Leicestershire County Council Pension Fund
(reference number 00328856RQ)

contents

management structure

Local Pension Committee (previously called Pension Fund Management Board)

County Council Representatives

Mr G A Hart (Chairman)
Mr J B Rhodes (Vice Chairman to April 2015)
Mr P C Osborne (Vice Chairman from May 2015)
Mr S J Hampson
Mr M Hunt
Mr K W P Lynch

Representatives of Other Bodies

Mr J Shuter
Cllr P Kitterick (to September 2015)
Cllr L Moore (from October 2015)
Cllr D Bajaj
Cllr P Osborne (to April 2015)
Cllr T Barkley (from May 2015)
Cllr M Graham

Staff Representatives

Ms J Dean
Mr R Bone
Mr N Booth

Local Pension Board

Employer Representatives

Mr D Jennings
Mr A M Kershaw
Cllr D Alfonso

Member Representatives

Ms D Stobbs
Ms D Haller
Ms M Hill (to January 2016)
Ms A Severn-Morrell (from January 2016)

Officers Responsible for the Fund:

Head of Finance
Chris Tambini, - Director of Finance, Leicestershire County Council
Investments
Colin Pratt, Investments Manager, Leicestershire County Council
Pensions Administration
Ian Howe, Pensions Manager, Leicestershire County Council

Investment Managers
Adams Street Partners, Chicago
Ashmore, London
Aspect Capital, London
Aviva Investors, London
Catapult Venture Managers, Leicestershire
Colliers Capital, London
Delaware Investments, Philadelphia
IFM, London
Investec Asset Management, London (to November 2015)
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
Partners Group, London
Permal Investment Management, London
Pictet Asset Management, London
Ruffer LLP, London
Stafford Timberland, London
Internally Managed (Farm and Cash)

Fund Custodian
JPMorgan, Bournemouth

Legal Adviser
County Solicitor, Leicestershire County Council

Actuary and Investment Consultant
Hymans Robertson LLP, Glasgow

Independent Investment Advisor
Scott Jamieson, Kames Capital

Auditor
KPMG LLP, Birmingham

AVC Provider
Prudential, London

Banker
National Westminster Bank, Leicester

Scheme Administrator
Pensions Section, Leicestershire County Council

summary

This report provides information on the major events which had an impact on the Leicestershire County Council Pension Fund during the Financial Year 2015/2016. Most of these events are covered in more detail in the main body of the report, but can be summarised as follows:-

- In his budget of 8th July 2015 the Chancellor of the Exchequer announced that the government would "work with Local Government Pension Scheme administrators to ensure they pool investments to significantly reduce costs". Subsequent announcements made it clear that the government expected the formation of up to six investment pools, each with assets of at least £25bn each and that the pooling arrangements would commence on 1st April 2018.

- Following some initial work carried out by a number of LGPS Funds into the optimal manner in which to pool investments in order to deliver the investment strategies needed by individual Funds at a lower cost, and without any detrimental impact onto investment performance, the prospective pools began to take shape late in 2015 and eight pools submitted proposals for the initial February 2016 deadline date. It looks likely that the ultimate outcome will be that there will be eight pools, of which two will be significantly below the £25bn scale initially expected by government.

- After consideration of the options, the Leicestershire Fund decided to focus on a pool that became known as 'LGPS Central'. This pool includes eight funds from the Midlands area with total assets of £34bn, and significant progress has already been made towards ensuring that the pool is launched by 1st April 2018.

- Prior to the Chancellor's announcement, a group of seven Midlands-based LGPS Funds including Leicestershire - six of whom are now part of LGPS Central - had already commenced discussions about a joint procurement of passive investment management services. At the time that these discussions commenced the funds had four different passive managers that invested £6.5bn of the funds' assets, and it was agreed that a single manager appointment would be made with a view to making meaningful fee savings. The outcome was that Legal & General Investment Management (Leicestershire's incumbent manager) was appointed from December 2015, with fee savings that were considerably higher than originally expected - £600,000 p.a. for Leicestershire, based on the value of assets managed by Legal & General at the time.

- Equity markets produced weak returns over the year, although the weakening of sterling enhanced returns on overseas equities to UK investors. Economic growth was lacklustre, with the US and UK being standout performers relative to most other areas, but the biggest impact on confidence was a notable slowdown in China. In reality the Chinese slowdown was relative to its normal high growth rate, and the growth achieved would be considered stellar almost anywhere else in the world. The fear that China, and other emerging markets, could not continue to make up for lack of growth elsewhere forced investors to question how companies would be able to grow their future profits.

- The UK equity market produced a negative return of -3.9%. A significant element of the UK's stock market-listed companies are in sectors that suffered from the continued poor demand outlook for commodities (particularly oil and industrial metals), and this dragged down overall performance despite reasonable performance elsewhere within the market.

- Overseas equity markets produced variable performance that was generally negative in local currency but less negative to a sterling investor because of sterling's weakness. Japan and Europe produced double-digit negative returns to local investors, but only c.-4% when this was converted to sterling. The US eked out a positive return in dollar terms, but this improved to just over 5% to a UK investor. Emerging Markets were down almost 10% in sterling terms.

- The UK commercial property market produced returns of close to 12%, which followed on from almost 20% the previous year. Tenant demand was strong and the relatively low level of new development led to rising rental values, and hence increases in the price that investors were willing to pay for assets. Overseas investors – both high net worth individuals and institutional investors – continued to be major participants in the UK property market.

- Bond yields showed some volatility over the course of the year, but were similar at both the beginning and end of it. As a result returns from both conventional and index-linked government bonds were in low, single figures but were above most equity markets. Some of the 'alternative' asset classes that the fund invests in – notably infrastructure and timberland – were the best performing areas, with returns of around 15% over the course of the year.

- The Fund's investments produced a positive return of 0.6% for the year, which was 0.2% above its benchmark, and over 5 years the Fund has produced a return that is 0.4% p.a. above its benchmark. The Fund has a 10% lower weighting to equities than the average LGPS Fund and has invested this money into other areas that are expected to make equity-like returns over the medium term, which will hopefully lead to lower levels of volatility within investment returns without any significant loss of performance.

- A major post year-end event was the outcome of the result of the Referendum into the UK's future membership of the European Union. It will take many years to be able to judge whether this decision has had any impact onto the long-term value of investments, but the initial market reaction was actually positive for the Fund's investments – the fall in the value of sterling (which made overseas investments worth more to a sterling investor) more than offset any falls in asset prices. The Fund is a long-term investor and short-term market movements, whether positive or negative, are not particularly important in the whole scheme of things.

- A new committee - the Local Pension Board - came into existence on 1st April 2015 and had its first meeting in June 2015. The remit of the Local Pension Board is to assist the Administering Authority in ensuring compliance with Legislation and the requirements of the Pensions Regulator, and ensuring efficient and effective governance and administration of the scheme. The Leicestershire Local Pension Board consists of three member (i.e. employee) representatives and three employer representatives (two elected members from the County Council and one from the City Council).

- During the year the Fund's membership increased by over 2,700 and at the year end stood at just above 86,500. There were increases in all three classes of membership – active, pensioner and deferred.

- The Fund's triennial actuarial valuation will be carried out based on the position at 31st March 2016, and the method of deriving certain key assumptions (future pay growth, inflation, investment returns) were agreed by the Local Pension Committee before the year end in order to ensure that the valuation would be as robust as possible. Ultimately the valuation impacts onto the pace of funding future obligations as the value of those obligations will only be known after the event.

Scheme Arrangements

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

Both employees and employers make contributions to the Scheme. From 1^{st} April 2014 new employee contribution rates of between 5.5% and 12.5% became effective, with the rate payable by individuals being based on their actual earnings.

Prior to 1^{st} April 2014 benefits were based on the final salary of a member, and the final salary link will be maintained for all service before this date. For all service after this date the LGPS became a Career Average Revalued Earning (CARE) scheme, whereby a benefit (based on pay) is earned for every year of service and then revalued annually in line with the change in the Consumer Price Index. The accrual rate within the 2014 scheme was improved to $1/49^{th}$ for every year of service (in comparison to the $1/60^{th}$ that was in place before) and many members will be better off under the new scheme than the old, in particular those with limited prospects of career progression. Normal Retirement Age has, however, changed from 65 to State Pension Age so the vast majority of members will have to retire later if they wish to receive a pension without an actuarial reduction.

Employers' contribution rates are assessed every three years as part of the actuarial valuation process. The actuarial valuation carried out at 31^{st} 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 were allowed phased annual increases that covered the period 1^{st} April 2014 to 31^{st} March 2017. A new actuarial valuation will be carried out based on the Fund's position at 31^{st} March 2016 and the continued downward movement in Government Bond Yields will have further 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. There is a high likelihood that most employers will see further upward pressure on their contribution rates from 1^{st} April 2017.

The 'vesting period' for members – the period that they have to be in the LGPS before they have an entitlement to benefit – has varied over the years, but from 1^{st} April 2014 it was changed to two years from three months. Members that do not meet the relevant vesting period have the option of a transfer value or a refund of contributions.

The level of benefits due is directly linked to the service and pensionable pay of an individual member. All members who have contributed to the Scheme for at least the minimum relevant vesting period are entitled to an immediate pension benefit, a preserved benefit or a transfer value payment to an occupational pension scheme or personal pension when they leave the Scheme.

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 2016	0.0%
April 2015	1.2%
April 2014	2.7%
April 2013	2.2%
April 2012	5.2%

Pension increases are set annually and put into force via an annual Pensions Review Order, which is agreed by Parliament. The June 2010 budget announced that from April 2011 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.

Scheme Membership

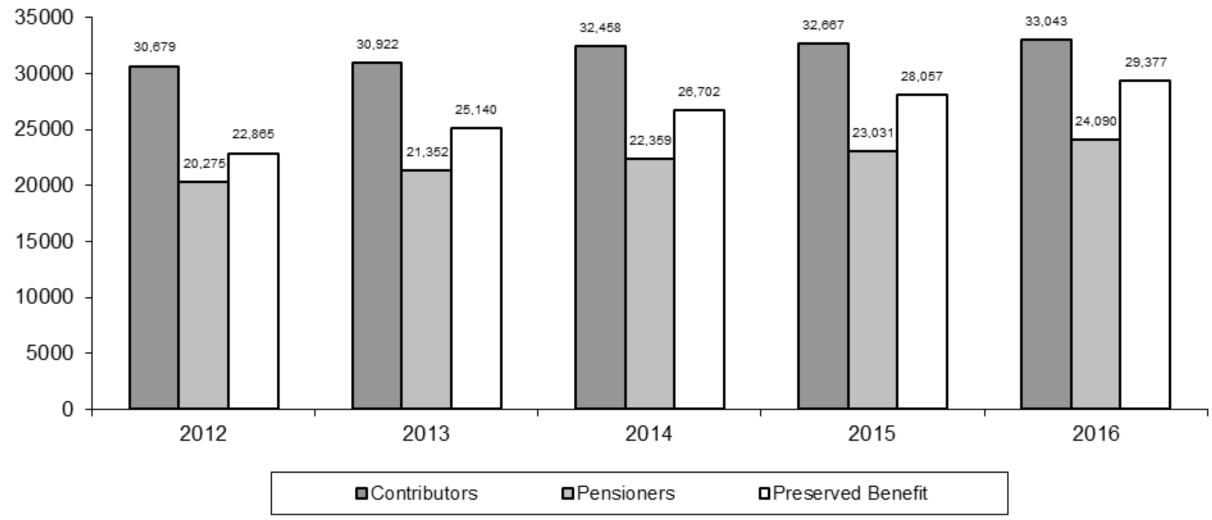
The number of scheme members who are either receiving a benefit or who have a future entitlement to one increased by over 2,700 (3.2%) over the course of the year, to 86,510. This figure excludes the 3,900 members who have no entitlement to a benefit from the fund but do retain the right to either a refund of contributions or a transfer to an alternative pension arrangement.

Active membership increased from 32,667 to 33,043, and the increase came despite the austerity-related trend of lower employee numbers at the two largest fund employers. The growing awareness of the value of a Local Government pension has meant that fewer members choose not to join the scheme, although a surprisingly large number still do not take advantage of their entitlement to membership. The City and County Councils delayed the implementation of auto enrolment (which forces employing bodies to bring almost all employees who are not currently scheme members into the LGPS) until April 2017 and it is likely that there will be a meaningful spike in membership at that point, as previous experience suggests that a reasonable proportion of those that are auto-enrolled do not then opt out again.

The net increase (i.e. new pensions commenced less those ceasing) in pensioner members was 1,059, or 4.6%. There were approximately 1,500 new retirements during the year but this was offset by the death of over 600 existing pensioners, although almost 1 in 4 of the pensioner deaths gave rise to a dependant's pension. There is an observed 'rump' of current active members that will reach their normal retirement age within the next five years so it is highly likely that there will remain large numbers of new pensioners over the next few years.

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 almost 5% over the year and it is likely to continue to grow, although the pace has slowed as a result of the increased vesting period effective from 1st April 2014. Many deferred members are entitled to very low levels of future benefits, and probably opt for a one-off payment.

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



Membership Statistics

Employing body	Contributors 31 March '16	Contributors 31 March '15	Employers' Contribution Paid 2015/16 (% of pensionable pay plus cash)	Full Rate set in 2013 Actuarial Valuation* (% of pensionable pay plus cash)
Leicester City Council	*9,358*	*9,335*	20.7	21.7
Leicestershire County Council	*7,911*	*7,966*	21.3	22.3
Office of the Police and Crime Commissioner/Chief Constable	*1,401*	*1,420*	17.7	18.7
De Montfort University	*1,369*	*1,285*	16.5 + £434k	16.5 + £735k
Loughborough University	*1,292*	*1,230*	18.9 + £196k	18.9 + £408k
North West Leicestershire DC	*522*	*512*	18.0 + £355k	18.0 + £479k
Rutland County Council	*449*	*486*	19.7	20.7
Charnwood Borough Council	*475*	*465*	18.4 + £851k	18.4 + £1,046k
Hinckley & Bosworth BC	*335*	*339*	17.3 + £371k	17.3 + £468k
Blaby District Council	*297*	*271*	18.0 + £222k	18.0 + £300k
Melton Borough Council	*163*	*183*	17.2 + £207k	17.2 + £256k
Harborough District Council	*181*	*179*	16.4 + £362k	16.4 + £472k
Leics Combined Fire Authority	*131*	*158*	16.9 + £90k	16.9 + £141k
Oadby & Wigston BC	*129*	*131*	18.7 + £263k	18.7 + £345k
Academies, Free and Studio Schools (a)	*6,537*	*6,149*	15.6 - 21.3	17.0 – 22.3
FE and Sixth Form Colleges (b)	*1,727*	*1,777*	16.9 -18.4	17.9 -19.9
Other Employers (c)	*669*	*695*	15.0 – 29.7	15.0 – 29.7
Parish and Town Councils (d)	*97*	*86*	15.0 – 25.7	15.0 – 27.5
Total	***33,043***	***32,667***		

(a) Consisting of: Asfordby Hill, Ashby Hill Top, Ashby School, Ash Field, Barwell C of E, Battling Brook, Beacon Academy, Belvoir & Melton Academy, Birkett House, Blessed Cyprian Tansi MAT, Bosworth Academy, Bottesford, Bringhurst, Brockington, Brocks Hill, Brooke Hill, Brookvale High, Broomfield, Broom Leys, Casterton Business and Enterprise College, Castle Donington College, Castle Rock, Church Hill Infant, Church Hill Junior, Cobden, Corpus Christi MAT, Cosby, Cottesmore Primary, Countesthorpe Community College, David Ross Education Trust, Discovery Schools, Dorothy Goodman, Eastfield, Fairfield, Falcons Free School, Forest Way, Frisby, Gaddesby, Gartree, Gilmorton Chandler, Glen Hills, Great Bowden, Great Dalby, Groby Community College, Hall Orchard, Hastings High, Heathfield, Hinckley Academy, Holywell, Humberstone Junior, Humphrey Perkins, Huncote, Ibstock Community College, Ivanhoe College, Ivanhoe under 5s, Kibworth High, King Edward VII, Kirby Muxloe, Krishna Avanti Free School, Lady Jane Grey, Langham, Launde, Leicester Academies Charitable Trust, Leighfield, Leysland High, Limehurst, Lionheart Academies Trust, Long Field, Loughborough C of E Primary, Lubenham All Saints, Lutterworth College, Lutterworth High, Manor High, Market Bosworth High, Market Harborough CE, Martin High, The Meadow, Meadowdale, Measham, Mercenfeld, Merton, Midland Academies Trust, Millfield LEAD, Mountfields Lodge, Mowbray Education Trust, Newbridge, Old Dalby, Outwoods Edge, OWLS Academy Trust, The Pastures, Pochin School, Queensmead, Queniborough, Ratby, Rawlins, Red Hill Field, Redmoor High, Rendell, Ridgeway, Robert Bakewell, Robert Smyth, Rothley, Roundhill, Rushey Mead Educational Trust, Rutland & District School Federation, Rutland Learning Trust, Ryhall, 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, Townlands, Uppingham Community College, Welland Park, Wigston Academies Trust, 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, Chartwells, Children's Links, East Midlands Shared Services, East West Community Project, Eastern Shires Purchasing Organisation, EMH Homes, Fusion Lifestyle, G4S, G Purchase, ICare, Lifeline Project, Melton Learning Hub, National Youth Agency, Quadron Services, 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, Kirby Muxloe PC, Leicester Forest East PC, Lutterworth TC, Market Bosworth PC, Oakthorpe, Donisthorpe & Acresford PC, Shepshed TC, Sileby PC, Syston TC, Thurmaston PC, Whetstone PC.

- Within Other Employers and Parish & Town Councils Bradgate Park Trust, Leicester and County Mission for the Deaf, SLM Community Leisure, Spire Homes, VISTA, Ashby Town Council, National Youth Agency and Seven Locks Housing made an actuarially certified cash payment in 2014/15.

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

Management of the Fund

During the year the committee that is responsible for the overall governance of the Fund was renamed the Local Pension Committee, having previously been called the Pension Fund Management Board. This was the only change and representation remained the same: 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 Local Pension Committee sets the overall investment strategy for the Fund and will deal with all investment governance issues but will generally not be involved in the more 'tactical' issues associated with implementing the strategy, such as investment manager appointments and the timing of asset allocation changes. The Committee meets quarterly and also has a separate annual meeting to consider strategic issues relevant to the Fund.

The Investment Subcommittee consists of six voting members (the Chair, Vice Chair, one other elected member of the County Council, the Universities representative and one member representing each of the City and District Councils, all of whom are members of the Local Pension Committee) and one non-voting staff representative. 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.

From 1st April 2015 a new committee – the Local Pension Board – was formed, as was required under the LGPS Regulations. This committee consists of three member (i.e. employee) representatives – elected in the same manner as the employee representatives on the Local Pension Committee - and three employer representatives, with the latter being two elected members of Leicestershire County Council and one from Leicester City Council. Their role is to assist the administering authority in ensuring compliance with Regulations and the requirements of the Pensions Regulator, and as such their main focus is on pension administration issues.

During the year the commodities portfolio managed by Investec was sold, as the outlook for price appreciation in commodities looked poor given excess supply in many areas and the lack of economic growth to soak up this supply. The proceeds from this sale were redeployed into a new 'targeted return' fund - the Dynamic Asset Allocation (DAA) fund - managed by Pictet Asset Management, and the existing small investment in a different Pictet fund was also switched into DAA at no cost to the Fund. The fee arrangement for this new investment was very advantageous, as Pictet were trying to build critical mass for a relatively new fund that was being managed by a highly-respected investment management team that they had recently recruited.

At the end of May the existing investment in a pooled bond fund managed by JPMorgan was switched into a different 'best ideas' bond fund of the same manager, which led to a meaningful fee reduction and also access to areas of the bond market that are likely to be more attractive in the current low-yield environment. This investment was only valued at about £25m, so it is not a particularly significant part of the Fund.

Probably the most significant action taken on the investments of the Fund during the year actually saw nothing change for Leicestershire, except for a significant reduction in fees. In June 2015 seven Midlands-based LGPS funds began discussions about the possibility of the joint appointment of a single passive (i.e. index-tracking) investment manager for the combined £6.5bn of assets that were then spread across four different managers. These discussions led quickly to a tendering process and in November the 'group of seven' agreed to appoint Legal and General Investment Management, who were already Leicestershire's passive manager. Where necessary the other funds 'transitioned' their assets away from their incumbent managers over December 2015 and January 2016 and – importantly – each fund maintained exposures to the same indices at Legal and General that they had elsewhere. The collaborative procurement was considerably more successful than had been anticipated and the saving to the Leicestershire Fund, based on the value of assets held at Legal and General at the time, will be over £600,000 p.a.

During the year the Investment Subcommittee agreed to invest in two further 'opportunity pool' investments. One of these – the M & G Debt Opportunity Fund III – was the extension of a successful strategy that the Fund is already exposed to via M & G's previous two Debt Opportunity Funds, whilst the other is a strategy to take advantage of returns available within trade financing that will come as a result of banks' need to free up capital within their balance sheets. This latter opportunity, managed by Markham Rae, had drawn no capital by the year end.

The January 2016 Annual Strategy Meeting agreed some relatively minor changes to the Fund's strategic benchmark, which included modest repositioning of the regional equity split (although there was no change to the overall equity weighting) and this had been completed prior to the year end. The only other change was an agreement to increase the Fund's infrastructure weighting from 3% to 5%, to be funded by a reduction in the targeted return holdings. The increase in infrastructure was achieved at the beginning of July 2016 via a $90m investment in the JPMorgan Infrastructure Investments Fund.

A significant post year-end event was the Referendum result that will ultimately see the UK leave the European Union. It is very difficult to estimate what the long-term impact of this will be on investment markets and it is likely that there will be periods of extreme volatility as the terms of Brexit are negotiated. It is, however, likely that opportunities will become available as a result of the uncertainty, as history suggests that investors will become either unduly pessimistic or unreasonably relaxed about the outlook for different asset classes in what will inevitably be a period of change. It is important that the Fund remains alert to the potential opportunities and risks in order that it can navigate through a potentially difficult investment landscape in as optimal a manner as possible.

Investment Management Arrangements

At the January 2016 Annual Strategy meeting of the Local Pension Committee there were a number of relatively minor changes made to the Fund's strategic asset allocation benchmark. At the year end the benchmark in place was:

Equities	50.5% - 52.5%
Alternative Assets:	23.0% - 25.0%
Targeted Return	*11.5%*
Credit	*5%*
Emerging Market Debt	*2.5%*
Other	*4% - 6%*
Property	10%
Inflation-Linked	14.5%

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

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 a specialist emerging market equity managers (Delaware).

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

Alternative Assets
The Fund's targeted return exposure can generally be categorised as investments that are seeking to make a return of 4% p.a. more than could be achieved by an investment in cash (i.e. only slightly below the expected long-term return from equities), and with the expectation that the return will be achieved with relatively low volatility. There are many different ways of achieving this goal and the Fund has three different managers in this area - Aspect Capital Partners, Ruffer and Pictet Asset Management. During the year there was a switch between different Pictet-managed targeted return funds, with most of the proceeds from the winding-up of the commodities portfolio also being invested in the new fund.

There was also a switch during the year in the JPMorgan global credit fund that the Fund invests in, to one that is considered more likely to be able to perform well in bond markets that may see volatility and/or rising yields. In May the final £25m of a £100m commitment to a private debt fund managed by Partners Group was drawn and later in the year there were two repayments of capital made by the Prudential/M&G UK Companies Financing Fund, which lends directly to secure UK mid-sized companies at attractive rates of interest. This fund is closed-ended and will not make any new investments, and the two repayments came as a result of the premature repayment of the underlying loans. It is expected that repayments will accelerate in the years ahead.

The Fund's exposure to Emerging Market Debt was made in the previous financial year and followed a period of significant underperformance of the asset class against developed debt markets. The investment is in a pooled fund manged by emerging market specialist manager Ashmore.

At the year end the Fund had two distinctly different investments in 'other' alternative assets – a pooled property fund (value £25m) that was focused on areas of the market that had become 'unloved' (and hence undervalued), and investment in M & G Debt Opportunities Funds. The M & G exposure is via three different funds with identical strategies, and had a combined valuation of £91m at the year end. These investments are referred to as part of an 'opportunity pool' – investment where good returns are expected, but where the returns are generally available as a result of a market disconnect that will not last forever, and hence cannot be considered for inclusion as part of the strategic benchmark. A commitment of $40m to a third 'opportunity pool' strategy has also been made to the Markham Rae Trade Capital Partners fund, but none of this commitment had been drawn by the year end .

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

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

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

The most natural asset for protecting the Fund against its inflation risk is UK Government index-linked bonds, but these are expensive as there are a number of price-insensitive buyers and a lack of supply. As a result the Local Pension Committee 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. At the January 2016 Annual Strategy Meeting it was agreed to increase the investment in infrastructure from 3% to 5%, with the investment being funded from the targeted return weighting.

Kames Capital manages a portfolio of global index-linked stocks. The Fund has two global infrastructure managers (IFM and KKR), although JPMorgan were added as a third after the year end and absorbed the increase in weighting referred to above. The Fund's timberland manager is Stafford Timberland, with investment being via two pooled funds.

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

Kames Capital pro-actively manages the Fund's exposure to currencies that comes from holding overseas equities. The default position is to hedge 50% of this currency exposure back to sterling, but the actual hedge will depend on Kames' view on the relative value of the currency and also the overall risks at a total Fund level.

Investment pooling within the Local Government Pension Scheme
In his budget of 8th July 2015 the Chancellor of the Exchequer announced that the government would "work with Local Government Pension Scheme administrators to ensure they pool investments to significantly reduce costs". Subsequent announcements made it clear that the government expected the formation of up to six investment pools, each with assets of at least £25bn each and that the pooling arrangements would commence on 1st April 2018.

management report

This announcement came as a surprise to most people within the LGPS given that there was already a move towards more collaborative working, as evidenced by a number of projects such as the passive procurement carried out by seven Midlands-based funds and referred to earlier in this report.

Within a short period of the announcement Hymans Robertson, the Leicestershire Fund's investment advisor and actuary, had pulled together about 20 LGPS funds that agreed to work together to provide the government with a fact-based body of evidence on the optimal way in which the pools could be set up and operate and this became known as 'Project Pool'. The government, via the Department for Communities and Local Government (DGLG) and Her Majesty's Treasury (HMT), entered into a two-way dialogue and were willing to take on-board the views of the funds as far as possible whilst still obviously having to ensure that the government's policy aims were likely to be met.

In November 2015 the DCLG issued a paper titled 'Local Government Pension Scheme: Investment Reform and Guidance' which took the findings of Project Pool into account and laid out four key criteria that pools would need to meet:

Benefits of Scale – at least £25bn of assets;
Strong governance and decision making;
Reduced costs and excellent value for money;
Improved capacity and capability to invest in infrastructure.

The DCLG paper requested authorities to submit their initial proposals by 19th February 2016, which included a requirement to give an outline of which funds were working together, and by early in 2016 there were a number of prospective pools forming. Leicestershire is one of eight Midlands-based funds that are collectively known as 'LGPS Central' - the others being Cheshire, Derbyshire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire - that have agreed to form a pool. Together the funds have assets of £34bn and the February submission and a further, more detailed, July submission have been made and the signs are positive that the government will accept LGPS Central as a pool.

Whilst still some time away, the April 2018 deadline for a pool launch is incredibly tight given the need to set up the necessary infrastructure and to receive all necessary regulatory clearances but the funds are working together well and significant progress has already been made.

Within the investment pooling environment, individual Funds will retain their autonomy and will continue to set their own asset allocation policy as well as responsibility for the administration of benefits. The pool will be a separate legal entity, owned equally by the eight funds, whose purpose will be to provide investment management services that are required by the constituent funds within the pool. Investment manager appointments will transfer from individual funds to the pool, with the expectation that the mandates awarded by the pool will be larger than those awarded by individual funds and that economies of scale will be achieved.

LGPS Central's business case suggests that there will be significant savings accrued in the future, but there will initially be higher costs due to the one-off costs of setting up the pool and also the necessity to have a 'cross-over' period when the pool is operating but before the existing portfolios have been restructured. There may also be advantages accrued as a result of a more robust management and governance structure, which in turn may lead to better investment decision-making at individual funds and within the pool.

Risk Management

There are many risks associated with the Local Government Pension Scheme, covering both the investment of the assets and the administration of the benefits payable. It is almost impossible to create a definitive list of these risks and many of the on-going risks are monitored by Officers and only brought to the attention of the Local Pension Committee and/or Local Pension Board as-and-when it is felt to be necessary and appropriate. When this is deemed necessary a report will be produced by Officers for consideration at the appropriate meeting.

The biggest risk for the Fund is that the value of assets held will ultimately be insufficient to pay for all the benefits due. This risk is managed by a triennial actuarial valuation, which compares the value of assets to the accrued liabilities and sets employer contribution rates that are considered appropriate to ensure that all benefits can be paid; the Fund is currently in deficit (i.e. the value of assets is less than the accrued liabilities) so the employer contribution rates, at a whole Fund level, include payment for not only future service as it accrues but also contributions towards the deficit. Given that many benefits will not become payable for a long time, and taking into account the financial strength of most employers, the actuary is able to take a long-term approach to recovery of the deficit.

The performance of the assets of the Fund is an important element in helping to maintain affordable employer contribution rates – the higher the long-term investment return achieved, the more of the benefits will be funded by investment returns rather than employer and employee contributions. A long-term approach is taken to agreeing an asset allocation benchmark, with both return and risk taken into account. Asset allocation policy is reviewed annually.

Individual investment manager performance is of lower importance than the asset allocation benchmark, but individual manager performance does have an impact and their performance is considered and reviewed regularly. When there are doubts about a manager’s ability to generate future performance that is in line with the Fund’s requirements/expectations appropriate action will be taken, and this may include the release of a manager. It is not generally optimal to change managers on a frequent basis due to the associated costs (which are mainly the impact of bid/offer spreads and charges within markets), and as a result changes are considered very carefully before they are agreed.

The Local Pension Committee receives advice from the investment practice of Hymans Robertson and an independent investment advisor, and this assists in making decisions in respect of both overall investment policy and manager selection/retention.

The Fund employs a large number of investment managers, and all of these invest in a specific asset class and can be termed ‘specialist’. Many of these managers are required to have external assessments of their systems and operations and these are reviewed in order to ensure that there are no issues which put the Fund’s investments at risk.

Under the Pensions Act all employers must pay over contributions deducted from employees, plus the required employer contributions, to the administering authority within certain timescales. These payments are monitored closely and immediate action is taken in the event of a late payment. Late payment does not put the benefits of individuals at risk.

Many of the risks associated with providing efficient and cost-effective Pensions Administration are mitigated by ensuring that employees are knowledgeable and well-trained, and this is an on-going issue that is taken very seriously by the administering authority. Ensuring that employers understand their responsibilities to the Fund and fulfil them efficiently is also crucial, and an on-going programme of support and training for them is in place.

Financial Performance

Guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) in August 2014 suggests that the Annual Report should be used for the administering authority to 'demonstrate to stakeholders the effectiveness of its stewardship' from a financial, rather than an investment performance perspective. This stewardship relates to the general management of pension fund income and expenditure.

It would be possible to produce performance indicators about many aspects of the Fund's financial performance to attempt to demonstrate effective financial stewardship, but ironically this will involve the need to employ greater resource and incur higher cost. As a result the preferred option is to comment in general terms about financial governance.

There were a small number of incidences of late payment of contributions by employers over the year, and these were exclusively as a result of administrative failings on their part. On each occasion the employer was reminded of their responsibilities, and it was not felt necessary to levy interest on overdue contributions.

Administrative costs, including staff-related costs for both internally employed Pensions and Investments staff, were either at or below the budget and these costs remain well below the average of other LGPS Funds. Investment management fees are not budgeted for - they will be variable as they are based on market values that are impossible to predict in advance. Action was taken during the year to reduce investment management costs where there was opportunity to do so.

The Fund does not budget for cash flows for investment income, contribution income or benefit expenditure. The reason for this is straightforward – it is impossible to predict with any accuracy how these will change as the reasons for change are outside the control of the Fund. A very simple example is that is futile to attempt to set a budget for lump sums paid on retirement as the variables include which individual members choose to retire (and, to a certain extent, who becomes pensioners due to redundancy) and how much pension they will commute into a lump sum.

The general trend of overall net cash flows *is* monitored, whether these are derived from investment or non-investment related sources. 2014/15 was highly unusual as it included a significant (c.£52m) cash outflow as a result of the restructuring of the Probation Service but, after excluding this, non-investment cash flows were positive by c.£18m. In 2015/16 the surplus from non-investment related sources was almost £24m. Employer contribution rates are on an upward trajectory, while the pension increase in April 2016 was nil; the surplus position will not change in the short term. In addition the Fund received net income (investment income less investment management expenses) of over £25m.

There are some concerns that cash flows will start to reduce. Cuts to budgets within Local Authorities over the coming years may reduce membership (and hence employee/employer contributions) at the same time that benefits paid are increasing - partly as a result of increasing numbers of pensioners and partly as a result of inflation-linked annual increases - but it is also highly likely that the rate of employers' contribution will increase for a number of years to come. The Fund also has significant investments in pooled funds where the investment income is reinvested rather than distributed, and these can easily be changed to income producing with the generation of an extra £30m cash flow p.a.

The overall impact of all of these facts is that it is expected that the Fund will remain strongly cash flow positive for many years, and has no need to currently consider the impact that cash flows might have on the suitability of investments. Budgeting for factors that cannot be controlled is not considered necessary, but there are strong controls in place for ensuring that all income due is received and that benefits are not overpaid. A monthly automated check of pensioners is carried out through a reliable tracing agency in order to ensure that pensions cease upon death, and the Fund has a very low incidence of overpayments that occur either as a result of fraud, late notification or error.

Administrative Management Performance

The fund has a number of performance indicators in respect of administration performance, which are split between speed of processes and customer satisfaction. From 1st April 2015 these were reported on a quarterly basis to the Local Pension Board, having previously been reported to the Pension Fund Management Board (subsequently renamed the Local Pension Committee).

The introduction of the 2014 LGPS brought with it additional pressures to both the administering authority and to employers. This had a significant impact onto the timeliness of completion of some processes and it soon became clear that it was necessary to appoint additional staff to deal with the higher workload. Given the lack of experienced pension administrators these staff required a significant amount of training before they could deal with more complex matters, and the increased resource should start to show through in performance over the next few years. 2015/16 saw an underperformance of targets in making pension payments within 5 working days of receiving an election and in making death benefit payments within 10 days, although there was an improving trend in these areas on a quarterly basis. Staffing levels will be kept under review in order to ensure that they are adequate, but the extra complexity of the 2014 scheme and its impact should not be understated and almost all LGPS funds have suffered similar problems with administration.

Despite some of the process-related indicators being below target, customer satisfaction has remained high; on average about 95% of members considered their interaction to dealings with the Pensions Section to be acceptable or better.

Increases in staffing levels will decrease the ratio of staff to fund-members, but will also increase the ratio of costs to fund-members. Average cases per member of staff are expected to decrease, but many of these cases will involve more complexity. In comparison to the average Local Authority Pension Fund, average cost per member is low.

Investment Management Costs

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

Given the need to assess current costs as part of the investment pooling agenda, a body of work has been carried out by the Fund and the full costs are estimated to have been £14.9m in 2015/16 and £13.9m in 2014/15 (0.47% of average assets in both years).

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

LEICESTERSHIRE COUNTY COUNCIL PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

1.0 INTRODUCTION

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

2.0 FUNCTIONS AND RESPONSIBILITIES

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

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

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

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

2.5 Pensions Administration issues are the responsibility of the Local Pension Board, where this is relevant to their role of assisting the administering authority to meet the requirements of Regulations or the Pension Regulator. Many of the day-to-day pension administration issues are the responsibility of the Director of Finance.

3.0 REPRESENTATION

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

3.2 The LPB is made up of 6 members – 3 employer representatives (2 elected politicians of Leicestershire County Council and 1 from Leicester City Council) and 3 member representatives. There will be at least one member representative position available annually and a vote will be held to fill any vacancies at the Annual Meeting of the Fund.

4.0 STAKEHOLDER ENGAGEMENT

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

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

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

5.0 REVIEW AND COMPLIANCE WITH BEST PRACTICE

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

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

Ref	Principle	Compliance/Comments
A	Structure	
a	The strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Fully compliant**
b	That representatives of participating LGPS employers, admitted bodies and scheme members are members of the committee.	**Fully compliant**
c	That where a secondary committee has been established, the structure ensures effective communication across both levels.	**Fully Compliant**
d	That where a secondary committee has been established, at least one seat on the main committee is allocated for a member of the secondary committee	All Investment Subcommittee will be full LPC members, so **Fully Compliant**
B	Representation	
a	That all key stakeholders are afforded the opportunity to be represented within the main committee structure (including employing authorities, scheme members, independent professional observers and expert advisors)	**Fully Compliant**
b	That where lay members sit on a main committee, they are treated equally and are given full opportunity to contribute to decision making, with or without voting rights	**Fully Compliant**
C	Selection and Role of Lay Members	
a	That committee members are fully aware of their status, role and function they are required to perform.	**Fully Compliant**
D	Voting	

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

Investment Markets 2015/2016

- Equity markets had produced surprisingly strong returns in 2014/15, despite global economic growth that was lacklustre. During 2015/16 returns were generally negative as investors began to worry about a number of issues including how company profits were going to grow in the future when economic growth was weak. For sterling investors there was some respite from generally poor local equity markets as the weakness of sterling boosted returns on overseas assets, but in most cases this boost was not sufficiently large to turn the performance positive.

- The North American equity market was the only regional market that produced a positive return in its local currency, albeit that the return was only marginally positive. To a sterling investor this translated to a +3.6% return, but this was much better than the returns to a sterling investor from the other regions: Japan was the next best (at -3.3%), followed by the UK (-3.9%), Europe (-4.2%), Pacific Excluding Japan (-5.4%) and the laggard was emerging Markets at -8.9%. There was nowhere to hide within equity markets, but fortunately none of the negative returns were overly large.

- One major theme within equity markets was the slowdown in Chinese economic growth, albeit that growth was still at levels that would be considered spectacular elsewhere. The Chinese authorities are trying to manage a transition from an economy that produces goods for the rest of the world to one that is consumer-led and this is likely to be difficult, although so far they seem to be handling the situation relatively well. When the global financial crisis hit at the end of the last decade it was the strength of emerging market economies - and China in particular - that was a significant factor in avoiding a much deeper and longer recession than actually happened. Investors appear to see strong Chinese growth as a pre-requisite for economic conditions that are conducive to high company profitability.

- Commodity prices were generally weak due to the excess of supply over demand. Resource company share prices were especially weak as their profitability tends to be highly-geared to the price of the commodities that they produce and hindsight shows that they spent far too much capital expanding their productive capacity when commodity prices were high, only for this production to become available when prices had fallen. There is no obvious sign that the economic conditions are in place for commodity prices to rise at any great pace.

- In December 2015 the US Central Bank raised interest rates by 0.25% (from nearly zero), and this was the first rate increase since 2006. It followed a sustained period of US economic growth and, at the time, was seen as a pre-cursor for further rises that would see interest rates ultimately getting back to levels that would be considered ‘normal’. Hindsight suggests that the increase was ill-advised and since the increase the trend for Central Bank interest rates has been downwards, with many now having negative interest rates. Negative interest rates penalise the holding of cash, as there is a charge for keeping it in the bank, with the policy aim of encouraging consumption rather than saving.

- Bond returns were modest (but generally positive) over the course of 2015/16 and yields were similar at both the beginning and end of the year, although this hides the fact that there was some in-year volatility. Overseas bonds produced decent returns to a sterling investor, due to the benefit derived from a weaker sterling. At the year end there were a number of bond markets on which the 10 year bond yield was negative, meaning that investors were willing to accept a negative return over a ten year period to access the security of lending to the government.

- UK commercial property produced another year of very good returns, at almost 12%. There continued to be rental growth due to tenant demand and a lack of new development. Rental growth, allied to the willingness of investors to accept lower yields, drove returns and overseas investors continued to be active in the market.

- Cash continued to offer unattractive returns to investors, although it was a better investment option in 2015/16 than investing in almost all equity markets!

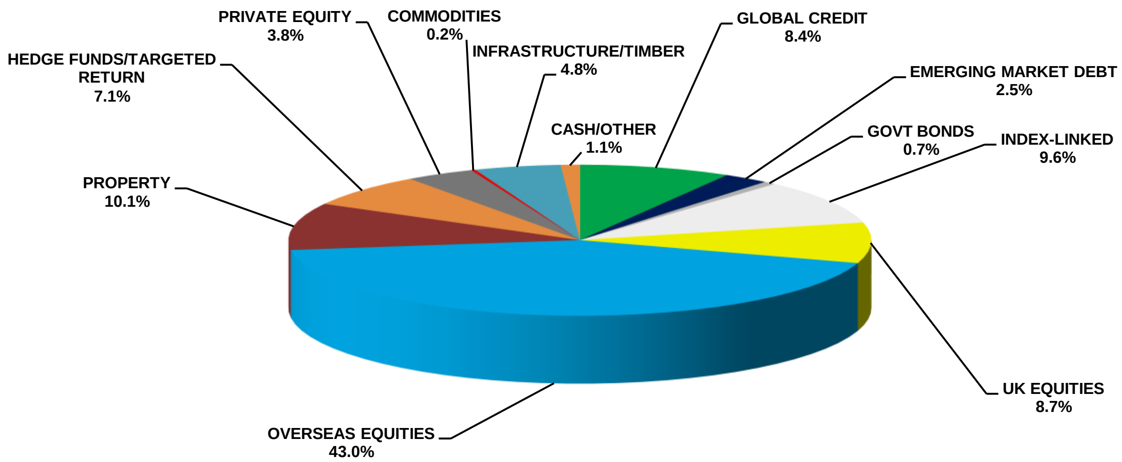
Investment Returns

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

	Year to 31 March 2016 %	Year to 31 March 2015 %
UK Government Bonds	+3.2	+13.9
UK Index-Linked	+1.7	+18.5
Overseas Bonds	+9.8	+7.6
UK Equities	-3.9	+6.6
North America Equities	+3.6	+25.1
European (Ex UK) Equities	-4.2	+7.5
Japanese Equities	-3.3	+27.1
Pacific (Ex Japan) Equities	-5.4	+12.7
UK Property	+11.7	+18.3
Cash	+0.4	+0.5

Value of Investments

The value of the Fund at 31st March 2016 was £3,163.9m, which was £35.7m more than the value a year earlier. The analysis of investments, in summary form, is shown below:-



Investment Performance

Investment returns from equities and bonds were weak in 2015/16 and of the 'mainstream' asset classes only UK commercial property (11.7%) produced good returns. All regional equity markets except North America produced negative returns in their local currencies, although the level of the negative returns were reduced to sterling investors as a result of the weakness of sterling. To a UK investor the best regional equity market return was North America (3.6%) and the worst was Emerging Markets (-8.9%); the broadest measure of UK equity market performance (FTSE-A All-Share index) produced a return of -3.9%.

Overall the Leicestershire Fund produced a return of 0.6% in 2015/16, which was marginally above its benchmark of 0.4%. The Fund has a meaningful exposure to assets that are classified as 'targeted return', where the performance benchmark is cash + 4% p.a. (i.e. 4.4% in 2015/16). Given the weakness of returns within the investment markets from which these targeted return portfolios access in order to achieve performance, this benchmark proved to be very challenging in 2015/16 and the targeted return managers generally failed to achieve their performance objectives.

The Fund's marginal outperformance of its benchmark in 2015/16 came almost exclusively as a result of the strong performance of some of the 'alternative' asset classes in which the fund has invested, and it is pleasing that one of the major reasons for the broadening of the fund's asset base (to diversify some of the risk away from quoted equity markets) was actually borne out in practice. Examples of this are private equity (unquoted equities) which produced double-digit returns in a year that quoted equity markets were generally negative, timberland (a return of over 15%) and infrastructure (which also returned over 15%).

Individual annual investment performance is important, but it is inevitable that there will be disappointing years in both absolute terms and relative to the Fund's investment benchmark. Managers will occasionally have periods of weak performance, and it is not plausible to believe that all managers appointed by the Fund can simultaneously perform well – in fact the Fund is cognisant of the fact that it needs to have a reasonable spread of management styles and asset classes and often a manager is chosen specifically because they are different to other managers.

In the five years to the end of 2015/16 the Fund has outperformed its benchmark on three occasions and underperformed twice. Performance has been very close to the benchmark on two occasions (once below, once above) and some way from benchmark on three occasions (once below, twice above). This variability of performance is entirely normal for a pension fund, and importantly the 5 year return is above benchmark (6.5% p.a. against 6.1% p.a.). This level of outperformance may not look particularly meaningful, but in cash terms is has added almost £60m in value to the Fund's assets over this period – in effect, this is £60m that the employing bodies would otherwise have needed to pay into the Fund. Outperformance is not easy to achieve – and it is almost impossible to achieve year-in-year-out – but it is worth striving for.

The Local Pension Committee and Investment Subcommittee will continue to monitor the performance of managers and make changes when it is deemed appropriate, although the probability of the pooling of investments within the Local Government Pension Scheme mentioned earlier in this report means that there needs to be an awareness of the direction in which we are heading. 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.

Since 1st April 2014 all investment performance has been measured net of investment management fees and the figures quoted above are, therefore, after taking these into account.

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

- ***Colliers Capital UK***
  Colliers' portfolio, which comprises both direct and pooled property holdings but is weighted 75:25 in favour of direct holdings, once again outperformed its benchmark over the year (14.1% vs. 11.7%). The direct portfolio benefited from the letting of a number of vacant areas at very good rental levels, whilst the exceptional performance of a pooled fund specialising in the West End of London was also very helpful. Colliers' performance over the medium and long-term is impressive.

- ***Aviva Investors***
  Aviva manage a portfolio of pooled property funds and produced a return of 10.2% over the year, which was 0.4% below their benchmark. There were a number of new purchases within the portfolio and the costs associated with these depressed returns marginally, whilst there were also a couple of funds that were experiencing difficulties and these dragged down good returns from elsewhere within the portfolio. Over the medium term Aviva's performance has been good, with meaningful outperformance over both a three and five year period.

- ***Millennium Asset Management***
  The active currency portfolio managed by Millennium is based on a notional £340m and over the course of the year they lost £5m. During the year Millennium maintained exposure to the US dollar at the expense of the Euro and, on occasions, the Yen and these positions were not profitable. In the previous financial year Millennium produced £23.5m of profits and since they were appointed in 2006 the portfolio has net profits of £27m, and this has been achieved without the need to invest any of the Fund's capital. Although their performance since inception is below their objective (1.2% p.a. against 1.5% p.a.), there have been periods during this time in which currency markets were very difficult to add value in as they were not driven by fundamental factors. Overall the performance since inception is pleasing and highly credible.

- ***JP Morgan Asset Management***
  In May the Fund switched its holding from the JPMorgan Strategic Bond Fund into the Multi Sector Credit Fund. There were a number of reasons for this switch but the main one is that it was felt that the new fund has a higher probability of achieving acceptable returns in a low (and possibly rising) yield environment for bonds, given the additional scope it has to invest in more bond types. The switch also brought a significant reduction in the fee level as Leicestershire effectively acted as a 'seed' investor for the new fund.

  Performance during the year was credible, although its impact onto the Total Fund was small due to the size of the investment (£25m).

- ***Kohlberg Kravis Roberts (KKR)***
  The Fund originally committed to invest $56m in the KKR Global Infrastructure Fund and by the year end 93% of this commitment had been 'drawn down'. No new investments will be made by this fund, although some capital has been held back for further investment in existing portfolio companies. The fund is generating a meaningful cashflow via dividends and has started to distribute capital back to investors as some of the portfolio companies are sold either in whole or in part.

There are clear signs that the fund will continue to produce excellent performance as the remaining investments are sold over the next few years.

During 2014/15 a $30m commitment to a second KKR infrastructure fund was agreed, in order that the Fund can maintain its strategic weighting to the asset class. This is in the early stages of its investment cycle (21% 'drawn' at the year end) and it is far too early to be able to judge the performance of the second fund.

- ***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. During the year a joint procurement of passive investment management services was carried out by seven Midlands-based LGPS Funds (including Leicestershire) and the outcome was a joint appointment of Legal & General to the combined £6.5bn of passively-managed assets. For Leicestershire this meant no change to the status quo, but a significant fee reduction was achieved.

  The Fund has half of its North American and Continental European passive exposure within market-capitalisation weighted indices (where the value of a company dictates its weighting within the index), with the other half in '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).

  In the long term it is expected that the fundamental index will add a modest amount of additional return, although the split is mainly a diversification tool. Since inception in November 2012 the fundamental indices have produced performance that is more-or-less in-line with market capitalisation indices, but they underperformed in 2015/16.

  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 (£29.0m) were received from successful realisations of investments. Over the long-term the portfolio has produced a meaningful level of outperformance (2% p.a. net of all costs) relative to quoted markets.

  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, and the level of these commitments has had to be increased in the last three years to take account of accelerating distributions. During the year drawdowns for new investment were £14.8m.

- ***Ruffer LLP***

  Ruffer manages a targeted return portfolio for the Fund and significantly underperformed their benchmark for the year (-2.1% vs. +4.5%). Ruffer's whole investment philosophy is based on balancing investments in 'fear' (the risk of markets falling) with investments in 'greed' (generally equities) and arriving at a portfolio that is well protected from loss of capital, whilst still being capable of gaining when markets are buoyant.

  During 2015/16 most of their 'greed' investments produced negative performance, which was not a surprise given the general negative performance of equity markets. Unfortunately the 'fear' assets – predominantly index-linked bonds and gold-related holdings – did not perform well enough to compensate for the negative equity performance.

Over the last 5 years Ruffer has outperformed its benchmark to a meaningful degree (+5.5% vs. +4.4%), and the unique philosophy of the investment process means that they provide meaningful diversification to the Fund.

- ***Pictet Asset Management***
  During the previous financial year the Pictet portfolio had been significantly reduced to provide funding for other investments, and there was an expectation that it would be phased out completely during 2015/16. This was that it was considered unlikely that the fund in which Leicestershire held an investment would be able to produce acceptable returns in an environment in which bond yields ceased to fall, or started to rise, and it appeared likely that bond yields could fall much further.

  Late in 2014, however, Pictet secured the employment of a highly rated team that had run an asset allocation 'absolute return' fund at another investment manager for a significant period of time. In order to build the size of the assets managed by this new team Pictet offered a significantly reduced investment management fee to the Leicestershire Fund and, having carried out the required due diligence, it was agreed that the Pictet assets should be switched into the new fund – the Dynamic Asset Allocation Fund.

  This agreement also coincided with the termination of the employment of Investec Asset Management – a decision that was necessitated by the removal of commodities from the Fund's strategic asset allocation benchmark – and the monies released by this were also added to the Dynamic Asset Allocation Fund. At the year end the investment was valued at £84m, and its initial short period of performance was slightly disappointing.

- ***Delaware Investments***
  Delaware had underperformed their benchmark by a large amount in 2014/15 and this poor performance continued into the first half of the 2015/16 financial year – Emerging Market equities were having a torrid time, and Delaware were underperforming the market.

  Delaware were asked to present to the Investment Subcommittee in October 2015 and whilst it was apparent that nothing had changed in their approach – they will only buy companies that they feel have a sustainable competitive advantage and are cheaply valued – there was undoubtedly some unease at the extent of their recent underperfomance. During the third quarter of 2015/16 Delaware's performance was spectacular, as markets came around to their way of thinking, and over the year as a whole they outperformed their benchmark by 7.4% (-1.7% vs. -9.1%). Since their appointment in early 2011 their performance has been above the Emerging Market equity index, after allowing for all fees

- ***Investec Asset Management***
  The Fund's investment within the Investec Global Commodities and Resources Fund was sold in two equal tranches in September and October 2015. Since their appointment in December 2010 Investec's performance had actually been quite creditable when judged against the relevant commodities index, albeit that a 2% p.a. outperformance of an index that had gone down by almost 10% p.a. was hardly in line with expectations. Disappointingly they failed to preserve value in falling markets, which was one of the things that management were trying to do.

  The basis for introducing a commodity weighting into the Fund's strategic benchmark in 2010 was that there would continue to be demand growth within commodities – particularly from emerging markets – and that there was a long lead-time and massive expense to bring new supply to the market. Despite a lacklustre global economic environment there *was* demand growth, but unfortunately resource companies decided to spend huge amounts of capital to bring supply to the market. This led to excess supply and a fall in prices, with no obvious reason as to why there would be a recovery in the foreseeable future. A decision to redeploy the capital elsewhere (with Pictet) was made, and with hindsight the decision to invest in commodities was undoubtedly a poor one.

- ***Kleinwort Benson***

  Kleinwort Benson manages a 'dividend focused' global equity portfolio, which outperformed its broad global equity market benchmark by 2.4% in 2015/16. The portfolio has a style bias towards companies paying dividends that can be maintained and grown, and this style bias is one that the Fund has agreed. There will be occasions when this style is favoured by the market and periods where it is not, so performance against a broad market index is always likely to be volatile.

  Since inception of the portfolio in November 2012, Kleinwort Benson's performance is marginally above the broad equity market (12.2% p.a. vs. 11.8% p.a.).

- ***Kempen***

  Kempen also manages a 'dividend focused' portfolio and their performance in 2015/16 was also above the broad market index, by almost 4%. The portfolio commenced at the same time as Kleinwort Benson and over this period they have underperformed the broad equity market by 2.5% p.a., which is disappointing.

  Much of this underperformance can be attributed to the fact that they only buy stocks with a dividend above a given dividend yield, and these have not been the stocks that have driven market performance over this timeframe.

- ***Aspect Capital***

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

  During 2015/16 there were a number of trends from which they benefited, but also a number of trends that 'broke down' and on which a loss was incurred. Over the year they eked out a positive return of 2.3% which was below their objective of cash +4% but acceptable given market circumstances – particularly after their 50%+ return in the previous year!

- ***IFM***

  A $56m investment was made into the IFM Global Infrastructure Fund in February 2013. The portfolio initially consisted of 8 underlying assets but by 31st March 2016 this had increased to 12 assets. During 2015/16 the value of the assets increased, and currency movements (9 of the assets are overseas) helped to boost returns, so that the overall return was close to 15%.

  Performance since purchase has been acceptable, despite problems at one of the larger assets (now sold) that led to a significant reduction in its valuation. Performance in areas such as infrastructure can only really be judged over the long-term.

- ***Kames Capital***
  Kames manage a global index-linked bond portfolio on behalf of the Fund, and during the year the performance of this was +1%, which was marginally below their benchmark.

  Kames also manage a currency hedging programme, with a default position of hedging half of the Fund's currency exposure that comes via the overseas equity benchmark. During the year they were generally well positioned and the hedging positions that they took added £8.8m relative to the benchmark position. At a total Fund level, this added about 0.3% to the excess performance.

- ***Partners Group***
  In June 2014 the Fund committed to invest £100m in a private debt portfolio managed by Partners – in effect lending directly to companies and replacing the position that has historically been played by banks. This area of the market is a potentially low risk way of gaining attractive returns from credit markets, without some of the risks to returns that exist in more mainstream bond markets when interest rates rise.

  Four amounts of £25m were drawn, the last of which was in May 2015, and at the end of March 2016 the annualised return was 6.1%.

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

  At the end of the year the Fund had two 'strands' of investment within the opportunity pool – European corporate bonds that had been issued by fundamentally sound companies that needed to restructure their balance sheet (M & G Debt Opportunities Fund, with three investments into different pooled funds) and the Kames Active Value Property Unit Trust ('unloved' property that overlooked by other investors but could be bought cheaply as a result).

  Both of these strategies produced solid returns of around 10% over the year.

Five Year Returns		
	Returns	
	LCC %	Benchmark %
2011/12	+0.8	+0.9
2012/13	+12.4	+11.0
2013/14	+3.9	+7.3
2014/15	+15.6	+11.4
2015/16	+0.6	+0.4
Average Annual Return Over 5 years	+6.5	+6.1
Annualised 5 year investment returns (for managers employed for more than 5 years)		
Colliers CRE	+11.8	+10.5
Millennium	+1.2	+1.5
Aviva Investors	+9.6	+8.8
Legal & General	+7.1	+7.3
Ruffer	+5.5	+4.4
Delaware	-1.3	-2.0

Major Shareholdings

Most of the investments are held within pooled investment vehicles and the Fund has very few individual shareholdings. All of these are within the targeted return portfolio managed by Ruffer. The largest of these shareholdings (the Japanese company Sumitomo Mitsui Financial Group) is valued at £4.0m (0.13% of total fund assets), so this information has been omitted from the report.

Leicestershire County Council Pension Fund ("the Fund")
Actuarial Statement for 2015/16

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

Description of Funding Policy

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

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the 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 the deficit recovery period.

Funding Position as at the last formal funding valuation

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

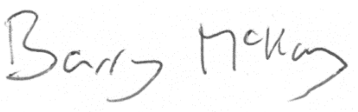
*Currently aged 45

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

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



Barry McKay
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
28 April 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Fund Account

	Notes	2015-16 £000	2014-15 £000
Contributions and Benefits			
Contributions	3	161,227	150,848
Transfers in	4	4,140	3,745
		165,367	154,593
Benefits	5	134,269	126,010
Payments to and on account of leavers	6	5,867	61,326
Administrative expenses	7	1,239	1,365
		141,375	188,701
Net additions from dealings with members		23,992	(34,108)
Returns on investments			
Investment income	8	30,273	26,056
Change in market value of investments	9	(13,446)	402,070
Investment management expenses	11	(5,117)	(5,701)
Net returns on investments		11,710	422,425
Net increase in the fund during the year		35,702	388,317
Net assets of the Fund at 1st April		3,128,170	2,739,853
Net assets of the Fund at 31st March		**3,163,872**	**3,128,170**

Net Assets Statement

	Notes	31 March 2016 £000	31 March 2015 £000
Investment assets	9	3,157,588	3,128,239
Investment liabilities	9	(2,277)	(8,086)
		3,155,311	3,120,153
Current assets	13	10,905	10,063
Current liabilities	13	(2,344)	(2,046)
Net assets of the Fund at 31st March		**3,163,872**	**3,128,170**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position on the Scheme, which does take account of such obligations, is set out in the Actuary's Report on pages 29 and 30 of these accounts and should be read in conjunction with them.

The notes on pages 32 – 49 form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The statement of Accounts summarises the Fund's transaction for the 2015/16 financial year and its position at year-end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Accounting policies

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

Investments

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

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

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

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

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

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

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

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

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

Foreign currencies

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

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

Contributions

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

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

Benefits payable

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

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

Transfers to and from other schemes

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

Other expenses

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

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

3. Contributions

	2015-16 £000	2014-15 £000
Employers		
Normal	119,930	110,365
Termination Valuation Payments	365	6
Additional payments for early retirements	2,896	2,492
Additional payments for ill-health retirements	946	1,620
Members		
Normal	36,718	35,889
Purchase of additional benefits	372	476
	161,227	**150,848**

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 either extra service to be credited on top of any service earned via employment, or an additional annual pension amount in cash to be paid following retirement. Termination valuation payments relate to the actuarially assessed deficit within an employer's sub-fund when their last active employee leaves.

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

	2015-16 £000	2014-15 £000
Leicestershire County Council	41,702	38,464
Scheduled bodies	111,475	105,364
Admitted bodies	8,050	7,020
	161,227	**150,848**

4. Transfers In

	2015-16 £000	2014-15 £000
Individual transfers in from other schemes	4,140	3,745
	4,140	**3,745**

5. Benefits

	2015-16 £000	2014-15 £000
Pensions	103,315	98,351
Lump sum retirement benefits	27,747	23,911
Lump sum death benefits	3,207	3,748
	134,269	**126,010**

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

	2015-16 £000	2014-15 £000
Leicestershire County Council	50,871	46,001
Scheduled bodies	73,270	71,035
Admitted bodies	10,128	8,974
	134,269	**126,010**

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6. Payments to and on account of leavers

	2015-16 £000	2014-15 £000
Refunds to members leaving scheme	610	344
Payments for members joining state scheme	269	218
Individual transfers to other schemes	4,988	6,860
Bulk transfers to other schemes	-	53,904
	5,867	**61,326**

7. Administration expenses

	2015-16 £000	2014-15 £000
Administration and Processing	1,036	1,075
Actuarial fees	89	79
Legal and other professional fees	25	25
Computer system costs	89	186
	1,239	**1,365**

8. Investment income

	2015-16 £000	2014-15 £000
Dividends from equities	2,456	2,435
Income from government bonds	100	-
Income from index-linked securities	2,580	3,294
Income from pooled investment vehicles	18,042	14,221
Net rents from properties	5,766	5,541
Interest on cash or cash equivalents	157	245
Net currency profit/(loss)	1,120	263
Securities lending commission	16	18
Insurance commission	36	39
	30,273	**26,056**

9. Investments

	Value at 31.3.15 £000	Purchases at Cost and Derivatives Payments £000	Sale Proceeds and Derivative Receipts £000	Change in Market Value £000	Value at 31.3.16 £000
Equities	87,064	42,189	(53,706)	(3,313)	72,234
Government bonds	0	19,687	0	1,814	21,501
Index-linked securities	304,938	103,003	(112,110)	7,838	303,669
Pooled investment vehicles	2,582,744	355,116	(318,679)	17,339	2,636,520
Properties	90,481	2,845	(4,386)	7,285	96,225
Cash and currency	52,423	0	(37,664)	0	14,759
Derivatives contracts	303	77,109	(24,655)	(44,409)	8,348
Other investment balances	2,200	0	(145)	0	2,055
	3,120,153	**599,949**	**(551,345)**	**(13,446)**	**3,155,311**

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.

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9. Investments (continued)

The Fund has investments of £233.087m in the Legal & General North America index fund (31/3/15, £207.503m) and £229.777m in the Legal & General FTSE RAFI North America fund (31/3/15, £209.887m) that exceed 5% of the total value of net assets. At 31/3/15 the Fund had investments in the Legal & General UK equity index fund (£187.542m) and the Legal & General UK Core equity index fund (£160.464m) which exceeded 5% of the total value of net assets at that date.

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

	31st March 2016 £000	31st March 2015 £000
Equities		
UK quoted	9,991	13,225
Overseas quoted	62,243	73,839
	72,234	**87,064**
Government Bonds		
UK Government quoted	**21,501**	**0**
Index-linked securities		
UK Government quoted	188,197	176,147
Overseas government quoted	115,472	128,791
	303,669	**304,938**
Pooled investment vehicles		
Property funds	222,379	214,149
Private equity	121,096	124,432
Bond and debt funds	347,372	302,801
Hedge funds	3,201	2,901
Equity-based funds	1,563,238	1,574,157
Commodity-based funds	7,371	71,005
Timberland fund	63,856	52,107
Managed futures fund	137,824	134,701
Targeted return fund	84,129	31,524
Infrastructure funds	86,054	74,967
	2,636,520	**2,582,744**
Properties		
UK (note 12)	**96,225**	**90,481**
Cash and currency	**14,759**	**52,423**
Derivatives contracts		
Forward foreign exchange assets	9,033	1,622
Currency option assets	156	3,283
Other option assets	1,436	3,484
Forward foreign exchange liabilities	(2,277)	(6,872)
Currency option liabilities	0	(1,214)
	8,348	**303**
Other investment balances	**2,055**	**2,200**
Total Investments	**3,155,311**	**3,120,153**

At 31/3/16 pooled investment vehicles include investments in fund-of-funds which have an underlying value of £118.888m in private equity, £17.526m in illiquid corporate bonds and £63.856m 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:

	2015-16 £000	**2014-15 £000**
Active currency positions (those whose purpose is solely to seek economic gain)	(1,488)	(1,660)
Passive currency positions (those whose purpose is to hedge the Fund's benchmark exposure to currencies back to sterling)	8,244	(3,590)
	6,756	**(5,250)**

Open forward currency contracts

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value £000	Asset Liability £000
Up to one month	EUR	11,320	CHF	12,371		(16)
Up to one month	SEK	100,346	EUR	10,840	19	
Up to one month	GBP	12,736	EUR	16,310		(202)
Up to one month	EUR	16,310	GBP	12,964		(25)
Up to one month	GBP	1	JPY	186	0	
Up to one month	USD	6,610	JPY	742,464	2	
Up to one month	JPY	742,650	USD	6,610		(1)
Up to one month	USD	5,980	KRW	7,267,494		(266)
Up to one month	KRW	7,020,520	USD	5,980	115	
Up to one month	USD	228	GBP	159		(0)
Up to one month	USD	146	GBP	98		(0)
Up to one month	GBP	0	USD	228		(159)
Up to one month	GBP	1,176	EUR	1,540		(46)
Up to one month	GBP	4,662	USD	6,672	20	
Up to one month	GBP	18,776	JPY	3,222,700		(1,162)
Up to three months	GBP	61,700	USD	88,168	231	
Up to one month	GBP	12,294	CAD	22,900		(21)
Up to one month	GBP	14,300	CAD	26,638		(25)
Up to one month	GBP	17,900	HKD	195,984	317	
Up to one month	GBP	22,215	KRW	36,666,000		(154)
Up to one month	GBP	22,400	CHF	30,679	26	
Up to one month	GBP	312,700	USD	442,001	5,281	
Up to one month	GBP	45,380	TWD	2,085,000	204	
Up to one month	GBP	53,085	CNY	490,900	496	
Up to one month	GBP	56,400	JPY	8,960,824	793	
Up to one month	GBP	76,100	EUR	95,952		(168)
Up to one month	GBP	90,556	USD	128,000	1,529	
Up to one month	USD	50,000	GBP	34,809		(32)
					9,033	**(2,277)**
Net forward currency contracts at 31 March 2016						**6,756**
Prior year comparative						
Open forward currency contracts at 31 March 2015					1,622	(6,872)
Net forward currency contracts at 31 March 2015						**(5,250)**

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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:

	2015-16 £000	2014-15 £000
Currency-based	156	2,069
Equity market-based	1,436	3,484
	1,592	**5,553**

Purchased/written options

Investment underlying option contract	Expires	Notional Holding £000	Market Value 31st March 2016 £000
Assets			
EUR put/USD call	<1 month	370	1
USD call/JPY put	<1 month	(228)	155
Equity protection option	Over 1 year	11,777	1,436
			1,592

11. Investment management expenses

	2015-16 £000	2014-15 £000
Administration, management and custody	5,034	5,564
Performance measurement services	16	30
Other advisory fees	67	107
	5,117	**5,701**

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12. Property investments

The Fund's investment in property comprises investments in pooled property funds and a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

Year ending 31st March 2015		Year ending 31st March 2016
£000		£000
78,940	Opening balance	90,481
	Additions:	
2,755	Purchases	2,845
-	Construction	-
-	Subsequent expenditure	-
(282)	Disposals	(4,386)
9,068	Net increase in market value	7,285
90,481	**Closing balance**	**96,225**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the fund is not under any contractual obligations to purchase, construct or develop any of these properties. Nor does it have any responsibility for any repairs, maintenance or enhancements.

The split of the directly owned properties by tenure is as follows.

	31st March 2016 £000	**31st March 2015 £000**
Freehold	64,560	63,631
Long leasehold (over 50 years unexpired)	15,505	13,100
Medium/Short leasehold (under 50 years unexpired)	16,160	13,750
	96,225	**90,481**

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 2016. 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 2016 £000	**31 March 2015 £000**
Contributions due from employers	8,193	6,956
Cash balances	132	100
Other receivables	755	817
Due from Ministry of Justice	1,825	2,190
Current assets	***10,905***	***10,063***
Due to Leicestershire County Council	(444)	(316)
Fund management fees outstanding	(865)	(1,169)
Other payables	(1,035)	(561)
Current liabilities	***(2,344)***	***(2,046)***
Net current assets and liabilities	**8,561**	**8,017**

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.

Analysis of investments by manager

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

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

Investment Manager	At 31st March 2016 £000	%	At 31st March 2015 £000	%
Legal & General	1,188,571	37.7	1,193,357	38.2
Kames Capital	273,466	8.7	260,593	8.4
Ruffer LLP	214,996	6.8	224,472	7.2
Aviva Investors	166,855	5.3	165,831	5.3
Kleinwort Benson Investors	140,827	4.5	139,121	4.5
Aspect Capital	137,824	4.4	134,701	4.3
Colliers Capital UK	124,443	3.9	118,033	3.8
Prudential/M & G	119,958	3.8	93,028	3.0
Adams Street Partners	118,888	3.8	122,000	3.9
Delaware Investments	108,879	3.4	110,066	3.5
Kempen Capital	107,872	3.4	113,115	3.6
Partners Group	104,964	3.3	75,667	2.4
Pictet Asset Management	84,129	2.7	31,524	1.0
Ashmore	80,343	2.5	76,047	2.4
Stafford Timberland	63,856	2.0	52,107	1.7
IFM	43,040	1.4	38,474	1.2
Kravis Kohlberg Roberts	43,013	1.4	36,493	1.2
JP Morgan Asset Management	24,581	0.8	39,564	1.3
Catapult Venture Managers	2,208	0.0	2,432	0.1
Permal (formerly Fauchier Partners)	689	0.0	779	0.0
Internally Managed and currency managers	5,909	0.2	23,880	0.8
Investec Asset Management	0	0.0	68,869	2.2
	3,155,311		**3,120,153**	

15. Custody of assets

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

16. Operation and management of fund

Details of how the Fund is administered and managed are included in pages 6 to 16.

17. Employing bodies and fund members

A full list of all bodies that have active members within the Fund is included on page 8. Statistical information in respect of the number of members is included on page 7.

18. Actuarial valuation

At the date of the Fund's last actuarial valuation (31st March 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 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,305,965	567,867	254,407	3,128,239
Financial liabilities at fair value	(8,086)			(8,086)
Net financial assets	**2,297,879**	**567,867**	**254,407**	**3,120,153**

	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
Values at 31st March 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value	2,241,986	641,395	274,207	3,157,588
Financial liabilities at fair value	(2,277)			(2,277)
Net financial assets	**2,239,709**	**641,395**	**276,178**	**3,155,311**

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 2016/17 reporting period:

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

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

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

Asset type	Value at 31st March 2015	Percentage change	Value on increase	Value on decrease
	£000	**%**	**£000**	**£000**
UK equities	13,225	16	15,341	11,109
Overseas equities	73,839	19	87,868	59,810
Global index-linked bonds	304,938	8	329,333	280,543
Pooled property funds	214,149	15	246,271	182,027
Pooled private equity funds	124,432	28	159,273	89,591
Pooled bond and debt funds	302,801	10	333,081	272,521
Pooled hedge funds	2,901	12	3,249	2,553
Pooled equity funds	1,574,157	19	1,873,247	1,275,067
Pooled commodity funds	71,005	14	80,946	61,064
Pooled targeted return funds	31,524	12	35,307	27,741
Pooled timberland fund	52,107	16	60,444	43,770
Pooled managed futures fund	134,701	12	150,865	118,537
Pooled infrastructure fund	74,967	14	85,462	64,472
UK property	90,481	15	104,053	76,909
Cash and currency	52,423	1	52,947	51,899
Options, futures, other investment balances, current assets and current liabilities	10,520	1	10,625	10,415
Total assets available to pay benefits	**3,128,170**		**3,628,312**	**2,628,028**

Asset type	Value at 31st March 2016	Percentage change	Value on increase	Value on decrease
	£000	**%**	**£000**	**£000**
UK equities	9,991	16	11,590	8,392
Overseas equities	62,243	19	74,069	50,417
UK government bonds	21,501	8	23,221	19,781
Global index-linked bonds	303,669	8	327,963	279,375
Pooled property funds	222,379	15	255,736	189,022
Pooled private equity funds	121,096	28	155,002	87,190
Pooled bond and debt funds	347,372	10	382,109	312,635
Pooled hedge funds	3,201	12	3,585	2,817
Pooled equity funds	1,563,238	19	1,860,253	1,266,223
Pooled commodity funds	7,371	14	8,403	6,339
Pooled targeted return funds	84,129	12	94,224	74,034
Pooled timberland fund	63,856	16	74,072	53,640
Pooled managed futures fund	137,824	12	154,363	121,285
Pooled infrastructure fund	86,054	14	98,102	74,006
UK property	96,225	15	110,659	81,791
Cash and currency	14,759	1	14,907	14,611
Options, futures, other investment balances, current assets and current liabilities	18,964	1	19,154	18,774
Total assets available to pay benefits	**3,163,872**		**3,667,412**	**2,660,332**

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 2016 and 31st March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	**As at 31st March 2016**	**As at 31st March 2015**
Cash and Currency	14,759	52,423
Fixed interest securities	368,873	302,801
Total	**383,632**	**355,224**

Interest rate risk sensitivity analysis

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

Asset type	**Carrying amount as at 31st March 2015**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	52,423	524	(524)
Fixed interest securities	302,801	3,028	(3,028)
Total	**355,224**	**3,552**	**(3,552)**

Asset type	**Carrying amount as at 31st March 2016**	**Change in year in the net assets available to pay benefits**	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and Currency	14,759	148	(148)
Fixed interest securities	368,873	3,689	(3,689)
Total	**383,632**	**3,837**	**(3,837)**

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 currency exposure if it was unhedged at as 31st March 2016 and as at the previous period end:

Currency exposure – asset type	Asset value as at 31st March 2016	Asset value as at 31st March 2015
	£000	£000
Overseas equities	62,243	73,839
Overseas government index-linked bonds	115,472	128,791
Private equity pooled funds	118,888	122,000
Pooled hedge Funds	3,201	2,901
Overseas and Global equity-based pooled funds	1,298,478	1,199,483
Commodity-based pooled funds	7,371	71,005
Infrastructure pooled funds	86,054	74,967
Timberland pooled fund	63,856	52,107
Emerging Market Debt pooled fund	80,343	76,047
Total overseas assets	**1,835,906**	**1,801,140**

Currency risk – sensitivity analysis

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

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

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

Currency exposure – asset type	Asset value as at 31st March 2015	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	73,839	83,438	64,240
Overseas government index-linked bonds	128,791	145,534	112,048
Private equity pooled funds	122,000	137,860	106,140
Pooled hedge Funds	2,901	3,278	2,524
Overseas equity-based pooled funds	1,199,483	1,355,415	1,043,551
Commodity-based pooled funds	71,005	80,236	61,774
Infrastructure pooled funds	74,967	84,713	65,221
Timberland pooled fund	52,107	58,881	45,333
Emerging Market Debt pooled fund	76,047	85,933	66,161
Total change in assets available	**1,801,140**	**2,035,288**	**1,566,992**

Currency exposure – asset type	Asset value as at 31st March 2016	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas equities	62,243	70,335	54,151
Overseas government index-linked bonds	115,472	130,483	100,461
Private equity pooled funds	118,888	134,344	103,432
Pooled hedge Funds	3,201	3,617	2,785
Overseas equity-based pooled funds	1,298,478	1,467,280	1,129,676
Commodity-based pooled funds	7,371	8,329	6,413
Infrastructure pooled funds	86,054	97,241	74,867
Timberland pooled fund	63,856	72,157	55,555
Emerging Market Debt pooled fund	80,343	90,788	69,898
Total change in assets available	**1,835,906**	**2,074,574**	**1,597,238**

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At 31st March 2016 and 31st March 2015 the Fund has an active currency manager with a portfolio based on a notional value of £340m, and this is the maximum exposure that they are allowed to have. In order to achieve gains within their portfolios they utilise forward foreign exchange contracts and, 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 31st March 2015**	**Change to net assets available to pay benefits**	
		+2.5%	**-2.5%**
	£000	**£000**	**£000**
Active currency portfolios	340,000	348,500	331,500
Total change in assets available	**340,000**	**348,500**	**331,500**
Currency exposure – asset type	**Asset value as at 31st March 2016**	**Change to net assets available to pay benefits**	
		+2.5%	**-2.5%**
	£000	**£000**	**£000**
Active currency portfolios	340,000	348,500	331,500
Total change in assets available	**340,000**	**348,500**	**331,500**

b) Credit risk

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

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

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

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

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

The Fund believes it has managed its exposure to credit risk, and has never had any experience of default of uncollectible deposits. The Fund's cash holding at 31st March 2016 was £14.759m (31st March 2015: £52.423m). This was held with the following institutions.

	Rating	Balances at 31/3/16	Balances at 31/3/15
		£000	£000
Money Market Funds			
Ignis/Standard Life	AAA	0	17,715
JPMorgan	AAA	7,187	25,529
Bank Deposit Accounts			
National Westminster Bank	BBB+	73	17
Royal Bank of Canada	AA	0	27
JPMorgan Chase	AA-	7,499	0
Standard Chartered	A+	0	9,135
Total		**14,759**	**52,423**

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 2016 the value of illiquid assets (considered to be the Fund's investments in property, hedge funds, private equity, timberland and infrastructure) was £594.782m, which represented 18.8% of total Fund assets. (31st March 2015: £559.037m, which represented 17.9% 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 2016 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 2016, £3.9m 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 £1.2m of cash collateral and £3.0m 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 £0.016m 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 2015/2016 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.

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If all of these individuals choose to take a refund of contributions the cost to the Fund will be around £1,070,000, 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 2016, the Fund had the following contractual commitments:-

(i) Undrawn commitments totalling $147,093,950 (£102,340,465) to twenty eight different pooled private equity funds managed by Adams Street Partners (31st March 2015 £86,611,149 to twenty seven different funds).

(ii) An undrawn commitment of £528,517 to two private equity funds managed by Catapult Venture Managers (31st March 2015 £655,601 to two funds).

(iii) An undrawn commitment of $27,425,208 (£19,081,060) to two KKR Global Infrastructure funds (31st March 2015 £29,911,904 to two funds)

(iv) An undrawn commitment of €8,112,500 (£6,431,922) to the Stafford International Timberland VI Fund (31st March 2015 £7,062,934)

(v) An undrawn commitment of $11,550,000 (£8,035,901) to the Stafford International Timberland VII Fund (31st March 2015 £15,661,839).

(vi) An undrawn commitment of £27,374,000 to the M & G Debt Opportunities Fund III (31st March 2015 £19,400,000 to the M & G Debt Opportunities Fund II, which became fully drawn during 2014/15)

(vii) An undrawn commitment of $15,000,000 (£10,436,235) to the IFM Global Infrastructure Fund.

(viii) An undrawn commitment of $40,000,000 (£27,829,959) to the Markham Rae Trade Capital Partners Fund.

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 2015/16 £2.027m in contributions were paid to Prudential and at the year end the capital value of all AVC's was £14.285m.

25. Policy Statements

The Fund has a number of policy statements that are available on request from Colin Pratt, Investments Manager, Leicestershire County Council, County Hall, Glenfield, Leicester, LE3 8RB (telephone 0116 305 7656, email colin.pratt@leics.gov.uk). They have not been reproduced within the Annual Report and Accounts as, in combination, they are sizeable and it is not considered that they would add any significant value to most users of the accounts. The statements are:-

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

Compliance statement

Income and other taxes

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

Self-investment

There has been no material employer related investment in 2014/2015 or 2013/2014. 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.

additional reporting requirement

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 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.

Present value of Promised Retirement Benefits

Present value of Promised Retirement Benefits	**Year ended**	
(£m)	**31 March 2016**	**31 March 2015**
Active members	2,895	2,966
Deferred pensioners	845	960
Pensioners	1,415	1,566
Total	**5,155**	**5,492**

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the 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 suitable for IAS19 purposes as required by the Code of Practice. They are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £536m.

additional reporting requirement

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2016 % p.a.	31 March 2015 % p.a.
Inflation/pensions increase rate	2.2%	2.4%
Salary increase rate	4.2%	4.3%
Discount rate	3.5%	3.2%

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:

Average future life expectancies at age 65 (years)	Males	Females
Current pensioners	22.2	24.3
Future pensioners*	24.2	26.6

*Figures assume members aged 45 as at the last formal valuation as at 31st March 2013.

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

Commutation assumption

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

Sensitivity Analysis

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

Change in assumptions for the year ended 31 March 2016	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	11%	577
1 year increase in member life expectancy	3%	155
0.5% increase in salary increase rate	4%	205
0.5% increase in pensions increase rate	7%	361

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2016 for accounting purposes’. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Anne Cranston

Anne Cranston

For and on behalf of Hymans Robertson LLP

29 April 2016

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

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 31 to 49.

Respective responsibilities of the Financial Officer and the auditor

As explained more fully in the statement of the *Financial Officer's* Responsibilities the *Financial Officer* is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the *Pension Fund Annual Report* with the pension fund financial statements included in the annual published statement of accounts of the Leicestershire County council, and their compliance with applicable law and the Code of Practice on Local authority in the United Kingdom 2015/16.

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

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

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of Leicestershire County Council for the year ended 31 March 2016 and comply with the applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We have not considered the effects of any events between the date we signed our report on the full annual published statements of accounts 29 September 2016 and the date of this report.

Matters on which we are required to report by exception

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

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local authority and Accountability Act 2014 in the course of, or at the conclusion of, the auditting in the United Kingdom 2014/15.

We have nothing to report in respect of these matters.

John Cornett

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

St. Nicholas House
31 Park Row
Nottingham
NG1 6FQ
3 November 2016

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 2016 and its income and expenditure for the year ended the same date.

Chris Tambini
Director of Finance
3 November 2016

	31st March 2016		31st March 2015	
	£000	%	£000	%
Fixed & Variable Interest Stocks				
UK Government Bonds	21,501	0.7	0	0.0
UK Index Linked	188,197	6.0	176,147	5.6
Overseas Index Linked	115,472	3.6	128,791	4.1
Global Credit	267,029	8.5	226,754	7.3
Emerging Market Debt	80,343	2.5	76,047	2.4
	672,542	21.3	607,739	19.4
Equities – United Kingdom	274,752	8.7	390,463	12.5
Equities – Overseas/Global				
Global dividend-focused/smaller companies	249,779	7.9	253,296	8.1
North America	485,302	15.3	441,182	14.1
Europe	205,176	6.5	225,764	7.2
Japan	131,787	4.2	91,507	2.9
Pacific ex Japan	108,940	3.4	101,809	3.3
Emerging Markets	179,736	5.7	157,200	5.0
	1,360,720	43.0	1,270,758	40.6
Private Equity	121,096	3.8	124,432	4.0
Hedge Funds	3,201	0.1	2,901	0.1
Targeted Return	221,953	7.0	166,225	5.3
Commodity Funds	7,371	0.2	71,005	2.3
Infrastructure/Timberland Funds	149,910	4.7	127,074	4.1
Property				
United Kingdom:				
Retail & Retail Warehouses	34,085	1.1	33,300	1.1
Offices	24,500	0.8	19,235	0.6
Industrial	16,855	0.5	15,825	0.5
Leisure	18,010	0.6	20,710	0.7
Agricultural	2,775	0.1	1,411	0.0
Indirect	222,379	7.0	214,149	6.8
	318,604	10.1	304,630	9.7
Cash, Currency and derivatives				
Cash and deposits	14,759	0.5	52,423	1.7
Foreign exchange derivatives	6,912	0.2	(3,181)	(0.1)
Other derivatives contracts	1,436	0.0	3,484	0.1
Other Net Assets/(Liabilities)	10,616	0.4	10,217	0.3
	33,723	1.1	62,943	2.0
TOTAL	3,163,872	100.0	3,128,170	100.0

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

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