944	9,473
Due to Leicestershire County Council	(2,034)	(384)
Fund management fees outstanding	(1,355)	(1,782)
Other payables	(351)	(592)
Due to property manager to reimburse float	0	(11)
Current liabilities	(3,740)	(2,769)
Net current assets and liabilities	6,204	6,704

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

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

14. Analysis of investments by manager

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

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

Investment Manager	At 31 st March 2014 £000	%	At 31 st March 2013 £000	%
Legal & General	1,023,692	37.5	941,806	36.0
Ruffer LLP	199,491	7.3	186,200	7.1
Kames Capital	184,189	6.7	226,313	8.6
Aviva Investors	156,352	5.7	183,535	7.0
Pictet Asset Management	139,887	5.1	130,800	5.0
Kleinwort Benson Investors	121,799	4.5	114,944	4.4
Adams Street Partners	108,571	4.0	110,271	4.2
Kempen Capital	104,633	3.8	108,697	4.1
Colliers Capital UK	102,005	3.7	86,619	3.3
JP Morgan Asset Management	92,952	3.4	80,254	3.1
Delaware Investments	88,219	3.2	88,475	3.4
Aspect Capital	87,838	3.2	82,942	3.2
Prudential/M & G	77,548	2.8	55,862	2.1
Investec Asset Management	72,908	2.7	78,015	3.0
Stafford Timberland	38,176	1.4	34,069	1.3
Industry Funds Management	36,115	1.3	36,850	1.4
Capital International	32,797	1.2	36,529	1.4
Kravis Kohlberg Roberts	26,995	1.0	15,695	0.6
Catapult Venture Managers	2,736	0.1	3,079	0.1
Fauchier Partners	2,054	0.1	13,582	0.5
UBS Global Asset Management	0	0.0	286	0.0
Internally Managed and currency managers	34,692	1.3	5,580	0.2
	2,733,649		2,620,403	

15. Custody of assets

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

16. Operation and management of fund

Details of how the Fund is administered and managed are included in pages 4 to 10.

17. Employing bodies and fund members

A full list of all bodies that have active members within the Fund is included on page 6. Statistical information in respect of the number of members is included on page 5.

18. Actuarial valuation

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

19. Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprised quoted equities, quoted fixed interest securities, quoted index-linked securities and pooled investment vehicles where the underlying assets fall into one of these categories.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, hedge funds and infrastructure, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31st March 2013	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value	2,075,704	304,195	245,986	2,625,885
Financial liabilities at fair value	(5,482)			(5,482)
Net financial assets	2,070,222	304,195	245,986	2,620,403

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

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

Risk and risk management

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

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

a) Market risk

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

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

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, Leicestershire County Council has determined that the following movements in market prices risk are reasonably possible for the 2014/15 reporting period:

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

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

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

Asset type	Value at 31 st March 2013 £000	Percentage change %	Value on increase £000	Value on decrease £000
UK equities	20,769	16	24,092	17,446
Overseas equities	68,470	19	81,479	55,461
Global index-linked bonds	245,364	8	264,993	225,735
Pooled property funds	172,366	15	198,221	146,511
Pooled private equity funds	113,350	28	145,088	81,612
Pooled global credit funds	145,578	10	160,136	131,020
Pooled hedge funds	46,022	12	51,545	40,499
Pooled equity funds	1,298,675	19	1,545,423	1,051,927
Pooled commodity funds	82,123	14	93,620	70,626
Pooled targeted return funds	130,800	12	146,496	115,104
Pooled timberland fund	34,069	16	39,520	28,618
Pooled manager futures fund	82,942	12	92,895	72,989
Pooled infrastructure funds	52,545	14	59,901	45,189
UK property	66,505	15	76,481	56,529
Cash and currency	54,101	1	54,642	53,560
Options, futures, other investment balances, current assets and current liabilities	13,428	1	13,562	13,294
Total assets available to pay benefits	2,627,107		3,048,094	2,206,120

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

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2014 and 31st March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 st March 2014	As at 31 st March 2013
Cash and Currency	69,968	54,101
Fixed interest securities	178,748	145,578
Total	248,716	199,679

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets to pay benefits. A 1% movement in interest rates (100 BPS) is consistent with the level of sensitivity expected within the Fund's asset allocation strategy and the Fund's investment advisors expect that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates.

Asset type	Carrying amount as at 31 st March 2013	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	54,101	541	(541)
Fixed interest securities	145,578	1,456	(1,456)
Total	199,679	1,997	(1,997)

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

Currency risk

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

The Fund's currency rate risk is actively managed and the neutral position is to hedge 50% of the exposure back to sterling. The table below summarises the Fund's unhedged currency exposure at as 31st March 2014 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31 st March 2014	Asset value as at 31 st March 2013
	£000	£000
Overseas equities	63,006	68,470
Overseas government index-linked bonds	196,081	145,531
Private equity pooled funds	108,571	108,479
Pooled hedge Funds	4,368	13,763
Overseas and Global equity-based pooled funds	1,020,715	939,917
Commodity-based pooled funds	75,320	82,123

Infrastructure pooled funds	63,111	52,545
Timberland pooled fund	38,175	31,981
Total overseas assets	1,569,347	1,442,809

Currency risk – sensitivity analysis

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

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

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

Currency exposure – asset type	Asset value as at 31 st March 2013	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	68,470	77,371	59,569
Overseas government index-linked bonds	145,531	164,450	126,612
Private equity pooled funds	108,479	122,581	94,377
Pooled hedge Funds	13,763	15,552	11,974
Overseas equity-based pooled funds	939,917	1,062,106	817,728
Commodity-based pooled funds	82,123	92,799	71,447
Infrastructure pooled funds	52,545	59,376	45,714
Timberland pooled fund	31,981	36,139	27,823
Total change in assets available	1,442,809	1,630,374	1,255,244

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

At 31st March 2014 the Fund has an active currency manager with a portfolio based on a notional value of £340m, and this is the maximum exposure that they are allowed to have. At 31st March 2013 the Fund employed two currency managers with portfolios based on £340m each (i.e. £680m in total). In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and, on occasions, currency options. The portfolios have an average target volatility of 2.5% and as a result the Fund is exposed to currency risk through these portfolios. The table below shows the likely impact onto the net assets available to pay benefits.

Currency exposure – asset type	Asset value as at 31 st March 2013	Change to net assets available to pay benefits	
		+2.5%	-2.5%
	£000	£000	£000
Active currency portfolios	680,000	697,000	663,000
Total change in assets available	680,000	697,000	663,000
Currency exposure – asset type	Asset value as at 31 st March 2014	Change to net assets available to pay benefits	
		+2.5%	-2.5%
	£000	£000	£000

Active currency portfolios	340,000	348,500	331,500
Total change in assets available	340,000	348,500	331,500

b) Credit risk

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

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

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and have a high credit rating. Many of the Fund's investment managers use the money market fund run by the Fund's custodian to deposit any cash within their portfolios, although 1 manager (Kames Capital) lends cash directly to individual counterparties in the London money markets. Any cash held directly by the Fund is deposited in an instant access high interest account with National Westminster Bank.

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2014 was £69.968m (31st March 2013: £54.101m).

c) Liquidity risk

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

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert to cash. As at 31st March 2013 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £472.283m, which represented 17.2% of total Fund assets. (31st March 2013: £484.857m, which represented 18.5% of total Fund assets).

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

All financial liabilities at 31st March 2014 are due within one year.

Refinancing risk

The key risk is that the Fund will be forced to sell a significant proportion of its financial instruments at a time of unfavourable interest rates, but this appears a highly unlikely scenario. The Fund's investment strategy and the structure of its portfolios have sufficient flexibility to ensure that any required sales are considered to be the ones that are in the best financial

interests of the Fund at that time. There are no financial instruments that have a refinancing risk as part of the Fund's treasury management and investment strategies.

Securities Lending

As at 31 March 2014, £4.3m of stock was on loan to an agreed list of approved borrowers through the Fund's Custodian in its capacity as agent lender. The loans were all in respect of equities and were covered by £4.5m of non-cash collateral.

Collateral is marked to market, adjusted daily and held by the custodian on behalf of the Fund. Income from stock lending amounted to £0.007m during the year and is detailed in note 8 to the accounts.

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

Reputational Risk

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

21. Related party transactions

From the information currently available there were no material transactions with related parties in 2013/2014 that require disclosure under FRS8.

22. Contingent liabilities

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

If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £749,000, although the statutory requirement of the Fund to pay interest to some members would increase this figure. Should all of the members opt to transfer to another scheme the cost will be considerably higher.

23. Contractual Commitments

At 31st March 2014, the Fund had the following contractual commitments:-

- (i) Undrawn commitments totalling \$119,173,400 (£71,483,310) to twenty four different pooled private equity funds managed by Adams Street Partners (31st March 2013 £63,614,870 to twenty three different funds).
- (ii) An undrawn commitment of £868,145 to two private equity funds managed by Catapult Venture Managers (31st March 2013 £971,829 to two funds).
- (iii) An undrawn commitment of \$15,218,000 (£9,128,153) to the KKR Global Infrastructure Fund (31st March 2013 £22,409,694)
- (iv) An undrawn commitment of €14,025,000 (£11,594,608) to the Stafford International Timberland VI Fund (31st March 2013 £18,372,077)
- (v) An undrawn commitment of £3,879,000 to the M & G Debt Opportunities Fund (31st March 2013 £28,332,000)

24. Additional voluntary contributions (AVCs)

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

During 2013/14 £1.718m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £13.695m.

25. Policy Statements

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

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

Compliance statement

Income and other taxes

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

Self-investment

There has been no material employer related investment in 2013/2014 or 2012/2013. There were occasions on which contributions were paid over by the employer later than the statutory date, and these instances are technically classed as self investment. In no instance were the sums involved material, and neither were they outstanding for long periods.

Calculation of transfer values

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

Pension Increase

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

Changes to LGPS

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

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

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

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

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

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

Balance sheet

Year ended	31 Mar 2014 £m	31 Mar 2013 £m
Present value of Promised Retirement Benefits	4,508	4,110

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £2,205m in respect of employee members, £790m in respect of deferred pensioners and £1,513m 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 2014 is to increase the actuarial present value by £204m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2014 % p.a.	31 Mar 2013 % p.a.
Inflation/Pensions Increase Rate	2.8%	2.8%
Salary Increase Rate	4.6%	5.1%*
Discount Rate	4.3%	4.5%

*Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

Longevity assumption

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

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

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

*Future pensioners are assumed to be currently aged 45

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2014 for IAS19 purposes' dated 30 April 2014. 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:-

Barry McKay

Barry McKay FFA

21 May 2014

For and on behalf of Hymans Robertson LLP

ty for any changes.

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

Statement on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of Leicestershire County Council for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

What we have examined

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

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Responsibilities for the financial statements and our examination

As explained more fully in the Statement of Responsibilities set out on page x of the audited Statement of Accounts the Responsible Financial Officer is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

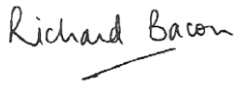
Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of Leicestershire County Council. Our report on the pension fund accounts describes the basis of our opinion on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

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

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, 29th September 2014, and the date of this statement.



Richard F Bacon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
30 September 2014

- (a) The maintenance and integrity of the Leicestershire County Council website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

Statement of Responsibilities for Leicestershire County Council Pension Fund Accounts

Leicestershire County Council's responsibilities

The Council is required to:

- i) Make arrangements for the proper administration of the financial affairs of Leicestershire County Council Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Director of Corporate Resources;
- ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- iii) Approve the Statement of Accounts for the year.

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

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

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

The Director of Corporate Resources has also:

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

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



Brian Roberts

Director of Corporate Resources
29 October 2014

	31 st March 2014		31 st March 2013	
	£000	%	£000	%
Fixed & Variable Interest Stocks				
UK Index Linked	43,097	1.6	99,833	3.8
Overseas Index Linked	196,081	7.2	145,531	5.5
Global Credit	178,748	6.5	145,578	5.6
	417,926	15.3	390,942	14.9
Equities – United Kingdom	385,106	14.0	379,527	14.4
Equities – Overseas/Global				
Global dividend-focused/smaller companies	227,543	8.3	224,638	8.5
North America	396,066	14.5	330,269	12.6
Europe	196,713	7.2	180,694	6.9
Japan	31,293	1.1	34,099	1.3
Pacific ex Japan	85,164	3.1	89,082	3.4
Emerging Markets	146,942	5.4	149,606	5.7
	1,083,721	39.6	1,008,388	38.4
Private Equity	111,307	4.1	113,350	4.3
Hedge Funds	4,368	0.2	46,022	1.7
Targeted Return	227,725	8.3	213,741	8.1
Commodity Funds	75,320	2.7	82,123	3.1
Infrastructure/Timberland Funds	101,286	3.7	86,614	3.4
Property				
United Kingdom:				
Retail	30,070	1.1	24,695	0.9
Offices	15,510	0.6	14,230	0.5
Industrial	13,110	0.5	11,805	0.5
Leisure and Alternatives	19,025	0.7	14,585	0.6
Agricultural	1,225	0.0	1,190	0.0
Indirect	176,382	6.4	172,366	6.6
	255,322	9.3	238,871	9.1
Cash, Currency and derivatives				
Cash and deposits	69,968	2.5	54,101	2.1
Foreign exchange derivatives	(210)	(0.0)	755	0.0
Other derivatives contracts	2,105	0.1	1,818	0.1
Other Net Assets/(Liabilities)	5,909	0.2	10,855	0.4
	77,772	2.8	67,529	2.6
TOTAL	2,739,853	100.0	2,627,107	100.0

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